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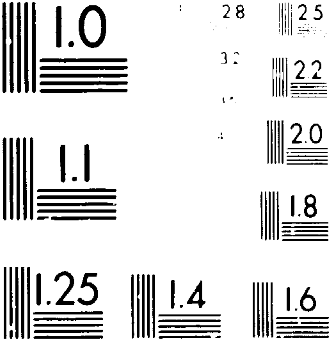

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THE INTERNATIONAL INDUSTRIAL RESTRUCTURING PROCESS: THE EUROPEAN CMEA AND THE DEVELOPING COUNTRIES*

UNIDO Working Papers on
Structural Change

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Prepared by the
Global and Conceptual Studies Branch
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1722

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FOREWORD

In pursuing its research programme on the international and national restructuring process in the industrial sector, the UNIDO Secretariat has undertaken a series of analysis dealing with the industrial restructuring process in the centrally planned economies of Eastern Europe. The aim of this series was to highlight the essential features of the likely future pattern of structural change and possible implications for the international division of labour between this group and the developing countries. The series started with an initial attempt to present some major features of the relationship between the centrally planned economies of Eastern Europe and the developing countries in the field of industry.

This was follwed up by other studies, a number of which represented contributions to a seminar organised under the joint auspicies of UNIDO and the Research Institute for Industrial Economics of the Hungarian Academy of Sciences in Budapest, in March 1982. The present analysis represents an extension of these studies. However, unlike its predecessors, the study concentrates not so much on the pattern of structural changes in output and resource inputs, as on the effect which this pattern may have on the position which the region assumes in the international division of labour in general and vis à vis the developing countries in particular.

The series on centrally planned economies of Eastern Europe covers Bulgaria, Czechoslovakia, the GDR, Hungary, Poland and Romania - sometimes referred to as "Eastern Europe" - as well as the Soviet Union, referred to collectively as the European Council for Mutual Economic Assistance (ECMEA). The advantage of focusing on this group of countries lies in the similarity of their socio-economic system and relative uniformity of their planning and management systems. All of them have achieved a high, albeit still unequal, level of industrial development, and as members of the Council for Mutual Economic Assistance (CMEA) a high degree of intra-regional co-operation and cohesion. As such, they constitute an entity and assume a special place in the international restructuring process.

The primary aim of the present study is to provide an assessment of the prospects for the development of foreign trade of the ECMEA countries with the developing countries. To do this, the study ventures into a somewhat elaborate account of trends and patterns in foreign trade with emphasis on the profile of trade with developing countries. This is followed up by an analysis of current economic development and problems and by an examination of the medium-term implications for trade with the developing countries. Finally, the factors favoring or constraining this trade in the long-run are taken up and the long-term outlook evaluated.

The study is divided into two major sections, one dealing with historical trends and the other with the present structure and perspectives. Chapter 1 of the first section provides an account of the growth of the foreign trade of the ECMEA countries during the post war period. The topic covered are growth in terms of value and of volume, importance in world trade, foreign trade dependence (participation), and the regional as well as the commodity structure of trade.

Certain aspects in the structure of trade are analysed, with an attempt being made to relate the pattern of trade to the pattern of restructuring in output historically followed by these countries. Chapter 2 of the same section is devoted to growth trends and patterns of trade between the ECMEA and the developing countries. While following a similar outline, the factual information presented in this chapter is of greater detail. Included also is a discussion of the importance of the ECMEA trade with developing countries for the developing countries.

Chapter 1 of the second section analyses the basic features of current five-year plans of the ECMEA countries and actual developments in output, allocation of resources and foreign trade. It is rounded off by a short discussion of current policy issues and an assessment of the perspectives of trade with the developing countries in the immediate future. Chapter 2 of the same section summarises some general and sectoral restructuring problems. With this background, and using the body of factual information presented in the earlier discussion, a numerical scenario is sketched pinpointing the prospects of trade of the ECMEA countries with developing countries during the present decade. The paper ends with concluding remarks on the challenges for the growth of East-South trade in the longer term.

Following the goals set for the present study, it was indispensible to frame the analysis with rather elaborate statistics. Major gaps in structural information had to be overcome, a particularly noteworthy case being the absence of constant price series by commodity groups in the official statistics of the ECMEA countries. In this connexion, the author's acknowledgements and expression of gratitude go to John Slater and Claus Wittich of the Secretariat of the Economic Commission of Europe for their co-operation in providing data and for their readiness with advice.

The study was prepared for the UNIDO Secretariat by Dr. Israel Borenstein.

I. THE PLACE OF ECMEA COUNTRIES IN THE INTERNATIONAL DIVISION OF LABOUR, WITH SPECIAL REFERENCE TO THE ASPIRATIONS OF THE DEVELOPING COUNTRIES

A. Volume and structure of foreign trade

1. The initial position

At the end of post-war reconstruction the volume of international trade of the European CMEA (ECMEA) countries was small, both in relation to world trade and to the level of their national income. In the Soviet case, in the years immediately preceding World War II, trade was extremely low. Trade rose during the war which, combined with the decline in national income, provided an increased "trade dependence". The higher levels of international co-operation were maintained to some extent after the war. However, as the Eastern and Western blocks emerged as separate political-economic areas, Soviet trade relations with the West were curtailed. Economic ties with other members of the Eastern bloc, and with China in particular, became stronger. Throughout, however, foreign trade remained a small percentage of national income.

In the case of the six East European countries, the position was not essentially different. Before the Second World War, most of the countries had only limited trade relations with each other and with the Soviet Union. They were, with the exception of Czechoslovakia and the German Democratic Republic, countries where the trade pattern resembled that of developing countries: they supplied primary products to the industrial countries in exchange for manufactures. After the war, while their trade with the rest of the world was lower than before the war, their trade with the Soviet Union and with each other expanded considerably.

A few figures may provide a useful base for analyzing the changes in the trade position of the ECMEA countries in the years that followed. In 1950 the total exports of the group amounted to $4.1 billion, representing at the time 6.8 per cent of world exports. As much as 72.3 per cent of exports were composed of trade with the socialist bloc; 54.7 per cent was intra-ECMEA trade; and 17.6 per cent was trade with "other socialist countries". Of the $1.18 billion of goods exported to the rest of the world, only around $150 million represented exports to developing countries.

The commodity composition of trade of the individual ECMEA countries reflected the differences in the levels of industrialization at which these countries found themselves at this stage. An exception perhaps was the Soviet Union which, although already having built up a sizeable industrial economy, showed a trade profile reflecting a tendency towards specialization on the lines of relative natural resource endowment. Among the six East European countries, a similar tendency was found in Poland. Czechoslovakia, the German Democratic Republic and Hungary had a trade structure which resembled that of developed countries, while Bulgaria and Romania showed a pattern akin to developing countries.

2. Patterns of trade and measurement problems

Economic growth and the vast restructuring which has taken place in the ECMEA countries since 1950 clearly had their counterpart in external processes, the understanding of which is of evident importance for the assessment of trade relations with developing countries. In order to be able to take up even seemingly simple questions - such as: 'What was the growth of foreign trade?' 'How does it compare with the growth of world trade and with the rate of internal economic expansion?' 'How do the structural changes in the commodity composition tie in with the structural changes in output?' - it is necessary to consider the nature of the information available on pricing and on valuation of foreign trade flows.

The statistical yearbooks of the ECMEA countries contain a great deal of information on the value of foreign trade and on its geographical structure and commodity composition. Little information, however, is given on prices, and the volume indices available in most cases are limited to aggregate exports and imports. Their usefulness is also reduced since they are sometimes revised by large margins with no explanation as to the nature of the revision. The absence of adequate information on sectoral price trends became a particularly great handicap in the 1970s when not only the general level of prices rose dramatically, but also relative sectoral (both geographic and commodity) prices changed to a great extent. Under these conditions, magnitudes expressing current price valuation - while useful for some purposes - may misrepresent the real picture.

The price problem also has other dimensions. Internal prices at which output is measured are divorced from prices used in foreign trade (except for Hungary). This makes it difficult to establish a direct link between internal and external restructuring processes. A specific problem is the lack of transparency in the foreign trade pricing system. This is a problem widely dealt with in literature and too complex to be given adequate space here. However, it should be pointed out here that empirical research has revealed significant differences both in the structure of relative prices and in the overall price level (at the exchange rates used in reporting) within the CMEA and on world markets. While CMEA foreign trade prices in general are said to be based on world market prices of a previous period,[1/] the actual prices particularly of manufactured goods deviate from this formula.

There is evidence that, at least up to the price explosion of the 1970s, intra-CMEA prices of manufactured goods were significantly higher, and in exports to the rest of the world lower, than prices on "world markets". Application of this formula meant that prices in CMEA trade rose less than world market prices during the 1970s. This has resulted in an undervaluation of fuel and apparently also of agricultural and some other raw materials. It did not, however, eliminate the overvaluation of engineering products and only partly that of industrial consumer goods.

One of the aspects of the problem just raised is that of the actual value of devisa roubles (also called transferable roubles) as against the US dollar. How "realistic" is the exchange rate used in combining the value of trade negotiated in roubles (this applies to most of the intra-CMEA trade) with the value of trade negotiated in dollars (this applies to most of the trade with market economies)?

The problem is further complicated by the fact that CMEA sources report foreign trade originally negotiated in either roubles or dollars in their

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1/ According to accepted rules, up to 1974, in the CMEA foreign trade prices represented averages of world market prices of a certain preceding (usually a 5 year) period revised every five years taking into consideration what were assumed to be temporary or 'special' influences. The "Budapest formula" in force since 1975 requires the revision to be made every year, the new prices being set at the level of a lagged average of the five preceding years:

$$P_t^{CMEA} = \sum_{i=1}^{5} 0.2 \; P_{t-i}^{world}$$

own national accounting units using rouble-dollar conversion ratios which deviate from country to country. The Hungarian and Polish reforms lately introduced in the system of foreign trade valuation throw light on the "real" versus nominal (Soviet) exchange ratio between the rouble and the dollar. For instance, Hungary in its 1976 reform devalued the rouble component of its foreign trade by as much as one-third with a view to bringing closer together the internal and external price structures. The effect of this was to reduce the share of intra-CMEA exports in the total of exports from what would have figured as 65 per cent to only 55 per cent. The corresponding figure for imports decreased from a level of around 60 per cent to 50 per cent.

Some of the measurement problems can evidently be overcome by additional research. Others may well be insurmountable. Whatever the improvement in the statistical basis, it is clear that a fruitful analysis of the restructurization process in ECMEA trade cannot be conducted without aiming at clarifying the "real" as opposed to what in this connexion may be termed "nominal" relationships. An important step has been achieved recently in opening up the "price curtain" with the build-up of complex sectoral price statistics, based to a large extent on information contained in Hungarian sources. The outcome of this work is being used extensively in this study. As in any exercise of this nature the results are approximative; there is a need for further refinement. Even so, there is no doubt about the immeasurable improvement these statistics make to the depth of analysis and reliability of findings.

Whenever possible in this study therefore, use is made of data corrected for relative price changes. This paper therefore differs from previous UNIDO papers on the restructuring process in the ECMEA, where trade flows were expressed in current prices.[2/]

3. The dimension of growth

In terms of current prices, the expansion of trade of ECMEA countries was enormous in the post-war development period. In 1980 the regions foreign turnover amounted to $310 billion, 38 times the 1950 figure. Expansion in the 1970s alone was five-fold. However, these figures do not tell us much about the extent of change in capacity to export and to import.

2/ UNIDO/IS.193, UNIDO/IS.396, UNIDO/WG. 357/1-11, and UNIDO/IS.335.

A more revealing picture is obtained by setting the growth of the area's trade against the growth of world trade, also in current prices. By this standard the record is very disappointing. After having risen initially, the share of ECMEA countries in world exports attained a peak in 1962 with a figure of 10.9 per cent. From then on there was practically an uninterrupted decline. In 1980 the share was only 7.9 per cent, a level attained already as early as 1956.

Similarly the record of growth of trade in manufactures turned out to be even more unfavourable. The share of the region in world manufacturing exports stood at 11.6 per cent in 1965. It then declined to 9.1 per cent in 1970, 8.6 per cent in 1975, and amounted to only 7.4 per cent in 1980.[3/]

Again, however, the "real" dimension of growth remained masked. This is because of differences in price movements in ECMEA trade and world market trade on the one hand, and of differences in the structure of trade on the other hand. An attempt to clear the picture from the price "noise" is made in Table 1. While the trade data for manufacturing presented in this table are not precisely comparable between the ECMEA and the other two geo-economic groups of countries, it is believed that the figures correctly convey the relevant proportions.

Due to the fact that ECMEA exports expanded at a somewhat faster pace than the expansion of world trade (calculated in constant prices) during the 1960s and 1970s, the share of ECMEA exports in world exports rose. Table 1 shows that the increase in the share was about the same as the increase in the share of developed countries. As a consequence the share of the developing countries declined. The situation in exports of manufactures was similar, in that the share of the ECMEA countries rose, but not greatly. It was the developing countries which registered a steep increase in the share, both groups having gained on the decline of the share of the developed countries.

In a broader perspective, the volume indices (see Table 2) indicate fast

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3/ UNCTAD Handbook, Supplement 1981; and UN Monthly Bulletin of Statistics, May 1982.

TABLE 1

Distribution of world exports[a]
valued in 1970 prices (per cent)

	1960	1965	1970	1975	1979
			Total exports		
Developed market economies	70.2	71.2	72.3	72.2	71.6
Developing countries	20.3	18.8	17.3	16.3	17.2
ECMEA countries	9.5	10.1	10.4	11.4	11.1
of which:					
The six East European countries	5.6	6.1	6.1	7.2	7.2
Soviet Union	3.9	4.0	4.3	4.2	3.9
			Manufactured exports		
Developed market economies	85.2	84.6	84.6	81.8	78.6
Developing countries	6.0	6.5	6.2	7.9	10.6
ECMEA countries	8.8	8.9	9.2	10.3	10.7
of which:					
The six East European countries	5.6	6.0	6.1	7.1	7.6
Soviet Union	3.2	2.9	3.1	3.2	3.1

Note: Manufactured exports relate to SITC sections 6-8 in market economies and SFTC divisions of machinery and equipment and industrial consumer goods.

a Excluding exports of "other socialist countries".

Source: Author's estimates based on UN Statistical Yearbook 1979/1980 and ECE data bank.

TABLE 2

Volume changes in total foreign trade

(Average annual growth rate)

	1961-1965	1966-1970	1971-1975	1976-1980
Developed market economies				
Exports	7.3	9.5	6.2	6.7
Imports	8.2	9.5	4.0	5.7
Developing countries				
Exports	6.2	7.2	4.0	4.6
Imports	3.3	7.3	8.3	6.2
ECMEA countries				
Exports	9.0	9.4	7.5	6.1
Imports	7.6	9.0	10.0	4.8
of which:				
the six East European CMEA countries				
Exports	9.4	8.9	9.2	6.8
Imports	8.6	10.4	9.7	4.0
Soviet Union				
Exports	8.5	10.2	4.9	4.8
Imports	6.5	7.0	10.4	5.9

Notes and Sources: As for Table 1.

growth though most of the post-war period, a sharp deceleration having occurred only after the first oil crisis. According to estimates of a somewhat cruder nature, the groups exports rose during the 1950s at an annual rate of around 11 per cent with the volume of imports rising at a rate of around 12 per cent. It can be seen from Table 2 that in the 1960s the growth of exports decreased to a rate of around 9 per cent and the growth of imports to some 8 per cent. With exports falling and imports rising, and in light of the cumulative effect of overall economic slowdown, trade imbalance and growth of foreign debt, the rate of expansion of both exports and imports then decreased during the second part of the 1970s.

On the whole, Soviet foreign trade has expanded somewhat slower than the trade of the six East European countries taken as a group. The rhythm of the expansion of exports and imports in particular periods also tended to differ. Notably during the 1960s Soviet exports expanded faster than those of the six, while imports expanded slower. The opposite was true in the 1970s when the growth of exports of the six was much faster, while the growth of imports was slower. These differences were to a large extent determined by a diverging experience with respect to changes in terms of trade: the latter moved in favour of the six during the 1960s but took a dramatic turn in favour of the Soviet Union during the 1970s.

The growth of trade was spearheaded by trade in machinery and equipment. This at least is true if the period from 1950 to 1980 is viewed as a whole. Trade in industrial consumer goods ranked second in growth. Taken together, exports of commodities falling into these two groups - which, on the basis of available statistics, comes close to manufactures - probably expanded by a rate as high as 15 per cent during the 1950s. The growth rate fell sharply in the early 1960s. However, as can be seen from Table 3, the growth rate decelerated less than the total of trade during the 1970s. In fact, the growth elasticity of manufacturing exports in relation to total exports has followed a "U" shaped pattern: it was around 1.4 on average during the 1950s, declined to 1.1 in the 1960s, and rose again to 1.25 in the 1970s.

The experience of the ECMEA countries appears, in this respect, to have followed the pattern of world exports, at least during the 1960s and 1970s. However, the picture is different when the comparison is made by groupings.

The growth elasticity of manufacturing exports to total exports has been significantly lower in the ECMEA countries than in the developing countries. It was somewhat lower than developed countries during the 1960s but higher in the 1970s.

TABLE 3

Volume changes in manufacturing exports
(Average annual growth rate)

	1961–1965	1966–1970	1971–1975	1976–1980
Developed market economies	8.6	10.2	6.1	5.6[a]
Developing countries	10.6	9.1	12.1	14.9[a]
Total ECMEA countries	9.0	10.9	9.4	7.7
The six East European countries	10.5	10.2	10.4	8.2
Soviet Union	6.1	12.3	7.1	6.5

Notes and sources: As for Table 1.
a 1976-1979.

4. Foreign trade participation

The CMEA countries, like the market economies, experienced a substantially faster growth of trade than of production in the post-war period. Differences in definition of production and other measurement problems make it hazardous to compare the growth relationship between trade and production in the ECMEA countries with those in other economic regions. According to ECE estimates, the export elasticity in relation to GDP[4/] amounted to a coefficient of around 1.4 in the period from 1955 to 1970.[5/] The elasticity

4/ The annual growth rate of exports divided by the annual growth rate of GDP.
5/ U.N., Structure and change in the European industry, N.Y. 1977, 161.

was higher in the 1960s than in the 1950s - a rough estimate pointing to a coefficient of 1.45 to 1.35. The elasticity continued to rise attaining a figure of around 1.6 on average in the 1970s.

Remarkably, the corresponding figures for the market economies are not much different, neither in level nor essentially in time pattern. Liberalization of imports, reduction of tariff barriers and other obstacles to trade brought a sharp increase in trade in relation to production in the 1950s and the early 1960s. However, from then on the elasticity of trade in relation to the growth of GDP stabilized. Globally, the growth elasticity of exports can be estimated at around 1.4 in the 1950s, 1.5 in the 1960s and around 1.55 in the 1970s.[6/]

Needless to say, one should be careful in interpreting such global figures. Those shown for the ECMEA countries are heavily weighted by the Soviet Union which exhibits an uncharacteristically low export elasticity. Their representation is also limited by a substantial variability of individual country elasticities within the six. The figures for the market economies include the developing countries whose export elasticity was close to unity, even falling below it in certain periods. Their representation is also affected by the inclusion of the United States, a country again with a large weight and low export elasticity. What is illustrated, however, is that seen globally the "trade participation ratio" defined here as the ratio of exports to the GDP, may well have tended to rise about equally in ECMEA countries and in the world as a whole during the post-war period.

Results of elaborate research conducted on the basis of data relating to the late 1960s have indicated that the trade participation ratios of a number of ECMEA countries tended to be lower than might "normally" be expected, using such criteria as per capita income and size. The proportion of national product traded internationally depends on a great number of additional factors; and the fact that, taken as a group, the increase in trade participation ratio was not much different in the East than in the West, may perhaps be taken as suggestive that as far as the volume of trade interchange is concerned, it is difficult to discern characteristics which

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6/ Based on growth of exports at 6.1, 7.8 and 5.8 rates and of GDP at 4.4, 5.2 and 3.7 per cent rates. The figures for 1950-1960 are rough estimates derived by the author. Later year figures are from UNCTAD, 1981 Supplement, 45 and 354.

might be due to institutionally related factors. While the trade participation coefficient has been rising everywhere, it is not excluded that some of the ECMEA countries did not compensate entirely for the initially low level of trade involvement. The fact that the increase in Eastern trade elasticities, although initially slower, has been sustained longer should be emphasized in this connexion.[7/]

The forementioned generalizations do not fit into the relationship between the growth of trade and output in manufactures. Although the share of ECMEA exports in world exports of manufactures rose, the increase was not as steep as the increase of the ECMEA share in world manufacturing production. The difference reflected the structural pattern of growth of the ECMEA countries characterized by a high elasticity of manufacturing in relation to the growth of GDP. This growth coefficient was not only higher than the one normally found in countries at advanced levels of development, but it also exceeded, on average, the corresponding coefficient in developing countries.

The problem as to whether the institutional framework of centrally planned economies tends to restrict or to favour the expansion of foreign trade has been much debated in the economic literature. Some authors think that it is in the very nature of the system that autarkist tendencies are bound to emerge. Planning and management authorities prefer to rely on domestic interchange, which they can plan and control, rather than on foreign suppliers and markets which they cannot. The absence of direct links between domestic producers and foreign suppliers and markets was thought to lead to rigidity in taking up trade opportunities. This characteristic was seen to be enforced by the existence of a protected domestic market habitually hungry for goods. Bilaterism has been cited as a factor tending to limit international interchange and the absence of clear cut specialization criteria was seen to have worked in the same direction.

Against these other influences might be mentioned. The fact that trade plans were usually exceeded by large margins can be taken as evidence of the

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7/ It should be noted that the steep increase in trade elasticities in the West during the 1950s and particularly the early 1960s was partly a reflection of reopening of trade barriers built up previously. With few exceptions trade proportions were still not higher in the late 1950s than in the 1920s. In the ECMEA countries there was a similar process although the recovery was milder at the beginning.

strength of forces working for trade expansion under conditions of central or at least of "taut" planning. It might be held that large state trading organizations should be more able than small-scale producers and traders to find trade opportunities and penetrate foreign markets. "Aversion" to trade on the local level might then be counteracted by directives built into the plan. Bilateralism was shown under certain conditions to encourage imports rather than decrease exports. Also the practice of tying in imports with exports of a certain category of goods or so-called "commodity bilateralism" which developed rather early in the post-war years, was probably an important factor in the promotion of specialization and expansion of intra-sector and intra-branch trade.

Whatever the weight of all these factors, the net outcome was a rise in the proportion of foreign trade to the national product on a scale similar to that experienced by developed market economies. Moreover, if one is to judge on the basis of the quantum of exports, foreign trade played a greater role in economic growth of ECMEA countries than in the growth of the developing countries.

The quantum of trade is, of course, a very inadequate measure of the advantage which a country derives from international division of labour. Different reasons have been given to suggest that advantages derived from greater trade participation have been relatively smaller in the ECMEA countries than in market economies. For the most part, these cannot be empirically tested. However, the fact that the growth of manufacturing in the ECMEA countries has been accompanied by less reliance on manufacturing exports as compared with the experience of both developed market economies and developing countries - is undoubtedly of great analytical significance. It is indicative of structural differences in the pattern of growth, and has particular relevance to the further devolution of the restructuring process of the ECMEA countries.

The phenomenon can be described as a tendency towards "overindustrialization". In output profile it expressed itself by the fact that at any comparable per capita income level, the weight of industry has tended to be higher in the ECMEA countries than in market economies. In trade profile it found expression in a relatively high share of machinery and correspondingly low share of industrial consumer goods in exports and in imports.

The problem of trade structure is taken up separately later on. Cnly a short comment is necessary here to conclude. As expressed by S. Kuznets, long-term changes in foreign trade proportions in the course of economic growth may be viewed as the outcome of competition between the factors which induce growth of domestic output and those which induce growth of foreign trade flows. In the West the latter have outweighed the former by a coefficient which did not change much during the last 15 to 20 years. In the East, trade generating factors became relatively stronger, reaching a coefficient equal to that of the West in recent years.

It may well be assumed that in such competition it becomes increasingly harder to shift the weight. To this extent the growth of trade of the ECMEA countries may be linked more strongly to the growth of output than it has been in the past. However, the existence of imbalances described may represent a special pool of trade-inducing factors. Whether or not these factors will work for a higher trade elasticity in the East than in the West will depend on the strength of the restructuring processes in each region.

5. Regional structure

a. The statistical record

Since 1950, changes in the geographical distribution of trade of the ECMEA countries have occurred for many reasons. Cnly the most obvious ones can be pointed out here. In the very early period the deterioration of East-West relations was a factor. Between 1950 and 1955, in terms of market shares, this was reflected in a decline of exports to industrial countries from 23.9 to 19.1 per cent and of imports from 24.9 to 19.4 per cent. However, total ECMEA trade expanded rapidly and, in fact, trade with the industrial West rose at a rate of 8.5 per cent per year measured in current market prices. The movement of world market prices over this period suggests that the figure was apparently even higher in volume terms.

Trade with developing countries was the fastest growing trade component during this period. In current prices the growth in exports to these countries proceeded at an annual rate of 24.6 per cent and the growth of imports at a rate of 20.5 per cent. Again, in constant prices the figures were even higher. Although impressive, it should be remembered that the basis was low and therefore even small increments produced high growth rates.

Taken together, the share of trade with market economies was lower in 1955 than in 1950, while the share of trade with socialist countries was higher. Within this group the fastest growing component was trade with "other socialist countries" - mainly China. The share of "other socialist countries" in ECMEA exports rose in this period from 17.6 to 20.8 per cent and in imports from 12.1 to 18.3 per cent. The share of intra-regional trade declined slightly in imports - from 54.7 to 54.1 per cent - and more significantly in exports - from 58.0 to 55.6 per cent. The decline must have been more pronounced in terms of constant prices, as prices in intra-regional trade were known to have risen during this period.

In the second part of the 1950s the ECMEA countries began gravitating towards each other. This became stronger towards the end of the decade as a result of disruption of trade with China. As a result, the relative importance of intra-regional flows rose - whether measured in current or constant prices - and the share of trade with market economies also increased.

In terms of expansion, this was translated into a record growth of intra-regional trade. The latter expanded at a rate of 13 per cent in value between 1955 and 1960 and perhaps slightly more in volume. As for the industrial countries, there was a significant difference between the growth of exports and the growth of imports. Exports to these countries expanded at a rate of 11 per cent and imports at a rate of 14 per cent, both in value and volume.

The share of trade with developing countries continued to rise, but the rise was much slower, especially in exports. The latter increased at a rate of 12 per cent during 1956-1960, while imports increased at a rate of 15 per cent.

From 1960 on the statistical foundation becomes stronger and it is possible to follow with greater precision, not only the shifts which took place in the geographical structure of trade flows expressed in value terms, but also the shifts which occurred in the geographical structure of "real" flows. The early 1960s were marked by the continuation in the trends which emerged in the second part of the 1950s: trade with "other socialist countries" declined, not only relatively but absolutely (Table 4), and, as previously, the increase in the share of all the other geo-economic regions filled the vacuum.

The only difference was a higher than proportional increase in trade with the developing countries, expressed in an acceleration in the growth of exports to these countries. The growth of intraregional trade, as well as that of trade with the industrial countries, was slower (both being roughly 9% per year). The reversal of relationships between the growth of exports to and imports from industrial countries was notable for the period. ECMEA exports to developed countries rose at a rate of 9.2 per cent and imports at a rate of 8.7 per cent during 1960-1965, value figures not differing appreciably from volume data.

The mid-1960s are usually identified as the period when policy makers in the centrally planned economies began to realize that "extensive growth factors" were becoming exhausted. The need for efficiency improvement began to play a more active role in economic strategy. Naturally enough, analysts have tended to see the effects of the changing economic situation primarily in terms of requirements for Western technology. The increased need for modern technology was seen as the main force drawing the East towards the West during the period which followed. In view of others, this factor came into play together with other factors - the major pull being the general political détente and easy availability of Western credits. Internally, the desire to maintain an increase in living stands of the population at a time of declining economic growth also played an important role.

Whatever the actual role of the various factors working for East-West economic rapprochement, the fact is that the ECMEA countries greatly accelerated the expansion of their imports from the West during the period from the mid-1960s to the mid-1970s. In real terms, however, the growth of exports to the West - which in value terms continued to grow rapidly - fell off sharply in the early 1970s (while real imports only fell in the latter 1970s). Comparing the growth of exports to the West with the growth of exports to socialist countries, it can be seen that in 1971-1975, when economic closeness to the West was at its height, the latter trade suddenly grew faster than trade with developed market economies (Table 4).

TABLE 4

Value and volume changes in CMEA trade,
by groups of countries

(Average annual growth rates)

	1961-1965	1966-1970	1971-1975	1976-1980
Value:				
Exports				
Socialist	7.5	8.4	19.1	12.5
ECMEA	9.2	8.1	19.2	11.8
Other	-2.2	10.6	18.8	17.3
Developed market economies	9.2	10.7	23.5	19.3
Developing countries	17.6	11.0	21.0	18.0
Imports				
Socialist	7.6	8.0	19.9	11.8
ECMEA	9.2	8.4	19.2	11.5
Other	-1.8	3.2	25.9	14.0
Developed market economies	8.7	12.5	31.7	10.2
Developing countries	9.6	7.6	25.8	18.6
Volume:				
Exports				
Socialist	7.3	9.3	7.8	6.3
Developed market economies	12.4	9.4	5.3	3.8
Developing countries		10.8	9.7	8.3
Imports				
Socialist	6.9	8.2	8.9	5.3
Developed market economies	9.6	11.6	13.5	2.7
Developing countries		7.9	6.2	8.4

Source: Author's estimates based on ECE data files.

A closer analysis of the corresponding trends in trade with developing countries considered separately is taken up at a later point. It should only be noted here that from 1965 until 1975 - i.e. in the period when East and West were drawing economically closer to each other - the impetus towards greater economic interdependence between East and South was decreasing.

This was first felt in exports, the growth rate of which decreased sharply in the second part of the 1960s. It was later seen in imports, the growth of which, although already much more moderate, also declined. Notably, in 1971-1975, when the growth of imports from the West was at the impressive rate of 13.5 per cent, the growth of imports from the South stood at a rate of only 6.2 per cent.

Deepening internal difficulties, a continued slowdown of exports to Western markets, and mounting foreign debt have all combined to create a new setting for the geo-economic evolvement of trade patterns. The strength of the newly emerged factors was seen shortly after the first oil price shock. It was accentuated in the years 1979 and 1980 following the second oil price shock. This evoked a reorientation of trade away from the industrial West and in favour of trade with developing countries and socialist markets.

In volume figures, the adverse effect of declining overall growth and deterioration in the payment situation of most countries was felt in overall terms in trade with each region. However, the growth of imports from and exports to the industrial West declined most. The growth of trade with socialist countries and particularly with developing countries was less affected. A continued relatively fast growth of trade with developing countries in the period 1975-1980 can be seen from Table 4.

b. Regional and overall economic integration

In the broad perspective of time, what emerges most strongly from the empirical record is the evidence of strong forces working in both directions: towards expansion of intra-ECMEA trade, and towards trade with the rest of the world. Other things being equal, one would, of course, expect a faster expansion of trade within the area. Trade with the rest of the world on the whole has, however, risen faster, which points to the strength of centrifugal forces which counterweight the protective effect of intra-CMEA arrangements on the trade outcome.

Structurally, industrialization within the ECMEA can be seen as a process of convergence of patterns whereby both the overall economic and industrial structure of the lesser developed country approaches the pattern of the more developed. In trade this is expressed by a narrowing of the areas of complimentarity in relation to the more developed countries. Trade with these countries becomes more heavily geared to complimentarities within the industrial sector than to complimentarities between sectors. Eventually specialization by branches yields to specialization within branches and to a growth of interchange of similar products. Trade with countries which were left behind assumes the characteristics formerly held in relation to the developed countries.

During a certain period, not only have the lesser developed countries diversified their structures to approach the pattern of the more developed, but the ones which were already highly diversified structured their development in the direction of "heavy" basic material supplying branches. This policy created a high degree of parallelism in industrial structures translated into what may be seen as above "normal" narrowing of the range of complimentarities in intra-regional trade. With primary material supply adequate and the investment rate rising, trade with market economies could serve as a valve without submitting to any specific pressure. The region was in need of some types of raw materials, rubber, hides, wood and ferrous metals, as well as some types of machinery which it could not produce. It offered in exchange machinery, fuel and some semi-processed materials.

Except for fuel, in which the area was a net exporter, the raw materials and semifinished products, in which it was a net importer, trade tended to be balanced not only on the whole, but also by commodity groups. Industrialization took place basically by means of the capacity of indigenous engineering whose growth, although extraordinarily fast, was barely sufficient to keep up with the demand for investment goods. A factor mitigating the problem of "competivity of structures" at the time was the existence of a vast Chinese market where machinery surpluses could be disposed of and the needed raw materials, and to a lesser extent, consumer goods, acquired.

The problem of relationship between the rate of investment on the one hand and output and trade with machinery products on the other has not been given sufficient attention in empirical investigations. It is without doubt, nonetheless, that the levelling off of the investment rate has largely affected the equilibrium and congruity of the economic structure which had evolved. The build-up of investment capacities needed an outlet which was difficult to find. The acquired comparative cost advantage vis-à-vis the developed market economies could not be translated into sales, if for no other reason than simply because of lack of experience in operating in competitive markets.

The emerging need at the same time for modernization and the adoption of a higher technological profile served as a stimulus for greater specialization and integration within the area, and intra-sectoral trade, of machinery in particular, expanded. However, what represented a factor working for greater competitiveness within the area represented at the same time a factor working for greater complementarity in trade with market economies. Here the trade profile of ECMEA countries bore the marks of inter-sectoral rather than intra-sectoral trade. The group was exporting to the West consumer goods which were badly needed at home in exchange for high technology machinery, and selling fuel in exchange for high technology industrial supplies. What under "normal" conditions should have been an interchange between countries which achieved a high level of industrial development, took the form of an interchange between countries at a relatively low and at a high level of industrialization. In the Third World the developing countries replaced China as a market for machinery and as a source of raw materials.

The fall in the investment rate combined with the sustained overall increase in personal consumption was bound to bring out other weaknesses in the existing economic structure. One was the lag of agriculture, particularly of livestock production, behind consumer requirements. Some countries were subsequently able to foster sufficient agricultural production to achieve a better structural balance. However, in the aggregate the balance tended to deteriorate rather than to improve. A demand for food imports from outside the area ensued on a scale unprecedented in the history of industrialization when one allows for the size of the region and its endowment of arable land. Foodstuffs became a "hard" commodity as opposed to machinery and transport equipment which became "soft" goods.

The other was an inadequate level of output of industrial consumer goods and, what is perhaps even more important, a lack of diversification and adjustment to the pattern of consumer demand. As in the case of agriculture there was a restructuring carried out, which was more successful in some countries than in others. However, self-sufficiency remained a tendency which meant that international interchange in industrial consumer goods never reached a "normal" level. This remained true also after great strides were made towards specialization and regional integration, not only in machinery but also in such branches as metallurgy, chemicals and more recently energy production.

In summary, it may be said that the forces working for expansion of trade within the area were mostly such as stem from the need of competitiveness and specialization at the micro-level. They found expression in an expansion of exports and imports of products in the same category. The forces working for trade with the rest of the world may be characterized as broadly complementary. These are usually to be found in trade between countries of different structures and levels of development. True enough machinery accounted for a high proportion of both exports and imports with the rest of the world, giving an impression of a high level of intra-branch specialization. This, however, masked the fact that the ECMEA countries became large net importers of machinery from the West and similarly large net exporters of machinery to the developing countries.

6. Commodity structure

Two major topics of great relevance to the present study fall under this section. One is that of the relationship between industrialization in general and the industrialization policies followed in the ECMEA countries in particular and the pattern of structural changes in trade by broad categories. The second is that of the pattern of specialization or, more broadly, the place which the ECMEA countries assume in the international division of labour. Both topics are vast and surprisingly little attention has been devoted to them in analyses of Eastern foreign trade. Adding to this difficulty is the already mentioned problem of relative sectoral prices in ECMEA trade as well as the absence of satisfactory price deflators, especially for the 1970s, when massive changes played havoc with established value relationships.

When examining the commodity structure of trade a special statistical problem arises concerning the available statistics for the Soviet Union. Aggregation of trade by commodity groups yields in the case of the Soviet Union, totals which are lower than the reported aggregates of exports and imports. The discrepancy, or what came to be known as the "residual", is very significant in exports where it has reached a figure of 20 per cent in certain years. While the exact composition of the "residual" cannot be determined, it is widely assumed that it covers mostly trade in arms. The capacity to produce and export arms is clearly a function of the development of the engineering industry. Hence it is felt justified, for the present purpose, to include the "residual" with the category of "machinery and equipment". This procedure may produce some upward bias in the share of machinery in Soviet trade. It nonetheless seems to be preferable to the alternative method followed by some researchers of excluding altogether this item from the trade structure.

(a) Trade structure and industrialization

The commodity structure of trade in the process of industrialization is expected to change to a certain pattern. This is largely, as far as the structure of exports is concerned, because of an increase in manufacturing production, and therefore more manufactured goods being available for exports. The possibility of substitution of imports is also increased, though forces working for an increase in manufactured imports are also strong. The appearance side by side of these mutually offsetting tendencies makes the net outcome on the imports side less certain.

When manufacturing is relatively small, the comparative advantage is assumed to be centered in the light industry and other relatively non-sophisticated products, mostly consumer goods. It is these products that are first expected to appear on the export list and henceforth to carry an increasing share of the industrialization burden. Later on the engineering industry begins to play its role, in time becoming the leading earner of foreign exchange. Certainly, the conditions governing patterns of structural changes in output and trade vary from country to country. These may well give rise to characteristics which differ from those outlined. However, on the whole it is this general pattern which historically prevailed in market economies.

Hypotheses concerning the impact of Eastern industrialization policies on the commodity structure of trade have tended to concentrate on imports rather than exports. It has been theorised that rapid industrialization required a steep increase in machinery and equipment imports. Later, because many industries were created without adequate regard for input supplies, unusually high levels of imports of intermediate industrial goods were required to keep industry running. On the other side of the scale, imports of industrial consumer goods were fewer than typical for market economies.

Doubts may be expressed regarding the foundation of these hypotheses. In the very early period of industrialization the demand for imported investment goods may indeed rise above the level that would have been necessary had the rise in the investment ratio been more moderate. However, the phenomenon should be temporary, as the expanding capacity of the domestic engineering industry should increasingly permit the substitution of imports by domestic products. Indeed, available statistics for Romania indicate that, beginning at least as early as 1950, the engineering industry not only was able to keep pace with the growth of investment but also significantly reduced its import content.

As concerns the demand for imports of intermediate goods, the thesis is also not absolutely convincing. Intermediate industrial goods, which form part of "heavy industry" and which speed development, were emphasized. The supply of some basic materials were occasionally indeed inadequate, creating additional demand for imports. However, to suppose this to be a source of a permanent import "bias" implies the assumption that planners had a tendency to emphasize final goods as against those of an intermediate character - a supposition difficult to defend. It is more likely that commodity imbalances tended to become part of the so-called "import barrier to growth", leading to the non-fulfilment of production plans, more balanced planning, and providing additional incentives towards finding import substituting solutions. This was especially true when hard currency imports were involved.

While it is difficult to start out with hypotheses, empirical evidence points to definite differences between commodity structure of trade in ECMEA countries and market economies. It is notable that the differences are more pronounced in exports than in imports. The exports of the ECMEA countries are characterised by a relatively high share of machinery and low share of consumer goods in the total. Eastern imports show a relatively low proportion of consumer goods. In recent years some countries, particularly the Soviet Union, have also shown a relatively high share of foodstuffs in imports. However, these countries do not make up the majority of the ECMEA countries, and therefore analytically this cannot be considered as a typical outcome of the development policies followed.

The described pattern was molded at an early stage of economic restructuring. Countries starting on the path of such restructuring from a low industrial base leaned towards the A sector while neglecting the industrial consumer goods sector in search of means for external financing of their industrialization drive. Indeed, countries that had already established some kind of export position in the consumer goods sector tended to weaken rather than strengthen this position. A similar phenomenon took place in countries which started out with a strong industrial base. With demand for investment goods running high at the time within the area, these countries found it advantageous to give up export positions in the industrial consumer goods sector and to shift their export profile towards machinery.

The strategy adopted by the Soviet Union during the first development plan provides an illustration of the type falling into the first group. Faced with the need of feeding a rapidly expanding urban labour force and paying a mounting import bill, Soviet authorities opted for a policy of institutional and social transformation of agriculture which, in the economic context, raised the amount of commercially available agricultural produce. This was conceived as an alternative to a costly policy of fostering agricultural production, even though only temporarily. The outcome of this was that state procurements of agricultural produce were stepped up even though agricultural production declined. Grain exports expanded not only in line with total exports but more; this was necessary because of the erosion of the export capacity of the consumer goods industry. Consumer goods exports, which in 1928 accounted for 33 per cent of total exports decreased to 16 per cent in 1938. Industrialization did play a part in the export structure, but only as far as machinery was concerned. The latter, practically absent from the export list in 1928, attained a share of 5 per cent in 1938.

The three least industrialized East European countries - Bulgaria, Romania and Poland - did not exactly follow the Soviet example. Bulgaria, after concentrating on the expansion of extractive industries, particularly lead, zinc mining and primary processing, shifted the emphasis seeking to raise the exportable surplus of agriculture. Unlike the Soviet Union it settled for a policy of sustained expansion of agricultural production which eventually put it in a unique place among the countries of the group in terms of a net exporter of foodstuffs. However, though the Bulgarian industrialization "model" provided for higher levels of agricultural production and specialization, it did not provide for a similar role with regard to the industrial consumer goods sector. Within industry the emphasis was on engineering and this is true to an even larger extent than in the other countries. As a counterpart, the increase of the machinery share in exports was the largest in the area. The share of industrial raw materials and of intermediate goods, as well as of industrial consumer goods were on the sharply declining side.

Poland and Romania were in a better position to finance their industrialization through exports of fuel and industrial raw materials. Particularly in the case of Poland, these have also accounted for some time for a significant share of the countries exports. On the other hand, the countries followed a policy of "economising" on investment in agriculture while keeping exports of agricultural products at a high level. Eventually this also had to be stopped with exports declining not only as a share but also absolutely. With regard to industry itself, Romania emphasized a more all-round development with relatively less stress on engineering. Its export profile became, in effect, less tilted in favour of machinery. It was in fact the only country in which the share of consumer goods in exports rose consistently throughout the post-war period.

Notwithstanding the significant differences in development and trade pattern, the three countries had in common the fact, that starting from a relatively high level - when judged by the standard of market economies at a corresponding per capita income - the share of machinery in their exports rose more sharply than might be expected from the market "model". It is enough to point out that even if allowance is made for differences in sectoral pricing, the share of machinery in Polish exports was close to the level of Finland, Norway and

Denmark in the early 1950s. In Bulgaria and Romania it was above the share of Greece, Ireland, Portugal and Spain. By 1980 all three countries had shown machinery export shares above those of most of the high income countries of Western Europe.

The situation was the opposite for industrial consumer goods. Bulgaria showed a relatively high share of consumer goods in exports in the early 1950s, but this declined. Poland and Romania had a relatively low share and, although the shares did increase, they remained much below those of European countries at a comparable level of per capita income.

In the middle and highly industrialized countries of the area - Hungary, the Soviet Union, Czechoslovakia and the German Democratic Republic - changes in the structure of exports were generally much less than in the less industrialized countries during the post-war period. The share of machinery especially rose less and there was a lesser decline in the share of raw and basic materials. This, of course, was not surprising as here changes in the production structure were less intense. It is notable that differences in the development stage of the four countries found little reflection in the evolution of their trade structures. One finds this, for instance, by comparing say the pattern of structural shifts in Hungarian exports with the pattern of the German Democratic Republic. Important differences cannot be discerned using a broad characterization of trade which would reflect the fact that the Soviet Union, with a large market and well endowed with mineral and forestry resources, was, because of its geo-political position, willing to assume a special place in intra-ECMEA trade interchange. Differences in conditions governing patterns of trade and policy options chosen appear to have worked towards greater homogeneity rather than diversity of structural change in this group of countries.

What has been referred to as characteristics of over-industrialization appear in these countries in the early 1950s. By this time Czechoslovakia and the German Democratic Republic showed shares of machinery in exports which were near to the highest in Europe. The shares of Hungary and the Soviet Union (including the residual) compared favourably with those of Austria, Belgium, France, Italy and the Netherlands. In all four countries the shares of consumer goods in exports were lower than the lowest found among the middle to highly developed West European countries. Only Denmark, with an unusually high share of agricultural exports, showed a share which was lower.

Over time, shifts in the structure of exports in the four countries were, on the whole, of the same type and order as those found in the middle to highly developed countries of Western Europe. There was an increase in the share of machinery, and to a lesser extent of consumer goods, and a decline in the share of basic materials and foodstuffs. In effect, the initial differences in the pattern between East and West remained untouched. Only Hungary, which had a very moderate increase in the share of machinery, was an exception. By 1980 the export share of machinery in Czechoslovakia and the German Democratic Republic continued to be among the highest in Europe; it remained relatively high also in the Soviet Union. Although the export share of consumer goods rose in some countries, it remained low everywhere (including Hungary) compared with the Western model.

As already mentioned, the interdependence between economic growth and patterns of structural change in trade is more difficult to trace in imports than in exports. In the post-war experience of Western Europe, structural changes in imports consisted generally of a decline in the share of foodstuffs and fuels and an increase in the share of machinery and, to a lesser extent, industrial consumer goods. Differences between lesser and more developed countries were found in the sharper decline in the share of foodstuffs and a more pronounced increase in the share of machinery in the middle to higher then in the lower income countries. The share of basic industrial materials did not show anywhere a strongly marked tendency.

In the ECMEA countries the structural patterns in imports, although in some respects similar, lend themselves less easily to generalization. The share of foodstuffs in imports declined sharply in Czechoslovakia and the German Democratic Republic. It remained about unchanged in Hungary and Poland and rose significantly in Bulgaria, Romania and the Soviet Union. The share of fuels declined in the Soviet Union, remained steady in Bulgaria, Czechoslovakia, the German Democratic Republic and Hungary and rose in Poland and Romania. On the other hand, the share of basic industrial materials has most often shown a strong declining tendency. Only in Bulgaria and Hungary has the downward trend not been strongly marked.

A common feature in both East and West was a steeper increase in the share of machinery in the imports of the more industrialized rather than in the less industrialized countries. This reflected increased intra-branch specialization. The increase in the share of machinery imports in Czechoslovakia and the German Democratic Republic, both of which are important net exporters of machinery, is particularly notable in this respect. As in the West, the share of imports of industrial consumer goods tended to rise in the ECMEA countries. However, the upward movement started from a much lower level, with a number of countries having a steady share or even decline in the share during the 1970s. The differences, in effect, while narrowing on the whole, remained characteristic for the trade outcome in the two regions.

The high share of machinery exports in the ECMEA countries in the earlier period is explained by the heavy investment carried out in the area. Later, the rise in intra-sectoral trade was mainly in machinery, which tended to enforce the phenomenon. This was especially true for the 1970s, evidently reflecting the intensified moves towards specialization and plan co-ordination after the adoption of the 1971 "Comprehensive Program". Finally, a significant factor was also a relatively high and rising share of machinery exports to developing countries.

On the other hand, there seems to be no good economic reason why the share of industrial consumer goods in exports and imports had to be low and remain so even when economic policies shifted in the direction of the consumer. A statement of a Polish economist O. Lange, made as far back as 1961, eloquently exposes this point. "The capitalist countries of Western Europe are undergoing a very intensive process of economic integration. Undoubtedly, the conditions of functioning of the socialist economy are different and the level of our economic development also in comparison to Western Europe. But, is it impossible to increase the exchange of consumer goods between the socialist countries and to increase the wealth of the assortment of commodities available to the citizens of these countries? It does not require new producing capacities, but might be achieved by better organization of the co-operation. It is difficult to resist the impression that the economic co-operation between socialist countries turns round traditional thoughts and practices, that a fresh breeze is needed here".[8/]

8/ Polityka No.48, 1961 (Warsaw).

Correction of the situation is clearly desirable and not only because of the improvement to be achieved in the variety and quality of consumer goods. Next to machinery, the consumer goods sector has the widest potential for intra-branch specialization. It is relatively labour-intensive, which opens it up as a field for specialization along the lines of exchange of capital and/or technology and skill-intensive against unskilled labour-intensive goods. Finding themselves at different stages of economic development with different relative capital and labour endowments, the countries in the area clearly had much to gain from greater trade participation in this sector.

This remains true today, the increasing scarcity of labour resources in most countries making a far reaching redeployment of labour engaged in industrial activities necessary. As a recent ECE study has shown, shifts in the employment structure towards higher productivity branches do, at present, only weakly contribute to the growth of industrial labour productivity in these countries.[9/] The shift effect could clearly be increased through the productivity effect derived in the relatively high productivity branches with the opening up of labour bottlenecks restraining the expansion of output.

(b) The pattern of specialization

Table 5 provides an overall view of the structures of trade by economic grouping and of changes which took place recently. The data require a number of qualifications and comments. The international statistical sources regularly publish information on world trade by regions and SITC commodity classes expressed in current prices. As already mentioned, current price data are of limited interest for structural analysis. Therefore an attempt was made to estimate the impact of differential prices on the trade structure. This raises the problem of availability of appropriate price deflators, especially for the ECMEA countries. As in the preceding exercises, the information used on prices is mainly that relating to Hungarian trade. Hungarian statistics provide price indices of imports and exports from and to the dollar area in terms of the five group classification in which ECMEA statistics are published as well as by major SITC classes. They also provide information on the price movement in trade with developed and developing countries separately. However, this is only in terms of the five group

9/ ECE, Economic Survey of Europe in 1982, 223ff.

TABLE 5

Commodity distribution of exports by economic groupings, basic data in 1970 prices

	Total I				Developed II				Developing III				ECMEA IV			
	1965	1970	1975	1979	1965	1970	1975	1979	1965	1970	1975	1979	1965	1970	1975	1979
Developed countries																
Food	13.6	10.8	11.1	11.2	13.9	10.9	11.6	10.9	11.6	10.8	9.1	11.0	20.1	10.1	12.4	21.3
Fuels	3.1	3.4	2.6	2.7	3.4	3.7	3.1	3.1	1.5	1.5	1.0	1.3	0.3	1.3	0.3	0.4
Raw materials	10.8	8.7	7.2	7.7	12.5	9.7	8.3	8.4	4.4	4.6	3.9	5.2	12.9	8.8	5.4	5.3
Metals	9.5	9.7	9.6	8.7	9.8	9.9	8.6	8.2	8.4	8.1	10.0	8.1	11.4	12.9	13.7	14.4
Chemicals	7.1	8.7	8.5	10.6	6.3	7.9	8.2	10.0	9.6	10.8	9.4	12.3	9.6	11.7	7.8	10.8
Machinery	29.8	31.8	34.6	30.2	26.6	29.3	30.4	27.2	39.5	41.7	47.9	43.9	30.7	34.3	37.3	29.1
Passenger cars	3.9	5.0	4.8	5.2	4.3	5.8	6.1	6.4	3.1	2.6	2.4	2.6	0.6	0.7	0.3	0.2
Other manufactures	22.2	21.9	21.6	23.7	23.2	22.8	23.9	25.8	21.9	13.9	16.3	15.6	14.4	20.2	17.8	18.5
Developing countries																
Food	29.5	24.0	22.4	19.5	28.5	24.5	20.6	19.0	26.4	18.4	20.4	16.0	52.2	45.6	52.9	62.5
Fuels	30.3	33.4	30.1	26.4	31.0	34.3	33.6	29.9	35.7	34.7	25.6	21.2	0.2	2.8	9.6	9.3
Raw materials	19.7	18.3	15.1	13.7	20.5	18.4	15.6	13.7	12.0	14.1	11.0	12.4	36.9	34.5	22.2	15.8
Metals	10.5	7.7	5.1	5.4	9.7	8.6	5.9	5.2	3.4	4.4	4.0	5.9	1.5	2.0	1.9	3.0
Chemicals	1.8	1.9	3.2	3.3	1.3	1.3	2.2	2.3	3.4	3.9	5.8	5.8	1.3	1.6	1.5	0.8
Machinery	1.2	2.8	6.6	9.7	0.6	2.2	5.2	8.0	3.5	6.3	11.4	14.8	0.1	0.5	0.7	1.1
Passenger cars	0.1	0.1	0.3	0.4	0.0	0.0	0.1	0.2	0.4	0.4	1.1	1.0	-	-	-	-
Other manufactures	6.9	11.8	17.2	21.6	8.4	10.7	16.8	21.7	15.2	17.8	20.7	22.9	7.8	13.0	11.2	7.5
ECMEA																
Food	11.9	10.1	7.9	7.1	20.5	15.8	11.6	9.9	9.1	7.8	8.8	6.8	9.5	8.5	6.6	5.9
Fuels	10.4	9.6	8.9	8.2	15.6	16.5	17.7	19.4	7.9	4.5	5.3	3.8	9.4	8.1	7.3	7.0
Raw materials	12.0	10.0	8.8	7.6	22.0	18.2	19.4	14.8	5.1	4.5	4.7	3.8	9.9	8.2	6.1	6.4
Metals	13.8	15.3	13.6	11.4	12.9	15.0	10.7	10.7	6.1	6.7	5.1	4.3	15.6	17.2	16.3	12.9
Chemicals	4.8	5.0	5.6	7.5	5.2	5.3	7.2	8.0	4.8	4.3	6.4	5.9	4.6	5.0	4.9	7.6
Machinery	36.7	38.7	43.1	43.9	11.2	14.3	16.1	15.2	52.2	60.8	59.3	66.2	42.2	42.9	48.3	48.0
Passenger cars	1.2	1.3	1.4	1.4	1.0	1.0	1.6	2.2	0.5	1.0	0.7	0.6	1.3	1.4	1.5	1.3
Other manufactures	9.2	10.0	10.7	12.9	11.6	13.9	15.7	19.8	14.3	10.4	9.7	8.7	7.5	8.5	9.0	10.9

NOTE: The commodity grouping is based on the SITC Rev-2 as following:

Food = 0+1
Raw materials = 2+4
Fuels = 3
Chemicals = 5
Metals = 67+68
Machinery = 7-12+ not accounted
Passenger cars = 12
Other manufactures = 6+8-(67+68)

Sources: Current value data as reported in various issues of the UN Monthly Bulletin of Statistics deflated by corresponding unit value indices. For market economies unit value indices as reported in UN Statistical Yearbook 1979/1980. For ECMEA countries price deflators calculated by the author using the ECE data bank and information contained in Hungarian Trade Yearbooks.

classification. Therefore, common deflators had to be used for some commodity groups, specifically raw materials and chemicals, machinery and passenger cars and other manufactures and metals. In the case of developed market economies, no "separate" deflators were available for machinery and passenger cars. For developing countries, chemicals, machinery, passenger cars and other manufactures all had to share a single deflator.

The regional division followed by United Nations statistics is somewhat different from that followed so far. Developing CMEA countries, including Cuba, were previously included with "other socialist countries" but are now classified together with other developing countries. As ECMEA trade with Cuba does not differ greatly in commodity composition from trade with the developing countries as a whole, the inclusion of this country does not affect the conclusions. On the other hand, as neither the officially accepted ECMEA countries regional classification of trade nor the United Nations classification include Yugoslavia with the group of developing countries, there appeared no reason for such grouping. It is necessary to mention this since statistics compiled by UNCTAD do, in certain cases, include Yugoslavia with developing countries. Yugoslavia is an important trading partner and as the structure of its trade differs significantly from that of developing market economies, discrepancies may appear between some conclusion drawn here and those which emerge when Yugoslavia is treated as a developing market economy.

Though imperfect in many ways, the data shed light on a number of problems and allow the drawing of certain firm conclusions.

To begin with, the figures corraborate the previously noted characteristics relating to the weight of machinery and of consumer goods in ECMEA trade. With a per capita income somewhere between the average of the developed and developing market economies, the ECMEA countries have an export share of machinery which, even with due allowances for over-valuation,[10/] exceeded that of developed market economies. On the other hand, the share of "other manufactures", consisting predominantly of consumer goods, both in exports and in imports, was significantly lower than in developed and in

10/ In 1970 machinery and equipment prices in intra-ECMEA trade were probably about 20-25 per cent above those on world markets. This would have been translated into an overstatement of the aggregate export share by about 10-15 per cent.

developing countries.[11/]

The high share of machinery exports in the ECMEA countries is a reflection of its high share in intra-regional trade and in trade with developing countries. In sharp contrast, exports to developed market economies are characterized by a relatively low proportion of machinery. The share of machinery in intra-ECMEA trade has been significantly higher than in trade within the group of developed countries (again allowing for price differences). This may be interpreted as reflecting a higher degree of intra-sectoral specialization in this group of commodities relative to other groups. The share of machinery in exports to developing countries has been the highest of all those recorded in the various intra-regional and inter-regional trade flows. It varied during the period covered between 52 and 66 per cent, with the trend being upward. By way of comparison, the share of machinery in the exports of developed to developing countries varied between 40 and 48 per cent, with the upward trend being less pronounced.

A low share of ECMEA trade in "other manufactures" can be seen when examining most of the directional flows. Imports from developed countries and recently also exports to these countries are the only exceptions. Imports of "other manufactures" from developed countries rose sharply in the latter part of the 1960s when living standards were still rising fast in the ECMEA countries. Their share in total imports stabilized, if not declined, during the 1970s. The share of "other manufactures" in ECMEA exports to developed market economies rose continuously during the period covered. The increase was practically as fast as the increase in the corresponding share of developing countries.

Unlike in trade with developed countries, the share of "other manufactures" in imports from and exports to developing countries was relatively low and did not show any favourable trend. The only exception here is the already mentioned period 1966-1970 when the share of consumer goods in ECMEA imports from these countries also underwent a sharp rise. This was followed by a decline so that by 1980 it was at about the level of 1965. The share of

11/To round-up the comparison, one may note that prices of manufactured consumer goods were around 40 per cent above those on world markets in 1970. This would translate into an inflation of the export and import shares of about 15-20 per cent.

other manufactures in the ECMEA exports to developing countries tended to deteriorate throughout the period, declining from 14 per cent in 1965 to 9 per cent in 1980, expressed in 1970 prices.

Characteristics in the ECMEA trade structure, which have so far remained hidden, can be seen in the breakdown used in the table, which is somewhat more detailed than the breakdown given in normally published Eastern statistics. A relatively high share of metals and low share of passenger cars and chemicals are in evidence as compared with the trade structure of developed market economies. This again may be seen as a manifestation of what has been referred to as "over-industrialization". It reflects an economic structure heavily weighted in favour of industry but lagging technologically and in overall productivity, hence unable to assure living standards commensurable with the degree of industrial development.

More generally, the data suggest that there has been a significant convergence of trade structures of the three economic regions in the period since 1965. The shift which took place in the export structure of developing countries towards the export structure of the developed countries should indeed be characterized as impressive. In the span of some one and a half decades, the share of "other manufactures" rose from 7 per cent to 22 per cent, equallying the corresponding share in developed countries. The share of machinery, only 1 per cent in 1965, reached the figure of 10 per cent in 1979 - representing one-third of the machinery export share in market economies. Convergence can also be seen in the share of chemicals although the chemical share, unlike that of machinery and "other manufactures", rose steeply in the developed countries; the same is also true for food and crude materials, the share of which declined in both groups of countries. Only metals proved an exception to the general pattern.

Changes in the export structure of the ECMEA countries closely resembled changes in the export structure of the developed countries, although here too there was convergence. Raw materials, metals, chemicals and other manufactures fall into the category of converging commodity groups. However, the export share of machinery tended to rise faster in the ECMEA countries than in developed countries, therefore widening the difference. The share of food exports kept on a par with the corresponding share in developed countries in the 1960s, but fell significantly below it in the 1970s.[12/]

If one compares the composition of the commodity flows between the three economic regions, one finds that the trade structure of the ECMEA countries with the developing countries bears characteristics of trade between more and less developed countries. The ECMEA countries are "specialized"[13/] in the exports of machinery and chemicals. They have recently gained a slight edge in the share of "other manufactures" but have also turned from positive to negative specialization in foodstuffs.

On the other hand, the commodity profile of trade of ECMEA countries with developing countries is marked to a greater extent by differences in development levels than is the profile of trade between developed and developing countries. It has already been seen that the share of machinery in ECMEA exports to developing countries was much higher than the corresponding share in the exports of developed countries. It should now be added that the share of machinery in ECMEA imports was markedly lower: in recent years it stood at only 1 per cent, with the share of machinery in imports of developed from developing countries having increased to 8 per cent. The share of "other manufactures" in the ECMEA exports to developing countries stood in recent years above the level of the import share. In contrast, in the developed countries the corresponding export share decreased significantly below the import share. In this commodity group the developed countries moved from a strongly positioned specialization to a firmly settled position of negative specialization. However, the differences relating to the share of foodstuffs are most striking. In the fifteen year period the share of foodstuffs in ECMEA exports to developing countries, already relatively modest, decreased to a figure of 7 per cent. The share of foodstuffs in ECMEA imports, already at a level of 52 per cent, increased to 62 per cent. This is a pattern which differed entirely from that witnessed in trade between developed and developing countries. Here to begin with, the negative specialization on the part of the developed countries was less

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12/ In 1955 the share stood at 13 per cent in the ECMEA countries and 15 per cent in the developed countries. In 1960 the comparable shares were 15 and 14 per cent, all figures in current prices.

13/ The terms "specialized" and "negatively specialized" refer to the difference between the export and import share of a given commodity group.

pronounced. It was later sharply reduced, reflecting a sharp decline in the share of goods in the imports of the developed from the developing countries and the maintenance of a rather stable share of foodstuffs in their exports to these countries.

As the figures in the table show, the structure of ECMEA trade with developing countries has been altogether characterized by a higher degree of concentration than has the structure of trade between developed and developing countries. This has been true for exports as well as for imports. In terms of 1970 prices, machinery and other manufactures accounted in 1979 for 75 per cent of ECMEA exports to the developing countries. At the same time, food and raw materials imports only amounted to 72 per cent of the 1965 level, reflecting a decline in the share of raw materials and signifying a movement towards greater diversification. However, an increase in the share of fuel offset this decline, meaning that, taken together, the share of the three commodity groups remained unchanged during the fifteen year period and accounted for almost 90 per cent of all imports.

B. <u>Trade with developing countries</u>

In the preceding section a number of findings were brought forward which provide a basis for a deeper evaluation of East-South trade relationships. During the first fifteen years following post-war reconstruction the ECMEA countries expanded their trade at a higher rate, and during the following fifteen years at about the same rate, as the rest of the world. In the earlier period trade with developing countries was the fastest growing component, but this was from an extremely low base. For the later period a distinction must be drawn between exports and imports: exports to the developing countries continued to be the fastest rising export component (although with a rather narrow margin), while imports from these countries fell below the growth rate of imports from the industrial West and to a lesser extent below the growth of intra-ECMEA in the period from 1965 to 1975. In recent years their growth began to exceed the growth of imports from the industrial West, but tended to be inferior to the growth of intra-regional trade.

The ECMEA countries share a preference for industrial production with an emphasis on engineering. Among themselves they have mostly specialized in products of engineering to reep economies of scale and advance technological standards. They have, on the contrary, kept a low level of international specialization in industrial consumer goods. Their output of investment goods has tended to exceed domestic requirements for such goods, and there was a tendency towards a rising "spill-out" of investment goods into exports. Since, although the countries were able to attain a comparative cost-advantage in various lines of engineering products vis-à-vis the West, their access to Western markets remained greatly limited, the greater part of the spill-over was directed towards markets in developing countries.

The factors working for an increase in ECMEA intra-regional trade are predominantly of a competitive nature. Those working for an increase in ECMEA trade with the market economies are mostly of a complementary character. The East-West trade profile and East-South trade profile both reflect an international division of labour according to classical lines. In the former it is the West which assumes the position of the more developed partner. In the latter it is the East which assumes this position. This is natural and to be expected. What is specific however, is that the East-South trade profile is more "classical" than the West-South trade profile: thus, while some 85% of the exports of the ECMEA countries to the developing countries are made up of manufactures, their imports are made up to about the same extent of foodstuffs and raw materials.

There is, moreover, a greater difference between the nature of the exports and the imports of manufactures in East-South trade than in West-South trade: in the case of ECMEA exports of manufactures to developing countries, nearly 80 per cent are machinery, while imports consist almost exclusively of consumer goods.

1. A note on measurement

Among the important questions which arise when focusing on trade with developing countries is how important it has been. While the question can be considered from several angles, the most fundamental point is that of its relative weight in total trade. As in similar proportions already discussed, the share of trade with developing countries in total ECMEA trade is obviously influenced by the prevailing price structure. What arises once again is the problem of price differences, this time involving not only differences between intra-regional prices and prices on world markets but also between the latter and prices in which trade with developing countries is conducted. Little is known specifically about the level of such prices. The only information available concerns their relative movement in Hungarian trade during the 1970s. From this one has the impression that the situation differs between raw materials and foodstuffs on the one hand and manufactures on the other. The former are evidently priced at a level close to that prevailing on world markets, while the latter apparently tended to gravitate towards this level in earlier years, but clearly fell below the world market level during the 1970s.

The implication is that for the period up to the outbreak of price inflation, the problem which presents itself is similar to that encountered when adding together data originally expressed in roubles with data which were originally expressed in dollars. More specifically, it is to be assumed that the share of the developing countries in total trade expressed in prices of this period tends to understate its "real" share. The same is true for recent years as far as exports are concerned. As already mentioned, these consist mainly of manufactures, the price level of which moved closer to the level of world market prices in intra-CMEA trade but fell below that level in trade with developing countries. The proposition may not be valid for imports which consist overwhelmingly of raw materials and foodstuffs. The reason for this is that prices of raw materials, particularly fuel, have decreased from the level of world market prices in intra-CMEA trade but remained close to this level in trade with developing countries.

The task of analysing the patterns of ECMEA trade with developing countries is difficult because of the absence of published information for a number of countries or the commodity composition of trade whether on the basis of international or national classifications. This is also the main obstacle to the clearing of data pertaining to individual countries from the effect of price changes. In dealing with individual countries one has to rely exclusively on current price data, indispensible for analysing financial relationships but less useful as measures of commodity flows. However, for the Soviet Union and for the six East European countries as a group, it was possible to base the analysis on current as well as on price-deflated data.

2. The early stages

The sum of 160 million dollars previously mentioned as having represented the total of ECMEA exports to the developing countries in 1950, was equal at the time to 3.8 per cent of the area's exports (Table 6). As much as 50 per cent of the figure was accounted for by Czechoslovakia. The Soviet Union participated with 20 per cent, while Hungary and Poland contributed 13 per cent. Bulgaria, the German Democratic Republic and Romania had practically no trade relations with developing countries (Table 7).

There was little change in this situation over the following three years. Czechoslovakia's exports to developing countries tended to decline, and though the other countries increased their trade activities, exports did not increase much overall. 1953 marked the beginning of a greatly expanded economic interaction between East and South. Heralding it was the extension of a $30 million credit to Argentine by the Soviet Union, followed in the next two years by substantial credits to Afghanistan, Burma and India. Within a period of five years Soviet exports to developing countries expanded from $50 million to $460 million. Czechoslovakia followed with agreements on long-term trade and credit arrangements with Egypt, Sudan and a number of Middle East and Asian countries, the effect of which was to boost their exports from $70 million to $192 million between 1953 and 1958. The German Democratic Republic also followed a path of voluminous expansion, raising its exports from $8 to $78 million dollars. Altogether, ECMEA exports to developing countries reached $900 million in 1958, representing 8.0 per cent of the total of their exports in that year.

The importance of political considerations in ECMEA aid and trade with developing countries has been given considerable attention in connection with this subject. The economic factors have been less emphasized. The economic thrust which took place in the mid-1950s was undoubtedly a composite of a wider policy aimed at establishing a political and economic presence in the Third World. However, it also directly expressed developments in the domestic economies of the ECMEA countries. From the end of the reconstruction

TABLE 6

ECMEA trade with developing countries, absolute values (current US dollars) and as percentages of total trade, selected benchmark years

	1950	1953	1955	1958	1960	1961	1965	1970	1972
					Millions of US dollars				
Exports									
Bulgaria	1.1	5.1	4.7	9.7	20.0	23.8	55.7	129.9	166.2
Czechoslovakia	82.1	70.7	171.0	191.7	213.2	241.8	264.1	342.0	420.7
German Dem. Rep.	2.7	8.3	41.7	77.6	90.2	101.6	138.5	192.2	224.1
Hungary	20.4	29.1	55.6	39.6	62.8	68.6	116.6	150.0	177.7
Poland	21.5	36.6	61.4	98.7	99.8	113.0	179.9	274.8	297.0
Romania	2.5	8.5	12.8	25.2	41.7	43.2	72.0	163.7	242.5
The Six	130.3	158.3	347.2	449.0	527.7	592.0	826.8	1252	1528
Soviet Union	32.3	50.1	142.0	460.0	337.4	583.9	1123	2040	2439
Total	162.6	208.4	489.2	909.0	865.1	117.6	1949	3292	3967
Imports									
Bulgaria	1.4	2.9	3.5	9.5	15.0	13.7	41.1	86.2	135.4
Czechoslovakia	55.3	54.9	130.8	135.7	177.7	215.4	209.3	226.3	282.2
German Dem. Rep.	0.5	5.6	30.6	44.3	91.1	76.4	124.8	189.1	162.0
Hungary	18.8	22.1	51.0	35.4	64.9	69.6	123.7	194.9	195.5
Poland	21.1	39.0	79.8	66.6	101.7	88.2	219.0	204.2	252.5
Romania	7.7	11.5	10.2	19.3	21.7	38.1	57.6	119.9	188.3
The Six	104.8	136.0	305.9	347.5	472.0	501.5	775.5	102.1	121.5
Soviet Union	92.7	80.0	195.8	450.6	534.6	563.6	815.7	1273	1632
Total	197.4	216.0	501.7	798.1	1007	1065	1592	2294	2847

TABLE 6 (continued)

	1973	1975	1976	1977	1978	1979	1980	1981
					Millions of US dollars			
Exports								
Bulgaria	233.3	503.8	496.2	661.7	832.0	998.0	1390	1875
Czechoslovakia	451.3	720.2	681.4	837.8	986.9	1024	1289	1379
German Dem. Rep.	287.9	443.9	500.1	571.6	767.7	853.5	1105	1461
Hungary	218.1	383.6	423.9	517.6	590.7	801.9	937.9	1054
Poland	324.6	879.8	914.5	1042	1046	1291	1649	1543
Romania	431.8	1025	1193	1526	1443	1866	2553	3361
The Six	1947	3956	4209	5156	5665	6835	8928	10673
Soviet Union	3952	4584	4961	7251	8392	9596	10587	12053
Total	5899	8540	9170	12407	14056	16431	19515	22726
Imports								
Bulgaria	160.9	222.1	250.1	288.6	267.1	297.0	378.2	510.7
Czechoslovakia	396.2	505.2	507.0	729.4	611.0	705.4	830.1	740.5
German Dem. Rep.	234.5	491.4	626.1	722.9	677.7	776.0	1116	509.9
Hungary	265.2	512.2	542.0	671.0	725.1	736.1	905.1	785.1
Poland	303.3	609.9	588.8	699.4	838.9	1370.2	1789	949.6
Romania	321.5	732.2	1116	1098	1589	2558	4094	3392
The Six	1682	3073	3630	4209	4709	6443	9113	6888
Soviet Union	2335	4153	3720	4072	4157	4865	7847	10813
Total	4017	7226	7350	8281	8866	11308	16960	17701

TABLE 6 (continued)

	1950	1953	1955	1958	1960	1961	1965	1970	1972
	Per cent of total trade								
Exports									
Bulgaria	1.0	2.5	2.0	2.6	3.5	3.6	4.7	6.5	6.3
Czechoslovakia	10.5	7.1	14.5	12.7	11.1	11.8	9.8	9.0	8.6
German Dem. Rep.	0.7	0.9	3.2	4.1	4.1	4.4	4.5	4.2	4.4
Hungary	6.2	5.8	9.3	6.7	7.2	6.7	7.7	6.5	5.4
Poland	3.4	4.4	6.7	9.3	7.5	7.5	8.1	7.7	6.0
Romania	1.2	2.3	3.0	4.1	5.8	5.5	6.5	8.8	9.3
The Six	5.3	4.1	7.5	7.5	6.9	7.1	7.0	6.9	6.2
Soviet Union	1.8	1.7	4.1	10.7	6.1	9.7	13.7	15.9	15.8
Total	3.8	3.1	6.1	7.9	6.6	8.2	9.8	10.7	10.1
Imports									
Bulgaria	1.1	1.5	1.4	2.6	2.4	2.1	3.5	4.7	5.3
Czechoslovakia	8.7	6.2	12.4	10.0	9.8	10.7	7.8	6.1	6.1
German Dem. Rep.	0.1	0.6	2.6	4.8	4.2	3.4	4.4	3.9	2.7
Hungary	6.0	4.5	9.2	5.6	6.7	6.8	8.1	7.8	6.2
Poland	3.2	5.0	8.6	5.4	6.8	5.2	9.4	5.7	4.7
Romania	3.2	2.5	2.2	2.4	3.4	4.7	5.4	6.1	7.2
The Six	4.2	3.6	6.9	6.0	6.1	5.9	6.7	5.5	5.0
Soviet Union	6.4	2.9	6.4	10.4	9.5	9.7	10.1	10.9	10.1
Total	5.0	3.3	6.7	7.9	7.5	7.5	8.1	7.6	7.1

TABLE 6 (continued)

	1973	1975	1976	1977	1978	1979	1980	1981
				Per cent of total[a]				
Exports								
Bulgaria	7.2	10.8	9.2	10.4	11.2	11.3	13.4	17.5
Czechoslovakia	7.5	8.6	7.6	8.2	8.4	7.8	8.6	9.3
German Dem. Rep.	3.6	4.4	4.4	4.8	5.8	5.7	6.4	7.4
Hungary	5.0	6.3	8.6	8.9	9.3	10.1	10.9	12.1
Poland	5.1	8.6	8.3	8.5	7.6	8.0	9.7	11.6
Romania	11.8	19.2	19.4	21.7	17.9	19.2	21.2	26.7
The Six	6.3	8.8	8.8	9.6	9.3	9.6	11.1	13.3
Soviet Union	18.6	13.8	13.4	16.1	16.0	14.8	13.8	15.2
Total	9.9	10.9	10.8	12.5	12.4	12.1	12.4	14.3
Imports								
Bulgaria	5.0	4.1	4.4	4.7	3.5	3.4	3.9	4.7
Czechoslovakia	6.5	5.6	5.2	6.5	4.9	5.0	5.5	5.1
German Dem. Rep.	3.0	4.4	4.7	5.0	4.7	4.8	5.9	2.5
Hungary	6.8	7.2	9.8	10.3	9.1	8.5	9.9	8.6
Poland	3.9	4.9	4.2	4.8	5.3	7.8	9.4	6.1
Romania	9.3	13.7	18.3	15.6	17.9	23.4	31.0	27.2
The Six	5.2	6.1	6.7	7.0	7.0	8.5	10.7	8.3
Soviet Union	11.2	11.2	9.8	10.0	8.2	8.4	11.5	14.8
Total	7.6	8.2	8.0	8.2	7.5	8.4	11.0	11.4

Source: ECE data bank.

up to 1953, the intensive investment activity in the area created an insatiable market for machinery removing all economic incentives to increase exports to developing countries. The marked relaxation of the investment drive which consequently occurred enlivened these incentives. Moreover, the drastic shift in the distribution of resources towards consumption which took place, not only tended to release investment goods but also to create the need for additional imports of foodstuffs and raw materials for light industry. With the area being short of consumer goods, the double-edged benefits to be derived should have provided a particularly strong stimulus for trade expansion.

A specific factor for the Soviet Union was its role as purveyor of raw materials for the region and the related role of providing an outlet for machinery and consumer goods produced by the smaller East European countries. With its own machinery industry highly developed, there was bound to be a tendency for "over-flowing" in the market. The fact that this has not taken place was apparently due to two reasons: the large share of engineering capacity absorbed by armaments production and the role played by exports to developing countries in balancing the internal market.

In this connection it is not an exaggeration to say that domestic economic policies also played a significant role in the decline of trade expansion at the end of the 1950s. This was a period when investment was tightened in most of the ECMEA countries. The rhythm of growth of exports to the developing countries was speeded up only in 1961, the year when deterioration of relationships with China was expressed in full economic ramification.

Even with a cursory review of trends in ECMEA trade with developing countries in the post-war years one cannot omit the decline of trade with China, particularly Soviet trade. The relationship between this event and the intensification of aid and trade with developing countries in the early 1960s is not open to scrutiny. However, it clearly provided a vacuum which could only be filled by an increase in trade with developing countries. In 1959 ECMEA exports to China amounted to $1,365, exceeding by nearly 60 per cent the total of exports to developing countries. In 1961 exports to China decreased to $715 million: for the Soviet Union alone the change between the two years was a decline from $955 to $367 million.

A relevant point in this connexion is that the profile of ECMEA trade with China, although "traditional", was less one-sided than the profile of ECMEA trade with developing countries, as it is today. Exports were highly concentrated on machinery items which accounted for the greater part of the total. However, imports ranged over a wide category of products including machinery, a sizeable proportion of semi-processed goods as well as consumer goods - textiles, clothing, footwear and others. This is also true for the Soviet Union which, as can be seen below, has an import structure from developing countries which is much less diversified than the imports of six East European countries.

Between 1960 and 1965 ECMEA exports to developing countries increased from $0.87 to $1.95 billion representing, 8.2 and 9.8 per cent, respectively, of their total exports. As in the 1950s, growth was dominated by the expansion of Soviet trade. Fueled by the economic aid programme, Soviet trade with developing countries, after having decreased to $337 million roubles in 1960, reached the sum of $1.12 billion in 1965. The country became "specialized" in trade with developing countries. At the beginning of the decade the Soviet Union's share in the area's exports to the developing countries was about equal to the share it held in the total of the area's exports. By 1965 the share had risen to 50 per cent as against a share of 41 per cent it held in the total. The share of exports to developing countries in the total of Soviet exports rose from 6.1 to 13.7 per cent.

The smaller East European countries found it less urgent to shift their regional trade structure in favour of the developing countries. Nonetheless in nearly all of them exports to developing countries rose faster than total exports, with only Czechoslovakia being an exception. However, as this country weighed heavily within the six, the average for the group did not change much during this period.

The low base from which the growth of ECMEA trade with developing countries started makes it somewhat awkward to use rates of growth as measures of advancement. It is nonetheless indicative that between 1950 and 1965 the average annual growth rate of ECMEA exports to developing countries amounted to 18.0 per cent in current prices and certainly as much in terms of volume. The growth of imports was slower and came to an annual rate of 14.5 per cent.

TABLE 7

Share of individual ECMEA countries in total ECMEA trade with developing countries in current prices, selected benchmark years
(Per cent)

	1950	1955	1960	1965	1970	1972	1975	1976	1977	1978	1979	1980	1981
Exports													
Bulgaria	0.7	1.0	2.4	2.9	3.9	4.2	5.9	5.4	5.3	5.9	6.1	7.3	8.2
Czechoslovakia	50.5	34.9	24.6	13.5	10.4	10.6	8.4	7.4	6.3	7.0	6.2	6.7	6.1
German Dem. Rep.	1.7	8.5	10.4	7.1	5.8	5.6	5.2	5.5	4.6	5.5	5.2	5.8	6.4
Hungary	12.5	11.4	7.3	6.0	4.6	4.5	4.5	4.6	4.2	4.2	4.9	4.9	4.7
Poland	13.2	12.6	11.5	9.2	8.3	7.5	10.3	10.0	8.4	7.4	7.9	8.6	6.8
Romania	1.5	2.6	4.8	3.7	5.0	6.1	12.0	13.0	12.3	10.3	11.4	13.4	14.8
<u>The Six</u>	80.1	71.0	61.0	42.4	38.0	38.5	46.3	45.9	41.6	40.3	41.7	46.7	47.0
Soviet Union	19.9	29.0	39.0	57.6	62.0	61.5	53.7	54.1	58.4	59.7	58.3	55.3	53.0
<u>Total</u>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Imports													
Bulgaria	0.7	0.7	1.5	2.6	3.8	4.8	3.1	3.4	3.5	3.0	2.6	2.2	2.9
Czechoslovakia	27.9	26.1	17.7	13.2	9.9	9.8	7.0	6.9	8.8	6.9	6.2	4.9	4.2
German Dem. Rep.	0.3	6.1	9.0	7.8	8.2	5.7	6.8	8.5	8.7	7.6	6.9	6.6	2.9
Hungary	9.5	10.2	6.4	7.7	6.5	6.9	7.1	7.4	8.1	8.2	6.5	5.3	4.4
Poland	10.7	15.9	10.1	13.9	8.9	8.9	8.4	8.0	8.4	9.5	12.1	10.6	5.4
Romania	3.9	2.0	2.2	3.6	5.2	6.6	10.1	15.2	13.3	17.9	22.5	24.1	19.2
<u>The Six</u>	53.0	61.0	46.9	48.7	44.5	42.7	42.5	49.4	50.8	53.1	57.0	53.7	39.0
Soviet Union	47.0	39.0	53.1	51.3	55.5	57.3	57.5	50.6	49.2	46.9	43.0	46.3	61.0
<u>Total</u>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

<u>Source</u>: As in table 6.

The difference was due to a much faster growth of exports than of imports in the Soviet Union. In the six East European countries as a group, the growth of imports was somewhat faster than the growth of exports.

However, there are certain essential differences between the period from 1950 to 1960 and that between 1960 and 1965. In the early 1950s, the Soviet Union's imports from the developing countries rose at a rate twice as high as exports. The ratio narrowed afterwards, but the balance remained negative and in absolute terms tended to widen towards the end of the decade. The balance of the six East European countries, dominated by Czechoslovak trade, was initially highly positive. Here import and export growth rates tended to become closer, owing to a somewhat faster growth of imports. However, in absolute terms the balance was increasingly positive. (Table 8)

The difference is attributed to differences between the Soviet Union's less active, and Czechoslovakia's more active trade policies in the early 1950s. In this period the Soviet Union bought needed raw materials - mostly natural rubber, cotton fibres, hides and some non-ferrous metals - for hard currency and occasionally sold fuel and some products of manufacturing. On the other hand, Czechoslovakia, with a background of commercial experience in Asia, Africa and Latin America, launched itself in trade activities immediately after the war searching for markets for its well preserved manufacturing industries. It found easy access for its products in what was generally a sellers market. Unlike the Soviet Union, it looked primarily for hard currency to spend in Western markets.

The growth of aid commitments after 1954 had no visible impact on either the trade balance of the Soviet Union or of Czechoslovakia during the 1950s. By the end of the decade, it was in fact Romania - which was not very active externally - which showed a consistently rising trade balance. It was only in the first part of the 1960s that deliveries related to aid commitments began to show in the trade balances of the Soviet Union and of some East European countries. In effect, the Soviet Union, formerly a net importer for around some $60 million dollars annually, became a net exporter for some $270 million. The six as a group continued to increase exports faster than imports. However, Hungary appeared in the capacity of net importer, pulling down the total of the group below the level of the previous years.

TABLE 8

Trade balances (exports-imports) in ECMEA trade with developing and developed countries

(Millions of dollars)

	1951-1955	1956-1960	1961-1965	1966-1970	1971-1975	1976-1980
			Developing market economies			
Bulgaria	6.75	12.05	48.55	118.6	566.5	2896.0
Czechoslovakia	84.72	296.1	212.48	446.8	638.3	1436.0
German Dem. Rep.	23.21	8.26	48.32	148.4	-69.89	-121.4
Hungary	14.46	38.24	-60.93	-81.35	-327.1	-308.3
Poland	-53.98	41.39	15.95	148.4	558.2	654.9
Romania	-2.66	48.65	63.99	302.8	591.0	-1868.0
The Six	72.5	444.7	328.4	1104.0	1957.0	2639.0
Soviet Union	-203.3	-304.8	1333	2803	4798	16124
Total	-130.8	139.9	1661	3907	6755	18813
			Developed market economies			
Bulgaria	-4.4	-95.8	-188.6	-420.6	-1566	-875.5
Czechoslovakia	11.3	-53.6	-160.8	-296.1	-1476	-3563
German Dem. Rep.	-81.4	-140.9	-452.2	-519.1	-3566	-7328
Hungary	-160.9	-97.0	-224.7	-95.9	-1513	-3876
Poland	45.3	-214.8	-111.4	-66.4	-6792	-10255
Romania	-111.2	7.5	-328.2	-106.2	-1313	-1851
The Six	-301.4	-594.5	-146.6	-246.0	-16226	-27749
Soviet Union	-65.8	74.2	-943.8	662.1	-7277	-9729
Total	-367.2	-520.3	2410	-3122	-23503	-37478

Source: As in table 6.

3. The unfolding pattern

By the middle of the 1960s the share of exports to developing countries in total exports of the Soviet Union came rather close to that of the European developed market economies - 16.2 per cent at the time. The share was considerably higher in machinery where the Soviet share stood at 30 14/ and West European share at 21 per cent. Of around $850 million worth of machinery exported, an estimated $470 million went to developing countries. Thus, including armaments, the share of machinery in the exports to the developing countries came to nearly 60 per cent. The other main export items were petroleum (12 per cent) and foodstuffs (9 per cent). Metals, crude materials and "other manufactures" followed in that order, the latter accounting for only 5 per cent of the total (Table 9).

The distribution of Soviet exports was geographically highly concentrated. The largest markets were India, the U.A.R., Indonesia, Afghanistan and Brazil. These accounted for 65.4 per cent of exports to the developing countries for which data on the distribution by country are available (Table 10). By regions, Asia led absorbing 43 per cent of exports. It was followed by North Africa with 30 per cent and at a considerable distance by the Middle East with 12 per cent. Sub-Saharan Africa and Latin America accounted for a small part of exports (Table 11).

The leading Soviet imports from developing countries in 1965 were foodstuffs, rubber and cotton fibre. Taken together, foodstuffs and raw materials accounted for 89 per cent of Soviet imports from developing countries. Of total foodstuffs imported, nearly 30 per cent came from these countries. This compared with 40 per cent for West European countries. Imports were, like exports, geographically highly concentrated. The main import sources were India, the U.A.R., Malaysia, Argentina and Brazil. These accounted for 70 per cent of total imports from developing countries. The import distribution by area differed from the area distribution of exports by lower shares assumed by North Africa and the Middle East and higher shares assumed by Asia and especially Latin America.

Trade with developing countries was, on the whole, less important for smaller East European countries. Only Czechoslovakia held a share in the

14/ This is the share excluding armaments.

TABLE 9

Commodity distribution of ECMEA trade with developing countries

(Per cent)

	1965	1970	1975	1980	1965	1970	1975	1980	1965	1970	1975	1980
	Soviet Union				The Six				Total			
					Current prices							
Exports												
Food	8.7	6.8	8.3	4.0	8.9	9.7	13.2	13.9	8.7	7.8	10.3	7.9
Fuels	12.1	5.6	13.4	18.4	1.3	2.4	3.3	2.4	8.0	4.5	9.4	12.1
Raw materials	5.5	5.1	5.8	3.4	4.2	3.3	3.2	4.0	5.0	4.5	4.7	3.7
Metals	6.6	5.6	3.5	2.1	6.0	9.0	7.6	7.9	6.4	6.7	5.2	4.4
Chemicals	2.1	1.8	3.2	2.1	9.1	9.3	11.3	11.4	4.8	4.3	6.4	5.7
Machinery	59.3	69.7	61.6	67.5	39.3	42.7	40.6	40.2	51.7	60.8	53.2	56.8
Passenger cars	0.4	0.7	0.7	0.5	0.3	1.6	0.7	0.4	0.4	1.0	0.7	0.5
Other manufactures	5.3	4.7	3.5	2.0	30.9	22.0	20.1	19.8	15.0	10.4	10.1	8.9
Imports												
Food	56.2	48.0	59.6	66.0	47.9	41.9	28.1	27.1	52.7	45.6	47.8	48.2
Fuels	0.1	2.0	12.3	9.4	0.4	4.1	31.0	46.9	0.2	2.8	19.3	26.6
Raw materials	32.2	32.6	14.7	13.9	41.7	37.6	27.6	16.8	36.3	34.5	19.6	15.2
Metals	1.5	2.0	1.3	2.8	1.4	1.9	2.0	1.8	1.4	2.0	1.5	2.3
Chemicals	1.9	1.4	2.4	0.9	1.0	2.1	1.2	0.8	1.5	1.6	1.9	0.9
Machinery	-	0.2	0.5	1.1	0.3	0.8	0.7	0.6	0.1	0.5	0.6	0.9
Passenger cars	-	-	-	-	-	-	-	-	-	-	-	-
Other manufactures	8.1	13.8	9.2	5.9	7.3	11.6	9.4	6.0	7.8	13.0	9.3	5.9

TABLE 9 (continued)

	Soviet Union 1965	1970	1975	1980	The Six 1965	1970	1975	1980	Total 1965	1970	1975	1980
					In 1970 prices							
Exports												
Food	8.9	6.8	7.3	3.5	9.3	9.7	11.1	11.7	9.1	7.8	8.8	6.8
Fuels	12.0	5.6	6.6	5.9	1.3	2.4	3.5	0.7	7.9	4.5	5.3	3.8
Raw materials	5.5	5.1	5.8	3.6	4.3	3.3	3.1	4.0	5.1	4.5	4.7	3.8
Metals	6.3	5.6	3.4	2.1	5.9	9.0	7.3	7.5	6.1	6.7	5.1	4.3
Chemicals	2.1	1.8	3.3	2.2	9.3	9.3	11.0	11.4	4.8	4.3	6.4	5.9
Machinery	59.7	69.7	69.5	80.0	39.9	42.7	44.3	45.5	52.3	60.8	59.3	66.2
Passenger cars	0.4	0.7	0.7	0.7	0.3	1.6	0.7	0.5	0.4	1.0	0.7	0.6
Other manufactures	5.1	4.7	3.4	2.0	29.6	22.0	19.0	18.7	14.3	10.4	9.7	8.7
Imports												
Food	56.0	48.0	63.7	73.2	47.6	41.9	33.4	43.9	52.2	45.6	52.9	62.5
Fuels	0.1	2.0	5.8	2.8	0.4	4.1	16.4	20.5	0.2	2.8	9.6	9.3
Raw materials	32.7	32.6	16.0	12.6	42.1	37.6	33.6	21.4	36.9	34.5	22.2	15.8
Metals	1.5	2.0	1.5	3.1	1.4	1.9	2.6	2.8	1.5	2.0	1.9	3.0
Chemicals	1.6	1.4	1.7	0.7	0.9	2.1	1.0	0.9	1.3	1.6	1.5	0.8
Machinery	-	0.2	0.6	1.2	0.2	0.8	0.8	1.0	0.1	0.5	0.7	1.1
Passenger cars	-	-	-	-	-	-	-	-	-	-	-	-
Other manufactures	8.1	13.8	10.7	6.4	7.4	11.6	12.2	9.5	7.8	13.0	11.2	7.5

Source: UN Monthly Bulletin of Ststistics, May 1981 and May 1982 issues; and author's estimates.

TABLE 10

Trade with five largest trading partners as per cent of total

	1965		1972		1980	
	Exports	Imports	Exports	Imports	Exports	Imports
Bulgaria	45.5	68.6	61.7	61.5	64.8	63.9
Czechoslovakia	53.3	49.1	49.9	61.1	43.5	50.3
German Democratic Republic	67.4	69.4	76.8	76.2	n.a.	n.a.
Hungary	42.6	58.3	51.1	50.6	49.3	59.7
Poland	50.6	59.4	52.5	60.7	46.2	73.2
Romania	62.8	78.0	62.0	63.6	56.3	64.3
Soviet Union	65.4	69.9	62.3	61.8	57.1	56.2

Note: The totals used as denominator represent trade that can be broken down by country. These are generally close to the actual totals, except for the Soviet exports. Addition of Soviet exports by country yields figures in the range of 70-80 per cent of the reported total of exports to developing countries.

TABLE 11

ECMEA trade with developing countries, geographical distribution by world regions, (per cent in current prices)

	1965	1972	1980
Bulgaria			
Exports			
North Africa	19.1	32.3	42.7
Sub-Saharan Africa	14.4	6.8	3.1
Middle East	31.9	40.2	45.4
Asia	31.8	16.7	8.0
Latin America	2.8	4.0	0.8
Imports			
North Africa	24.2	34.9	42.6
Sub-Saharan Africa	7.9	3.6	0.2
Middle East	22.1	22.0	31.4
Asia	36.0	28.4	10.3
Latin America	9.8	11.1	15.5
Czechoslovakia			
Exports			
North Africa	20.9	32.0	24.0
Sub-Saharan Africa	9.8	4.2	5.1
Middle East	22.9	34.0	46.2
Asia	36.1	18.7	14.7
Latin America	10.3	11.1	10.0
Imports			
North Africa	21.4	28.7	9.5
Sub-Saharan Africa	13.0	1.7	4.8
Middle East	15.8	18.1	24.2
Asia	32.0	29.9	25.1
Latin America	17.8	21.6	36.4
German Democratic Republic			
Exports			
North Africa	26.8	43.8	
Sub-Saharan Africa	8.8	0.1	
Middle East	16.7	27.5	
Asia	35.6	16.7	
Latin America	12.1	11.9	
Imports			
North Africa	23.2	23.5	n.a.
Sub-Saharan Africa	7.6	0.5	n.a.
Middle East	10.5	16.4	n.a.
Asia	31.2	14.9	n.a.
Latin America	27.5	44.7	n.a.

TABLE 11 (continued)

	1965	1972	1980
Hungary			
Exports			
North Africa	31.6	27.6	17.6
Sub-Saharan Africa	8.2	6.8	11.8
Middle East	26.7	33.5	57.4
Asia	29.3	22.7	8.5
Latin America	4.2	9.4	4.8
Imports			
North Africa	18.0	17.2	5.3
Sub-Saharan Africa	6.0	11.1	11.0
Middle East	18.8	19.3	32.2
Asia	29.8	25.8	17.9
Latin America	27.4	26.6	33.6
Poland			
Exports			
North Africa	17.8	20.5	28.0
Sub-Saharan Africa	16.4	6.4	8.5
Middle East	18.6	22.5	37.0
Asia	38.6	23.3	14.7
Latin America	8.7	27.3	11.8
Imports			
North Africa	14.2	27.5	11.5
Sub-Saharan Africa	9.5	4.1	1.3
Middle East	9.8	8.7	36.4
Asia	17.7	34.0	9.1
Latin America	48.8	25.7	41.7
Romania			
Exports			
North Africa	32.3	30.7	23.2
Sub-Saharan Africa	5.6	3.7	3.4
Middle East	38.5	43.3	57.5
Asia	15.5	11.7	12.9
Latin America	8.1	10.6	3.0
Imports			
North Africa	34.5	37.3	20.9
Sub-Saharan Africa	2.9	2.7	10.5
Middle East	25.5	28.8	58.4
Asia	25.1	20.2	5.4
Latin America	12.0	11.0	4.8

TABLE 11 (continued)

	1965	1972	1980
Soviet Union			
Exports			
North Africa	29.5	34.0	14.4
Sub-Saharan Africa	9.2	8.0	8.9
Middle East	12.3	35.9	37.7
Asia	43.3	19.7	36.4
Latin America	5.7	2.4	2.6
Imports			
North Africa	23.9	27.5	13.7
Sub-Saharan Africa	6.6	5.9	6.9
Middle East	8.1	22.0	12.6
Asia	48.1	34.5	37.0
Latin America	13.2	10.1	29.8

Source: ECE data bank.

Note: See note to Table 10.

areas exports to developing countries which was equal to its share in the total areas exports. However, participation in trade with developing countries was more evenly distributed than it was before, Czechoslovakia having lost its preponderate position. The inter-country spread in the share of exports to developing countries in total exports was narrowed considerably; it should be noted that the Polish share came close to that of Czechoslovakia, while Romania raised its share closer to the group's average.

The composition of trade with developing countries of the six East European countries was less lop-sided than that of the Soviet Union. Machinery accounted for a lower proportion of exports, and other manufactures for a much higher proportion; and, added together, these items accounted for a much lower proportion of exports in East European countries. Other differences were a lower proportion of fuel and a higher proportion of chemicals in the exports of the six East European countries. As concerns imports, the only notable difference was a lower share of foodstuffs and a correspondingly higher share of fuel and raw materials in these countries.

East European trade was more evenly distributed geographically. This reflected a lower level of concentration in Czechoslovak, Hungarian and Polish trade. Even so, in these countries each of the top trading partners accounted for 10 per cent of the total, on average. The most important partners whose names appeared frequently were those in Soviet trade. By broad regions the geographical distribution of trade of the East European countries was generally less tilted towards Asia and more towards the Middle East. North Africa also tended to assume a lower share in East European trade than in Soviet trade with developing countries, although there were exceptions.

The distribution of imports by area differed in some respects from the distribution of exports. Most notable was a much higher share of imports from Latin America to Eastern Europe than of exports. In fact, as can be seen from Table 12, not only did import shares exceed export shares, but in all countries the trade balance tended to be negative. This was in sharp contrast to the positive balance in trade as a whole and, in the majority of cases, with all other major regions.

TABLE 12

Trade balances (exports-imports) by geographical region in ECMEA trade with developing countries

(Millions of dollars)

	1965	1972	1980
Bulgaria			
Total trade balance	14.6	28.6	1011.3
Total identified by region	14.3	31.1	957.8
of which:			
North Africa	0.8	7.2	409.9
Sub-Saharan Africa	4.5	5.5	38.4
Middle East	8.1	32.9	480.8
Asia	3.0	-7.9	68.9
Latin America	-2.1	-6.6	-40.3
Czechoslovakia			
Total trade balance	54.7	138.5	458.8
Total identified by region	22.6	119.8	446.5
of which:			
North Africa	3.8	47.5	224.5
Sub-Saharan Africa	-4.3	12.1	25.9
Middle East	19.4	85.2	384.3
Asia	16.3	-9.0	-18.2
Latin America	-12.6	16.0	-170.0
German Democratic Republic			
Total trade balance	13.7	62.1	n.a.
Total identified by region	9.6	48.3	n.a.
of which:			
North Africa	6.9	53.5	n.a.
Sub-Saharan Africa	2.4	-0.3	n.a.
Middle East	9.1	30.9	n.a.
Asia	8.8	10.9	n.a.
Latin America	-17.6	-46.7	n.a.
Hungary			
Total trade balance	-7.1	-17.7	32.8
Total identified by region	-9.6	-17.8	24.5
of which:			
North Africa	11.9	15.2	115.1
Sub-Saharan Africa	1.7	-9.5	10.3
Middle East	6.1	21.6	241.1
Asia	-3.3	-10.0	-83.2
Latin America	-26.0	-35.2	-258.8

TABLE 12 (continued)

	1965	1972	1980
Poland			
Total trade balance	-39.1	44.5	-140.7
Total identified by region	-41.5	27.7	-278.5
of which:			
North Africa	0.3	-12.0	184.4
Sub-Saharan Africa	7.7	7.5	91.8
Middle East	10.9	41.0	-93.2
Asia	28.6	-20.3	48.6
Latin America	-89.0	11.5	-510.1
Romania			
Total trade balance	14.4	54.3	-1535.8
Total identified by region	12.4	41.2	-1542.4
of which:			
North Africa	2.7	0.6	-267.9
Sub-Saharan Africa	2.3	3.4	-331.7
Middle East	12.2	44.2	-924.1
Asia	-3.6	-10.7	98.0
Latin America	-1.2	3.7	-116.8
Soviet Union			
Total trade balance	307.0	806.6	2739.6
Total identified by region	36.3	-261.7	-1819.6
of which:			
North Africa	56.2	17.0	-211.7
Sub-Saharan Africa	24.4	13.4	-6.3
Middle East	38.1	133.1	1245.8
Asia	-23.0	-292.5	-710.9
Latin America	-59.4	-132.6	-2136.5

Source: ECE data bank.

4. Trends 1965-1980

The period from 1965 onwards witnessed a considerable transformation of East-South economic relationships. New forms of economic co-operation and trade facilitating arrangements developed. The aid programme spread geographically and became less geared to political considerations. The number of trade partners grew rapidly. Long-term barter and clearing commitments, which earlier were the main form of trade interchange, declined in importance (Table 13). By 1980 a great part of the trade balances were being settled in hard currency. By the same token, the share of East-South aid-related trade has been declining. Although the aid programme continued to expand, its trade generating effect tended to become less important.

It is difficult to relate these developments to the actual trade performance. The ten-fold increase in the area's exports to developing countries - from $1.95 billion in 1965 to $19.5 billion in 1980 - reflected only a four-fold increase in the physical volume; and the 1070 per cent increase in imports from $1.59 to $17.7 billion reflected only a three-fold increase in physical volume. During the 15 year period, the export volume is estimated to have risen at an annual average of 9.6 per cent. The growth of imports had an average of 7.5 per cent. There was a steady deterioration in the growth rates from one quinquennium to another, except for imports in the period 1976-1980. This did not, however, signify a reversal of the declining trend, but rather reflected a temporary upswing in imports in the year 1980 in response to the turbulent market conditions in that year.

The picture changes when the growth of trade with developed countries is considered against the background of changes in aggregate trade. In the ECMEA group as a whole, and in practically all countries, the growth of exports to developing countries exceeded the growth of total exports. On the other hand, the growth of imports from these countries increased slower than the growth of total imports, the period 1976-1980 again being an exception. It is important to note that this is true, independently of whether the data are expressed in current or 1970 prices, although - as can be seen by

TABLE 13

Trade of ECMEA countries conducted under bilateral clearing agreements

(Per cent of total)

	1965	1970	1975
Bulgaria	80.9	75.1	44.9
Czechoslovakia	67.7	69.0	61.1
German Democratic Republic	81.3	84.0	56.2
Hungary	62.8	75.3	28.9
Poland	79.0	76.3	23.9
Romania	86.6	78.7	39.1
The Six	74.8	75.9	42.5
Soviet Union	78.6	73.0	61.1

Source: TD/B 656 Add.1 reprinted in TD/B 703.

comparing the figures below with those presented in Table 6 -- the proportions of change do differ.

Share of developing countries in ECMEA trade in 1970 prices
(per cent)

	1965	1970	1975	1980
Exports				
Total	10.0	10.7	11.8	13.1
The Six	7.0	6.9	8.8	9.4
Soviet Union	14.5	15.9	17.1	20.3
Imports				
Total	8.0	7.6	6.4	7.6
The Six	7.0	5.5	4.3	5.8
Soviet Union	9.4	10.9	9.7	10.1

Source: Author's estimates.

On a more detailed level, three phases in the development of East-South trade starting from the mid-1960s can be distinguished from the statistical record. The first phase, ending with the outbreak of the oil crisis, may be characterized as a relatively mediocre performance. The area's exports to the developing countries rose somewhat faster than the aggregate of exports, but this only reflected the performance of three countries - the Soviet Union and, among the six, Bulgaria and Romania (Table 6). The situation with respect to imports was, of course, less favourable. Some countries such as the German Democratic Republic and Poland showed a much sharper drop in the import share of the developing countries than in the export share. The Soviet Union showed no increase in the import share.

The second phase, ending with the second oil price shock, was more favourable as far as exports were concerned. In 1973-1978 practically all countries in the area showed an increase in the share of exports to developing countries. The situation was mixed with regard to imports, some countries experiencing an increase and others a decline in the import share. The third phase - which is still continuing - has been characterized by a pattern whereby the growth of exports to developing countries exceeds the growth of total exports everywhere.[15/] The same appears to be true for imports, but because of the large annual fluctuations, the trend is less striking.

The East European countries have apparently increased exports to developing countries faster than has the Soviet Union during the 1970s. In response to the opportunities offered by a vastly expanded market, mostly in oil producing countries, the "six" increased their share in the area's exports to developing countries in the short period from 1972 to 1975 from 39 to 46 per cent. There was a recovery in the Soviet position in the years that followed. However, the proportions begain shifting again towards the end of the decade.

Among the individual East European countries, Bulgaria and Romania - the ECMEA "newly industrializing countries" - showed the fastest growth of exports to developing countries and by 1980 Bulgaria and Romania had joined the Soviet Union in having a regional export structure which is "specialized" in trade with developing countries. Their exports to these countries commanded a higher share in the area's exports to these countries than the share which their total exports assumed in the area's aggregate.

This contrasted with the experience of Czechoslovakia and the German Democratic Republic - the "old industrial countries" - both of which kept a low profile in the expansion of East-South trade during the last 15 or so years. Czechoslovakia and the German Democratic Republic became the countries least specialized in trade with developing countries. This suggests a noteable association: the higher the relative level of industrialization, the lower the relative importance of trade with developing countries.

Coefficients of specialization[a] in exports to developing countries

	1965	1975	1981
Bulgaria	0.49	0.98	1.22
Czechoslovakia	1.00	0.79	0.66
German Democratic Republic	0.46	0.40	0.51
Hungary	0.79	0.58	0.85
Poland	0.82	0.78	0.82
Romania	0.67	1.77	1.87

a/ Ratios of shares in the area's exports to developing countries to shares in the area's total exports, all data in current prices.

15/ This also includes the Soviet Union allowing for the significant differences which appear for this country between value and volume shares of exports

With greater knowledge of the facts, the mentioned association may well turn out as spurious. However, it is not unplausible and one is indeed tempted to accept it as genuine. The "new-comers" may have felt a greater urgency to expand the market for products. Similarly, with the evident tendency in these countries to specialise in particular lines of machinery, they may also have found it easier to penetrate distant markets. The fact that these were also the countries most heavily engaged in foreign aid may be interpreted on the same lines.

By 1980 the share of exports to developing countries in total exports (in current prices) ranged in the six East European countries between 6.4 and 21.2 per cent, as against between 4.5 and 9.8 per cent in 1965, and the average East European share came close to the Soviet share. These figures, apart from indicating the rising importance for the East European countries of trade with developing countries, also point to a greater diversification of interest in such trade within the group.

A further step in assessing the importance of trade with developing countries is to relate this trade to trade with market economies. As can be seen from the following table, exports to developing countries accounted for an increasing share of ECMEA exports to market economies when measured in constant prices. This was true for the Soviet Union and the six East European countries considered as a group, although the pattern of trend development has not been identical. In the Soviet Union a pronounced increase began only after 1975, while in East European countries, on average, it began

Share of developing countries in ECMEA trade with market economies in 1970 prices (per cent)

	1965	1970	1975	1980
Exports				
Total	31.5	33.0	37.7	42.8
The six	22.9	22.6	32.0	34.7
Soviet Union	43.4	46.0	44.7	53.7
Imports				
Total	26.0	22.8	17.5	21.8
The six	22.2	17.2	13.2	19.9
Soviet Union	31.4	31.1	22.3	23.5

earlier - straight after the outbreak of the oil crisis. Measured in 1980 prices, by 1980 exports to developing countries accounted for more than one half of Soviet exports, and over one-third of the exports of the six, to market economies.

The share of imports from developing countries in the imports from market economies has been much lower than that of exports, and these imports represented a declining share of ECMEA imports from market economies. In both the Soviet Union and the East European countries as a group the decline was sharp over the period 1965-1975, followed by a feable recovery in the Soviet Union and a marked recovery in the six on average. By 1980 imports from developing countries accounted for about one-quarter of Soviet imports from market economies, while for the six East European countries they accounted for only about 20 per cent of such imports.

For the areas as a whole, the difference between export and import shares widened from 5.5 percentage points in 1965 to 21 percentage points in 1980. Since the increase in oil prices was more strongly felt in the aggregate value of exports to developed countries than in the value of exports to developing countries, the increase in the export share of the developing countries was less pronounced in terms of current prices than in terms of constant prices during the 1970s (Table 14). On the other hand, the price effect of the differences in the composition of imports between developed and developing countries was, at least for the six, such as to raise the import share from developing countries in current as compared to 1970 prices. The outcome was that difference between export and import shares rose less in current than in constant prices when the period was considered as a whole, and even tended to decline in the period 1975-1980.

The result of these developments is that the balance of ECMEA trade with developing countries has been increasingly active, whereas its balance with the developed countries has been increasingly passive. On the surface, what appears to be reflected here is the fact that the ECMEA countries have, as net importers, imported economic resources from the West, transformed them, and then, as net exporters, exported a large volume of the goods produced to the South (see Table 8). At this general level this conforms to a rational pattern of trade flows among a capital surplus region with high

TABLE 14

Share of developing countries in ECMEA trade with market economies

Current prices

	1965	1970	1972	1975	1978	1979	1980	1981
Exports								
Bulgaria	23.0	31.3	32.6	53.7	53.3	43.9	45.8	56.7
Czechoslovakia	36.5	30.7	30.4	30.3	31.8	28.1	28.4	32.0
German Dem. Rep.	17.9	16.8	14.7	16.4	22.7	21.4	20.9	21.8
Hungary	25.9	19.6	17.9	22.8	23.8	23.9	24.3	28.9
Poland	22.0	21.4	16.5	21.3	19.5	20.4	22.0	28.2
Romania	20.8	21.1	21.1	35.5	35.4	34.6	37.6	47.3
The Six	24.7	20.8	20.8	26.9	28.4	27.3	28.8	34.9
Soviet Union	42.9	46.0	45.1	35.0	39.6	33.5	30.2	33.4
Total	32.6	33.0	31.1	30.7	34.2	30.6	29.5	34.1
Imports								
Bulgaria	13.6	19.8	26.0	14.8	18.9	16.4	18.4	19.2
Czechoslovakia	29.4	20.0	20.6	18.4	17.3	17.1	18.3	18.6
German Dem.Rep.	16.4	12.7	8.2	13.0	15.4	13.5	16.1	7.7
Hungary	26.9	22.8	18.1	20.9	18.9	18.2	20.1	17.7
Poland	27.6	18.0	12.2	9.0	11.6	17.1	21.1	17.5
Romania	13.8	13.3	14.9	24.3	31.8	39.6	49.9	49.1
The Six	22.3	17.2	14.7	15.2	18.6	21.5	26.2	22.9
Soviet Union	33.3	31.1	28.1	23.6	20.5	19.4	24.4	30.4
Total	26.8	22.8	20.2	19.2	19.4	20.5	25.4	26.8

Source: ECE data files.

technology, one with intermediate technology and cheaper labour, and one with a wealth of resources and the cheapest labour.

Over the period, the commodity structure of Soviet trade has become even more one-sided, this being true whether value or volume structures are considered. By 1980 two-thirds of Soviet exports to developing countries consisted of machinery, and two-thirds of imports were made up of foodstuffs when values were in prevailing prices; and the trade flows are even more concentrated when measured in terms of 1970 prices (Table 9). In exports the share of raw materials, metals and "other manufactures" declined and in terms of volume fuel declined. In imports the share of raw materials sharply declined and, since the beginning of the 1970s, the share of "other manufactures" has also declined, while the share of fuel - once negligible - rose to the significant level of 10 per cent in terms of current prices.

The most striking changes in the commodity composition of trade of the six East European countries were a decline in the share of other manufactures in exports and an increase in the share of fuel in imports. The export share of machinery rose in terms of 1970 prices but remained about unchanged in current prices. Taken together exports of machinery and of other manufactures made up a lower share of exports in 1980 than in 1965, while the share of foodstuffs and chemicals rose. On the other side, by 1980 fuel imports accounted for nearly 50 per cent of the group's imports from developing countries. The consequence of this rise in the import share of fuels was that there was no room for expansion in the share of any other major commodity group, at least not in terms of current prices; and in a number of cases there was a decline in the absolute volume.

It should also be observed that although the number of trading partners rose, most exchange continued to be concentrated with only a few. Using the rather simple yardstick of the share of the five top trading partners one finds some decline in the concentration of Soviet trade but no firm trends for other countries. Czechoslovak exports were an exception. A notable feature emerging from Table 10 is a tendency for imports to be more highly concentrated than exports in recent years. Both of these phenomena undoubtedly reflect the increase in the importance of oil producing states as both markets of manufactures and suppliers of fuel.

Changes in the distribution of trade by world regions were determined by the same factor. The Middle East became the most important market and with few exceptions the most important source of imports. North Africa increased significantly in importance as an export market for a number of countries. Asia and with some exceptions Sub-saharan Africa lost sharply in export and import shares. The share of exports directed towards Latin America has also declined in most cases, though the share of imports originating in this area has risen. This greatly widened the imbalance which, as already mentioned, was of significant importance in the mid-1960s (Table 12).

From a related angle, the phenomena can be followed by data on trade with OPEC member countries. The growth of this trade is depicted in Table 15. Notwithstanding the significant increase in ECMEA imports from this group of countries, and particularly the imports of the small East European countries, the area clearly had little difficulty in financing these imports. In fact, of the $2.7 billion excess of exports over imports which the six East European countries had in the period 1976-1980 in trade with developing countries, as much as $1.3 billion was derived from trade with OPEC member countries. For the Soviet Union the surplus in this period was even larger, and amounted to $3 billion. In contrast, the area did meet difficulties in the financing of imports of foodstuffs and other agricultural raw materials, a large part of which were imported from Asia and Latin America.

5. Importance for developing countries

Seen from the side of the developing countries, the level of East-South trade has on the whole not been high: exports to the East have accounted for between 3 and 4.5 per cent of the total exports of the developing countries and imports from the East for between 4.5 and 6 per cent of their total imports. Measured in current prices, the trend for trade shares has been a declining one, while shares were more stable in volume terms. There is, in fact, a rising trend in the proportion of imports originating in the East, while the share of Southern exports absorbed by the East rose until the middle of the 1970s, thereafter declining afterwards in both value and volume terms. (See Table 16.)

TABLE 15

Share of OPEC in ECMEA trade with developing countries

	Percentage share in		Trade balance
	Export	Import	Million dollars
Total ECMEA			
1970	20.2	12.2	385
1975	30.9	29.0	539
1976	27.8	33.9	52
1977	27.0	29.1	946
1978	31.3	29.8	1 756
1979	28.5	30.7	1 222
1980	25.3	27.1	335
The Soviet Union			
1970	18.2	13.3	203
1975	21.9	23.0	49
1976	20.4	26.0	45
1977	17.5	23.7	301
1978	24.0	25.0	963
1979	23.2	29.4	798
1980	16.4	10.8	892
The Six			
1970	23.4	10.9	182
1975	41.2	37.1	490
1976	36.2	42.1	7
1977	40.5	34.3	645
1978	42.0	33.7	793
1979	36.0	31.7	424
1980	35.8	41.2	-557

Source: UN Monthly Bulletin of Statistics and ECE files.

TABLE 16

Share of ECMEA countries in trade of developing countries

	1965	1970	1975	1979	1980
			Current prices		
Total:					
Exports of developing countries	4.5	4.3	3.5	2.9	3.1
Imports of developing countries	5.4	5.8	4.3	4.7	4.4
Soviet Union:					
Exports of developing countries	2.3	2.4	2.0	1.3	1.5
Imports of developing countries	3.1	3.6	2.3	2.7	2.4
The six:					
Exports of developing countries	2.2	1.9	1.5	1.6	1.7
Imports of developing countries	2.3	2.2	2.0	2.0	2.0
			1970 prices		
Total:					
Exports of developing countries	4.2	4.3	4.5	3.6	..
Imports of developing countries	5.2	5.8	5.8	6.3	..
Soviet Union:					
Exports of developing countries	2.1	2.4	2.7	1.7	..
Imports of developing countries	3.0	3.6	3.1	3.6	..
The six:					
Exports of developing countries	2.1	1.9	1.8	1.9	..
Imports of developing countries	2.2	2.2	2.7	2.7	..

Source: Estimates based on the figures published in UN Monthly Bulletin of Statistics and ECE data bank.

The broad averages shown in the table hide the fact that East-South trade has been very unevenly distributed in individual developing countries. While for the majority of countries it has been of marginal importance, for several it has been of very great importance.16/ This unevenness is, of course, a reflection of the above mentioned quality of concentrating on specific trade partners. This is notwithstanding the fact that the partners selected were, as a rule, large.

However, trade with individual countries has been exposed to the vagaries of political events and other factors which made it subject to uncertainties and fluctuations. The list of major trading partners has been changing as well as the importance the ECMEA countries assumed in trade with the various countries. Major changes of this type took place in Egypt, India and Indonesia, as well as in Ghana, Iran and Pakistan. Apart from this, East-South trade has been subject to wide annual fluctuations, with exports to the East tending to vary more widely than imports. This can be seen as a contradiction to the view sometimes expressed that the CMEA countries offer to developing countries the advantage of stable export markets.

The benefits to developing countries from trade with the ECMEA countries are fairly obvious. Some countries obtained significant amounts of machinery and equipment for their development programmes on credit provided on very lenient terms. For some, the opening up of Eastern markets meant securing additional export capacity or eventually protecting exports from the effect of shrinking Western markets. This was the appeal of Eastern markets to such countries as Ghana, Malaysia and Morocco, and later to some oil producing countries. Other countries - such as Argentina, Brazil and the Philippines - found the major benefit in the hard currency these exports were able to generate.

Bilateral arrangements and settling of balances in nonconvertible currencies had its advantages. Given the perennial shortage of convertible currencies in most of the developing countries, such arrangements contributed to the import potential, while simultaneously securing a market for exports. The frequently stipulated repayment of loans with traditional exports or with the output of aid-financed projects, made the burden of debt servicing easier than it would have been, had repayment been made in convertible currency.

16/ Trade with ECMEA countries accounted for an extremely high share of the total in Egypt, over 60 per cent in 1972, and in Afghanistan, 40 per cent in 1977. Shares of around 25 per cent were recorded at one time or another in India, Pakistan and Ghana. Lesser but significant market shares were held in Iran.

However there were also disadvantages which arose either because of the bilateral character of much of this trade or because of the fact that its commodity composition bears the imprint of the trade policies of the ECMEA countries. The choice of imports offered by the ECMEA countries was simply inadequate from the vantage point of the aspirations of the developing countries. Indeed it is not difficult to see this contradiction, when one juxtaposes the composition of the exports offered with the composition of the imports which the CMEA countries have been willing to accept: the former were generally designed to foster development, whereas the latter followed a line which led to the perpetuation of underdevelopment.

The incompatability between the composition of East-South trade and the interest of developing countries was aggravated by difficulties which the developing countries met in penetrating Western markets with products of their newly created industrial capacity. A particular problem arises when the technology used is that acquired from the East, there evidently existing an organic relationship between the technology used and the characteristics of the product turned out. As a result, products of Eastern technology have often proved to be incompetitive on Western markets.

A problem sometimes raised is whether trade commitments under bilateral agreements do not tend to divert exports from convertible currency markets to the newly established channels. The problem arises of course only when conditions are such that domestic production cannot be stepped up adequately to meet all the increase in demand. Indeed, bilateral long-term agreements and clearing commitments became unacceptable to many developing countries in periods when primary commodities commanded a seller's market. The problem does not, of course, arise in periods when the developing countries face saturated Western markets: these situations provide the East with a welcome addition to the export capacity of these countries.

By the same token the entry of ECMEA countries into the market may help to increase or stabilize the price of the commodity exported by the developing countries. Many developing countries depend on the export of one of a few commodities and therefore are greatly vulnerable to changes in prices. As previously seen, examination of trade statistics shows that exports of the South to the East were characterised by a considerable variability. This does not preclude that the pattern of fluctuations is such as to be counter-posed to those. Available empirical evidence points to the supposition that the ECMEA countries try to increase their purchases in periods when world market demand is low and to reduce them when demand and prices are high.

Terms of trade between the developing and ECMEA countries have moved in favour of the former during the last 15 years. This was due to a large extent to the effort made by the ECMEA countries to penetrate Southern markets with products of manufacturing, particularly machinery. As already mentioned, prices of machinery tended to become increasingly cheaper on Eastern as compared with Western markets. True enough such prices are notoriously difficult to compare because of the individual characteristics of the products. However, the evidence available suggests that while Eastern products may not always have been fully competitive quality-wise with their Western counterparts, the price discounts at which they were sold tended to be sufficient to make them attractive to Southern buyers. The premiums became increasingly larger in recent years as Eastern sellers came under pressure to acquire oil and other raw materials from developing countries.

The most significant aspect of East-South trade from the point of view of the developing countries is its inter-connexion with aid extended by the ECMEA countries for the construction of specific development projects. According to UNCTAD statistics, at the end of 1982 over 6,000 infrastructural and industrial projects had been or were being implemented with the assistance of the ECMEA countries. Of this number 3,000 projects were already in operation. Many of these have been effective and valuable. The effectiveness of others has been a matter of heated controversy. Inadequate performance has marred many industrial development projects in developing countries irrespective of who carried them out. A history and objective appraisal of experiences is still to be written. However on the whole the usefulness of the aid and trade combination offered by the East to the South has not been a matter of controversy. What is questioned is the absence of a comprehensive strategy leading not only towards strengthening production structure but also to a diversification of the export structure of developing countries.

II. PERSPECTIVES FOR CMEA RESTRUCTURING IN THE CONTEXT OF LONG-TERM GLOBAL RESTRUCTURING

A. Present economic plans and developments

The ECMEA countries began the 1980s with a considerable slowdown in their economic growth. This slowdown was brought about by several factors, some long-term and some which were rooted in the developments following the first oil price rise. The combination of the factors has been rather uneven. There was the Soviet Union on the one hand, where the effects of external developments may have been, on the whole, positive rather than negative in the medium-term, and on the other hand the East European countries, all of which were negatively affected. However, within this group there were also differences with some countries turning out to be less resistant to external disturbances than others.

It would be difficult, at this point, to enter into an exhaustive analysis of the factors determining the present long-term trends of the economies in the area. Many of these trends are undoubtedly similar to those which occur anywhere when industrialization reaches a high level. Great similarity can be found in the patterns of demographic changes, in the sectoral pattern of employment, in the exhaustion of labour "reserves", in agriculture, in the exhaustion of easily tapped natural resources, in the need to direct increasing shares of economic and financial resources to meet the needs of the tertiary sector, etc. Other similarities are the outcome of development strategies which, although otherwise aimed, were in fact more successful in maximising growth in the medium- rather than in the long-term. Mention should be made of the lag in infrastructure, particularly in transportation and housing, and inadequate development of the agro-food complex (this applies mainly to the Soviet Union). There are also factors which are related to the rigidity of the institutional framework and resulting inefficiency. It is this problem area which policy makers have singled out for attention, since only by overcoming the structural rigidities can a higher level of efficiency be achieved in the utilization of resources and the tendency towards long-term retardation in the growth rate reversed.

In the East European countries, developments in the external sector had turned from bad to worse by the end of the 1970s. From 1973 all these countries experienced a sharp deterioration in their terms of trade and a rise in foreign indebtedness. The latter was initially limited to the West, though it came also to hold for trade with the Soviet Union, as the gradual incorporation of the oil price rise into the oil import bill from the Soviet Union began to show in the rise in rouble debt. With foreign indebtedness reaching dangerous levels, the East European countries were not prepared to handle the effects of the second oil price rise. Rising interest rates over the years 1981-1982 on convertible currency debt increased the debt service burden to a point which greatly taxed payment capacity. It was at this point that export marketing problems were greatly aggravated by the widespread slowdown of economic activity in the West. The financing of imports became more difficult and the possibility of taking up new credits was reduced. These problems affected all countries, but were most acute in Poland and Romania.

As already mentioned, the Soviet Union was less disturbed by external developments. Terms of trade with the West and the East European countries changed in the Soviet Union's favour and its indebtedness to the West did not create liquidity problems. However, the advantages which the Soviet Union derived were not without costs. For all its size and natural wealth, the Soviet Union could not remain untouched by the consequences of economic deterioration elsewhere. This was true in terms of markets as well as import supplies, the disruptions of which and postponement of delivery schedules contributed to internal difficulties. Moreover, with agricultural production having declined over a number of years, the Soviet Union was compelled to raise its grain imports to a record level. To a large extent, therefore, the Soviet Union dissipated the advantages derived from the improvement in terms of trade, considering the boost the latter might have given to technology imports and the capacity to sustain faster growth.

1. The 1981-1985 plans

Medium-term plans indicate how planners appraise the existing internal and external economic situation. Of the two it is evidently the former which is easier to evaluate. In "normal" times, Eastern planners were in fact able to evaluate their medium-term growth possibilities with a great degree of precision. This has not been the case since external influences began to play a greater role in shaping the pace of development, and Eastern planners generally failed to fully appreciate the seriousness of the imbalances which accumulated in the early 1970s. The 1976-1980 plans were formulated with an eye on long-term processes which took place in these economies and, indeed, a certain deceleration in the pace of expansion was taken for granted. Nonetheless, the plans rested on the assumption that the difficulties created by the first oil shock would be overcome without having to make profound structural adjustments. Steps therefore were taken to strengthen the domestic energy base, but measures to strengthen - or at least to prevent the deterioration of - the overall external economic position were taken less full-heartedly.

The ambitious growth postulates were realisable up to 1978. The last two years of the decade witnessed an aggravation of imbalances which sharply decreased the growth rate. This meant that the average growth record for the quinquennium was significantly below that anticipated.

The plans for 1981-1985 were elaborated against an already very difficult situation. Confronted with quickly deteriorating external imbalances, the policy options open to East European countries were strictly limited. The only possible stance was a sharp modification in production-consumption relationships. This meant slowing down imports and forcefully promoting exports. It also meant a curtailment of investment activity so as to avoid an excessive increase in the share of "non-consumption" in the national income.

Towards the end of the 1970s the Soviet Union also experienced an abrupt deterioration in its growth performance. The full reasons for this are not yet understood. However, with agricultural production directly and indirectly playing a large role in the economy, it is obvious that the decline which started in 1979 was a contributing factor. Be this as it may, the feasible policy choices of Soviet planners were clearly less circumscribed than those of their East European colleagues. Even so, the strategy adopted here was also that of consolidation and retrenchment.

The fact that the overall policy objectives bear a great deal of similarity does not, of course, exclude a significant differentiation in growth targets. Prevailing and expected constraints on resources differ from country to country and certain differences may also appear in the evaluation of their growth inhibiting effects. However, what appears to be unique in the current five-year plans is that not only have growth targets varied widely but the variation is not visibly related to the complexities of the situation in which the different countries have found themselves.

A glance at Table 17 illustrates this point. Planners in the German Democratic Republic, embolded by the fact that their country did not experience a slowdown in the pace of expansion in the late 1970s, postulated a higher growth rate in the current five-year plan than was actually attained in 1976-1980. The growth of NMP was set at a rate of 5.1 per cent per year, the comparable average of the preceding period being 4.2 per cent. Romania, where the growth rate of NMP fell from a rate of 6.2 per cent to 2.9 per cent between 1979 and 1980, reached for a target implying an average growth rate of 7.1 per cent in 1981-1985.

This is practically the same rate as attained on average for the period 1976-1980. Bulgaria, on the other hand, which had a similar favourable long-term record and experienced little deceleration during the last years of the 1976-1980 planning period, planned only a 3.7 average growth rate in 1981-1985. Hungary, which experienced particularly difficult conditions at the end of the 1970s, attempted a target which was nearly as high as the rate attained in 1976-1980. The target was higher than the one set by Czechoslovakia which experienced only a moderate decline in its growth rate in 1979 and 1980.

Taken together, the East European countries postulated an average growth rate of 3.8 per cent during the current five-year plan period, with the Soviet target being somewhat lower - 3.4 per cent. If realised, economic growth in the area would have amounted to 3.5 per cent, a rate which would have been more moderate than the rate in the second half of the 1970s, but significantly better than the rate of 2.6 per cent recorded during the last two years of the decade.

As the record for the first two years of plan implementation shows, planners have again evidently failed to fully appreciate the difficulty of the situation, the amplitude of the adjustments which will have to be carried out, and the impact which these will have on growth. If the annual plans for 1983 are taken into account, only Bulgaria is thought to be able to reach its growth target. The deviation from the target has been moderate in the Soviet Union, and in Eastern Europe it ranged between large in the German Democratic Republic and enormous (and devastating) in Romania. In fact, for most countries the actual record has so far been such as to render the plan figures useless as a guide in the determination of medium-term trends.

TABLE 17

ECMEA: Selected growth indicators

(Annual percentage change)

	1971-1975	1976-1980	1981-1985 Plan	1979	1980	1981	1982	1983 Plan
Bulgaria								
Net material product	7.8	6.1	3.7	6.6	5.7	5.0	4.0	3.8
Gross output of industry	9.0	6.0	5.1	5.5	4.2	4.8	4.6	4.8
Gross output of agriculture	2.3	2.1	3.4	6.0	-4.5	5.9	4.7	2.7
Gross fixed investment	6.7	4.0	3.6	-2.0	7.6	10.4	-11*	-4
Export volume	10.0	12.8	7.0	13.7	12.2	8	5	..
Import volume	14.2	3.2		2.1	4.1	9	1	..
Czechoslovakia								
Net material product	5.7	3.7	2.0-2.6	3.1	2.9	-0.4	..	2.0
Gross output of industry	6.6	4.7	2.7-3.4	3.7	3.5	2.1	1.0	2.4
Gross output of agriculture	3.0	1.6	1.8-2.2	3.3	4.8	-2.5	1.1	2.7
Gross fixed investment	7.8	3.5	-1.7*	1.8	1.4	-4.6	-4.0	-1.7
Export volume	6.3	6.3	6.2-7.0	3.2	4.7	2	5	..
Import volume	6.5	2.9		2.2	-1.6	-7	2	..
German Democratic Republic								
Net material product	5.4	4.2	5.1	4.0	4.4	4.8	3	4.2
Gross output of industry	6.5	5.0	5.1	4.6	4.7	4.7	3.2	3.8
Gross output of agriculture	2.1	1.3	1.1	2.3	0.0	1.5	-3.6*	..
Gross fixed investment	3.8	3.4	0.5	1.4	0.3	1.3	-4*	-13.4
Export volume	9.1	5.3	6.3	8.9	3.3	10	7	..
Import volume	7.2	5.1		6.5	4.5	-	-3	..

TABLE 17 (continued)

	1971 1975	1976 1980	1981 1985	1979	1980	1981	1982	1983 Plan
Hungary								
Net material product	6.2	3.2	2.6-3.2	1.9	-0.8	2.0	1.5-2.0	0.5-1.0
Gross output of industry	6.4	3.4	3.5-4.0	3.0	-2.0	2.8	2	1.0-2.0
Gross output of agriculture	3.5	2.9	2.3-2.8	-1.1	4.3	1.0	5	1.0-2.0
Gross fixed investment	5.6	2.4	0.0	1.0	-5.8	-5.6	-2.5*	-10.0
Export volume	9.4	7.0	6.5-6.8	12.5	0.9	3	5	..
Import volume	7.3	3.9	3.4-3.5	-3.2	-1.1	-	-2	..
Poland								
Net material product	9.8	1.2	3.5-5.6[a]	-2.3	-6.0	-12.1	-8	2.0-2.5
Gross output of industry	10.4	4.7	3.8-5.4[a]	2.7	0.0	-10.5	-4*	3.7-4.0
Gross output of agriculture	3.2	0.5	2.0-3.8[a]	-1.5	-10.7	5.4	-4.5	1.5-2.4
Gross fixed investment	17.1	3.0	-6.4*	-7.9	-12.3	-22.7	-16.0*	1.6
Export volume	10.7	4.0	..	6.8	-4.2	-19	9	..
Import volume	15.3	1.7	..	-1.2	-1.9	-17	-16	..
Romania								
Net material product	11.3	7.3	7.1	6.2	2.9	2.2	2.6	5.0
Gross output of industry	12.9	9.5	7.6	8.1	6.5	2.6	1.1	6.6
Gross output of agriculture	4.7	4.9	4.5-5.0	5.5	-4.1	-0.9	7.5	5.1-5.6
Gross fixed investment	10.7	8.5	5.2	4.1	3.0	-7.1	-2.5	0.7
Export volume	11.0	5.7	11.9	4.7	4	14	-7	..
Import volume	8.1	8.4		5.4	6	-7	-24	..
The Six								
Net material product	7.9	3.9[d]-5.0[e]	3.8	2.5[d]-4.5[e]	0.7[d]-3.2[e]	-1.1[d]-2.7[e]	-0.1[d]-2.3[e]	3.3[d]-3.6[e]
Gross output of industry	8.7	5.6	ca 4	4.5	3.0- 4.2	-0.5-3.4	0.6-2.2	4.1
Gross output of agriculture	3.1	1.9	2.9	0.7	-3.8--0.2	1.9-0.3	0.6-2.8	2.5
Gross fixed investment	10.8	2.7	-0.1*	-1.0	-2.2	-7.6	-6.3*	-3.4
Export volume	9.2	6.4[f]		8	2	2	4	
Import volume	9.7	2.3[f]		2	1	-5	-6	

TABLE 17 (continued)

	1971 / 1975	1976 / 1980	1981 / 1985	1979	1980	1981	1982	1983 Plan
Soviet Union								
Net material product	5.7	4.3	3.4	2.2	3.9	3.3	2.6[c]	3.3[c]
Gross output of industry	7.4	4.5	4.7	3.4	3.6	3.4	2.8	3.2
Gross output of agriculture	2.5	1.7	2.5	-3.1	-1.9	-1.0	4	10.2[a]
Gross fixed investment	7.0	3.4	2.0	0.7	2.4	3.8	2.0*	3.2
Export volume	4.9	4.8[f]	4.1	0.8	1.6	0.4	5	..
Import volume	10.4	5.7[f]		1.4	7.2	8.2	8	..
Soviet Union and Eastern Europe								
Net material product	6.2	4.2	3.5	2.3	2.9	2.0	1.8	3.3
Gross output of industry	7.8	4.8	ca 4.5	3.7	3.4	2.2	2.2	3.4
Gross output of agriculture	..	1.7	2.6	-1.8	-2.6	0.0	2.8	7.8
Gross fixed investment	6.8	3.2	1.4	0.1	0.9	0.2	-0.4	2.3
Export volume	7.5	5.7[f]			2	1	5	..
Import volume	10.0	4.7[f]			4	1	-	..

Source: ECE Annual Economic Surveys and Bulletins.

a 1983-1985.
b Sales.
c NMP domestically used.
d Including Poland
e Excluding Poland
f The figures may differ from those shown elsewhere, the difference being due to the use of 1975 weights.

2. Recent trends

a) Output and allocation of resources

Although the final versions of the five-year plans were approved rather late, in some cases only in 1981, the growth targets which appeared in the 1982 annual plans were lower than implied in the average five-year targets. In fact neither the annual targets for 1981 nor those for 1982 were met in most countries. The weighted average growth rate was 1.9 per cent in the area in the two years. This was lower than the rate registered in the two preceding years. The annual plans for 1983 anticipate an increase in the growth rate. The plans imply an average growth rate in the current year of 3.3 per cent. If realised this would put growth at a rate of 2.4 per cent during the first three years of the present five-year plan period.

In the Soviet Union, the average growth rate of the NMP was around 3 per cent in 1981 and 1982. Industrial output rose at a rate of 3.1 per cent in the two years; a relatively fast growth of consumer goods as compared with producer goods output was notable. Production of crude oil increased at an annual rate of 0.8 per cent reaching the figure of 613 million tons. Output of natural gas continued to increase sharply - 7.7 per cent in 1981 and 6.8 per cent in 1982 - reaching the figure of 501 billion m^3. Agricultural output, which had declined for a number of years, showed signs of recovery. It increased by 4 per cent in 1982 reflecting higher production levels in all major crops except cotton. According to FAO estimates (no Soviet data are available), output of grain amounted to 179 million tons in 1982 as against 160 million in 1981 and 189 million in 1980. While the last year was an improvement, it hardly indicated a significant change in the demand for imports.

In the East European countries as a group, but excluding Poland, growth averaged 2.5 per cent during the last two years. Growth was most vigorous in Bulgaria, with an average of 4.5 per cent, followed by the German Democratic Republic with an average of somewhat less than 4 per cent. Bulgaria had a good agricultural harvest in both 1981 and 1982, and industry also performed relatively well - with engineering expanding at a rate of 8 per cent and the food industry at a rate of 6 per cent. In the German Democratic Republic tight fodder supplies, due mainly to import restrictions, brought down animal production and also the output of agriculture as a whole. Industry, although severely affected by supply shortages, increased gross output by 4.7 per cent in 1981 (with most of the growth was concentrated in engineering) and 3.2 per cent in 1982.

The economic performance of other East European countries ranged from an unprecedented slow pace of expansion in Romania to a disasterous decline of output in Poland. In Romania growth amounted to 2.2 per cent in 1981, with a slight recovery to 2.6 per cent in 1982 - thanks to the fact that agricultural output, after having declined in the two preceding years, rose by a vigorous 7.5 per cent in 1982. The growth of industrial production continued to decelerate, showing an increase of 2.6 per cent in 1981 and 1.1 per cent in 1982. While the slowdown dating from 1979 was spread over all industrial branches, it was engineering and construction where growth decelerated most - though light industy, by contrast, continued to perform well.

Hungary also had a moderate gain in its NMP, which rose at a rate of 2 per cent in 1981 and 1.5 - 2.0 per cent in 1982: A positive factor here was a sustained growth of agricultural production by 1 per cent in 1981 and as much as 5 per cent in 1982. Industry, after recovering in 1981 to a growth of 2.8 per cent, reduced its pact to 2 per cent in 1982, with engineering and food processing leading the expansion in both years.

In Czechoslovakia the level of NMP declined slightly in 1981 and there was most probably some further decline in 1982, with the country suffering, as did the German Democratic Republic, from a decline in agricultural output owing to inadequate fodder imports. Industry expanded production by 2.1 per cent in 1981 and by 1 per cent in 1982, the growth of engineering averaging 3.6 per cent in the two years.

Production in Poland, as measured by NMP, declined by 12.1 per cent in 1981 and by a further 8 per cent in 1982, bringing the reduction to 26 per cent since 1978. Poland did, however, have a good harvest in 1981 and grain production rose in 1982 - though as a reflection of reductions in fodder imports, animal production declined in both years. Taken together, the level of agricultural production did not change much in the last two years. The sharp reduction in the nation's output was due mostly to a decline of industrial production: the decline came to 10.5 per cent in 1981 and an estimated 4 per cent last year. Though lower for the year as a whole, there were signs of improvement in the second part of 1982 (e.g., output of hard coal which reached a low of 163 million tons in 1981 rose to 189 million tons in 1982) which pointed to some degree of stabilization.

Shifts in the utilization of resources were essentially different in the Soviet Union and the East European countries. The Soviet Union raised imports significantly more than exports. Apart from statistical ambiguities, the country was able to augment its domestically disposable resources to a greater extent than it was able to raise production. 17/ It was in a relatively good position to go on with its investment programme (and invest at above-plan levels), while at the same time emphasising internal stabilisation and raising the level of private consumption. The expansion of investment was, however, kept below the growth rate of NMP, thus leaving some marging for shifting its composition in favour of both private and social consumption.

The East European countries were forced to reduce imports and raise exports. In effect, resources which were available for investment and consumption either rose less than, or declined significantly more than production. Only Bulgaria registered an increase in NMP used over the last two years, with the German Democratic Republic stabilizing its level and the other countries showing a considerable decline. According to preliminary figures the latter decline ranged from an annual rate of 1 per cent in Hungary to 12 per cent in Poland over the two years.

Although a curtailment of investment growth was envisaged in the medium-term plans, expansion was still expected, or at least a stabilization at the initial level. The greater than planned reduction of machinery imports made it necessary, however, to restrict the investment programme much more than originally intended. Even Bulgaria, which generally fared better than the other countries, was compelled to cut its investment. After having raised its gross fixed investment by 10 per cent in 1981, it reduced it by a similar amount in 1982. A further decline was incorporated in the 1983 plan. In the German Democratic Republic a feable expansion in 1981 was followed by an estimated 4 per cent decline in 1982 and the 1983 plan foresaw a further reduction of as much as 13 per cent. The decline in investment activity was more pronounced elsewhere during the past two years, with little hope of improvement. Apart from Poland, where the volume of investment has decreased by 42 per cent since 1980, there was a decline in Romania of 10 per cent and in Czechoslovakia of 9 per cent.

17/ Although the growth of Soviet imports exceeds the growth of exports for a number of years, the reported growth of NMP produced was higher than the growth of the NMP used for consumption and investment. One of the reasons may be found in the different value scales in which the foreign trade and domestic product data are expressed. Other factors about which less is known are losses and various statistical discrepancies.

Hungary, which was already compelled to reduce its investment activity in 1980, suffered from an 8 per cent decline in the years 1981-1982, in addition to which the plan for 1983 postulates a decline of 10 per cent.

Notwithstanding the contraction of investment activity, available resources for consumption declined in most countries. A disruptive decline in per capita consumption took place in Poland and, according to various indicators, a fall in living standards must have occurred in Czechoslovakia, Hungary and Romania.

b) Foreign trade and payments

According to preliminary ECE estimates the areas export volume rose at an annual rate of 3 per cent in 1981 and 1982. This was equal in the Soviet Union and the East European countries taken as a group. However, the volume of aggregate imports stagnated and the situation differed between the East European countries and the Soviet Union: imports of the former declined at an annual rate of 5.5 per cent whereas Soviet imports increased at a rate of 8 per cent (Table 17).

The 3 per cent rate of increase in East European exports includes a decline in the volume of Polish exports, and in all other countries growth, therefore, was above this figure. These rates ranged from 3.5 per cent in Czechoslovakia to 8.5 per cent in the German Democratic Republic, and this growth is particularly significant as it took place at a time of decreasing volume of trade in other parts of the world.

The 5.5 per cent rate of decline in East European imports included a wider range of experience. It covered a reduction of 15 to 17 per cent per year in Polish and Romanian imports (the two most financially depressed countries), and reductions ranging from 3.5 per cent to 1.0 per cent in Czechoslovakia, the German Democratic Republic, and Hungary. Bulgaria, which only in 1982 restricted imports, registered an increase in import volume of 9 per cent in 1981 and 1 per cent in 1982.

The volume data indicate that in the East European countries an increase in exports and a decline in imports took place in trade with market economies and in trade with other socialist countries, with the rise in East European exports and particularly the decline in imports from market economies being much more pronounced than the corresponding changes which took place in trade with socialist countries. Thus, on the one hand, the volume of exports to market economies rose by 7 per cent whereas the volume to socialist countries increased by 4 per cent in the two years while, on the other hand, imports from market economies decreased by as much as 25 per cent while imports from socialist countries decreased by 3 per cent. It would appear, although the information is not complete, that all East European countries increased the volume of their exports and reduced their import volume from market economies.

Changes in volume of trade by regions
(Annual percentage change)

	1979	1980	1981	1982
Export				
Eastern Europe total	8	2	2	4
Socialist	7	-2	-	4
Market	2	8	3	4
Soviet Union total	0.6	1.6	0.4	5
Socialist	3.2	4.0	-1.1	-3
Market	-3.3	-1.4	4.0	15
Import				
Eastern Europe total	2	1	-5	-6
Socialist	2	-	-1	-2
Market	-1	2	-11	-14
Soviet Union total	1.0	7.3	8.2	8
Socialist	-1.2	3.4	4.9	9
Market	4.6	11.7	10.6	6

The available data do not show a breakdown of the volume flows of trade with market economies separately into trade with developing and developed countries. In terms of current prices, East European exports to market economies declined by 3 per cent between the end of 1980 and the end of 1982. (Table 18) Included in this was an increase of just under 17 per cent in exports to developing countries and a decline of almost 11 per cent in exports to developed countries. Allowing for the decline in export prices, it is quite clear that all of the increase in the volume of exports to market economies was due to increased exports to developing countries. On the other hand, East European imports from developing countries appeared to have declined more than imports from market economies: thus, while the value of imports from market economies declined by just over 30 per cent, those from developed countries fell by just over 28 per cent while those from developing countries fell by over 36 per cent. These developments indicate that while the East European countries have suffered from weakening demand in the West, they have taken advantage of the still relatively strong import demand in some developing countries. At the same time, planners have evidently found it easier to curtail imports from developing economies rather than from developed market economies.

The effects which the different types of adjustments in the volume of exports and imports had on trade balances differed from region to region. As a result of a sharp deterioration in terms of trade - which nullified the effects of the different trends in the volume of exports and imports - the overall trade balance of the East European countries with other socialist countries has deteriorated over 1981 and 1982. On the other hand, the overall trade balance with developed market economies improved considerably - but entirely as a result of a reduction in imports. The result of a sharp increase in exports and a reduction in imports was that the overall trade balance with developing countries, which was traditionally positive, increased to a record level.

In aggregate, the East European countries were able to reduce their current trade deficit from $5.1 billion in 1980 to $2.6 billion in 1981 and they had a $4.0 billion surplus in 1982 (table 19). Impressive improvements were achieved by the German Democratic Republic, Poland and Romania, all of which had significant export surpluses in 1982.

TABLE 18

ECMEA foreign trade changes in value by region
(Annual percentage change)

	1976	1977	1978	1979	1980	1981	1982 Prelim.
Exports:							
Eastern Europe	6.8	12.3	12.8	17.0	12.2	0.5	3.5
Socialist	4.6	14.2	13.0	13.0	7.2	0.6	8
Market	11.2	8.6	12.4	25.2	24.0	0.1	-3.2
Developed	13.0	3.8	13.4	27.0	21.5	-7.9	-3
Developing	6.4	22.5	9.9	20.6	30.6	20.3	-3
Soviet Union	11.7	21.6	15.9	23.6	18.2	3.8	8.5
Socialist	6.0	19.0	20.3	15.5	15.0	4.6	6.0
Market	17.3	25.3	10.1	34.4	22.2	2.6	6.6
Developed	22.4	15.3	6.6	49.3	28.1	-1.9	8.0
Developing	8.2	46.2	15.7	14.3	10.3	13.8	10.0
Imports:							
Eastern Europe total	6.3	11.1	12.1	13.1	12.2	-3.1	-4.1
Socialist	4.0	16.8	13.0	9.9	10.0	4.0	-6.0
Market	9.9	3.0	10.6	16.5	15.6	-13.1	-19.6
Developed	8.4	0.4	10.3	14.3	8.5	-10.2	-20
Developing	18.1	15.9	11.9	36.6	41.4	-22.4	-16
Soviet Union							
Total	3.2	7.3	24.1	13.9	18.6	6.8	7.1
Socialist	3.6	16.4	30.6	7.4	11.4	2.0	15.0
Market	2.7	-2.9	15.5	23.6	27.9	12.2	-1.3
Developed	6.8	-6.1	19.6	25.3	19.9	3.9	2
Developing	-10.4	9.5	2.1	17.0	61.3	37.8	-10

Source: ECE data bank.

TABLE 19

ECMEA: Trade balances by region

(Billions of US dollars)

	1976 1980	1979	1980	1981	1982
Bulgaria					
Total	0.6	0.4	0.7	-0.1	-0.1
Socialist	-0.9	-0.3	-0.3	-0.8	-0.8
Developed market economies	-1.3	-	-	-0.7	0.7
Developing market economies	2.9	0.7	1.0	1.4	
Czechoslovakia					
Total	-3.7	-1.1	-0.3	0.2	0.2
Socialist	-1.6	-0.6	-0.3	-0.1	-0.3
Developed market economies	-3.6	-0.8	-0.5	-0.3	-0.1
Developing market economies	1.4	0.3	0.5	0.6	0.5
German Democratic Republic					
Total	-8.4	-1.2	-1.8	-0.3	1.0
Socialist	-0.9	0.6	-0.1	-0.4	-0.5
Developed market economies	-7.3	-1.9	-1.7	-0.5	1.5
Developing market economies	-0.1	0.1	-	0.6	
Hungary					
Total	-4.2	-0.7	-0.6	-0.4	-
Socialist	-	-0.1	0.1	0.4	0.3
Developed market economies	-3.9	-0.7	-0.7	-1.1	-0.6
Developing market economies	-0.3	0.1	-	0.3	0.2
Poland					
Total	-10.6	-1.5	-2.0	-2.2	1.0
Socialist	-1.0	0.4	-1.1	-2.3	-0.5
Developed market economies	-12.7	-1.6	-0.8	-0.5	0.5
Developing market economies	0.6	-0.1	-0.1	0.6	0.9
Romania					
Total	-3.7	-1.2	-1.1	0.2	1.8
Socialist	0.2	-0.1	0.3	-	0.1
Developed market economies	-1.9	-0.4	0.1	0.2	1.6
Developing market economies	-2.1	-0.7	-1.5	-	
Eastern Europe					
Total	-29.9	-5.1	-5.1	-2.6	4.0
Socialist	-4.2	-0.1	-1.4	-3.1	-1.5
Developed market economies	-28.2	-5.4	-3.5	-2.9	1.1
Developing market economies	2.5	0.4	-0.2	3.[illegible]	4.2

TABLE 19 (continued)

	1976 1980	1979	1980	1981	1982
Soviet Union					
Total	19.9	6.9	8.0	6.2	7.6
Socialist	13.5	3.3	5.0	6.2	4.1
Developed market economies	-9.7	-1.1	0.2	-1.2	-
Developing market economies	16.1	4.7	2.7	1.2	3.6
Total Eastern Europe and Soviet Union					
Total	-10.0	1.8	2.8	3.6	11.6
Socialist	9.3	3.2	3.6	3.1	2.6
Developed market economies	-37.9	-6.5	-3.3	-4.1	1.1
Developing market economies	18.6	5.1	2.5	4.6	7.8

Source: ECE data bank and Economic Survey of Europe in 1982.

Soviet trade trends were markedly different from trends in trade of East European countries, with the volume of its exports to the socialist countries being reduced by 4 per cent over the last two years while at the same time the volume of imports rose by 14 per cent. The growth of trade with market economies was, on the contrary, roughly balanced: a rise in the volume of exports of 20 per cent and in the volume of imports of 17 per cent. Within the rise in total exports to market economies of 12 per cent in current prices, the rise in exports to developed countries was 6 per cent and to developing countries 25 per cent. At the same time Soviet imports from market economies rose by 11 per cent in current prices, with imports from developed countries rising by 6 per cent and those from developing countries by 24 per cent.

As Soviet terms of trade with socialist countries continued to improve, the divergent changes in the volume of exports and imports had no visible effect on its trade balance with this group of countries. Neither have there been any great changes in the balance with developed market economies - a slight deficit in 1981 being eliminated in 1982. The Soviet trade balance with the developing countries, which normally showed a trade surplus, declined in 1981 but regained the level of the second half of the 1970s in 1982.

Judging from the available information, the higher growth of Soviet exports than of East European exports to developing countries was due to a large extent to an increase in oil exports, while in East European exports it was machinery which mostly contributed to the rise. The dramatic increase of Soviet imports from developing countries was due to a large extent to higher grain imports from the Latin American countries.

The improvement in the ECMEA trade balance with market economies was seen in an improvement in total current account balances. This occurred in 1982 when, after having had current account deficits throughout the previous decade, the East European countries recorded a surplus estimated at $2.5 billion dollars. The change was the result of a $5.3 billion trade surplus which was reinforced by a decline in deficit on the invisibles account. The Soviet Union, whose current account balance with market economies is normally in surplus, but had run into a deficit in 1981, also strengthened its current account position and reached an estimated surplus in 1982 of some $3.3 billion.

Taken together, the ECMEA countries, which had current account deficits of some \$5-6 billion in 1980 and 1981, recorded a surplus of nearly \$6 billion in 1982. All this amount came from trade with developing countries.[18/] As a large part of trade with developing countries is still being carried out through the system of bilateral clearing arrangements, it is difficult to precisely determine to what extent the earned surplus consists of convertible currency. However, as already mentioned, ECMEA trade with developing countries has been increasingly carried out on the basis of convertible currency settlements. There is no doubt that an increasing part of the surplus earned in trade with developing countries has been used to reduce the deficit with developed countries.

3. Policy issues and short-term outlook

The events of 1981 and 1982 have shown a number of features which may be of significance for future developments of economic inter-relationships between the ECMEA and developing countries. First, although the ECMEA countries proved to be vulnerable to outside developments to a larger extent than might have been expected, they also revealed a capacity to rectify external imbalances in a radical way. The instruments used in centrally planned economies for the rectification of such imbalances are clearly more powerful than those available to market economies, and the internal displacements which they cause, while equally serious, are generally easier to bear.

It has often been assumed that the vulnerability of the ECMEA countries to external developments derives mainly from supply factors. In fact, cuts in essential industrial imports of spare parts and of animal fodder were an important factor in the recent decline in the growth rate. What has been less appreciated is the role of factors on the demand side. The cuts, which were necessary in investment activity, reduced the internal demand for investment goods releasing capacity which could not, at least on short notice, be used for the production of consumer goods. A multiplicative depressive effect was bound to arise far beyond what can be measured by the decline in fixed investment and, indeed, were it not for the buoyant machinery exports to developing countries, the slowdown in economic activity would probably have been much sharper than it was.

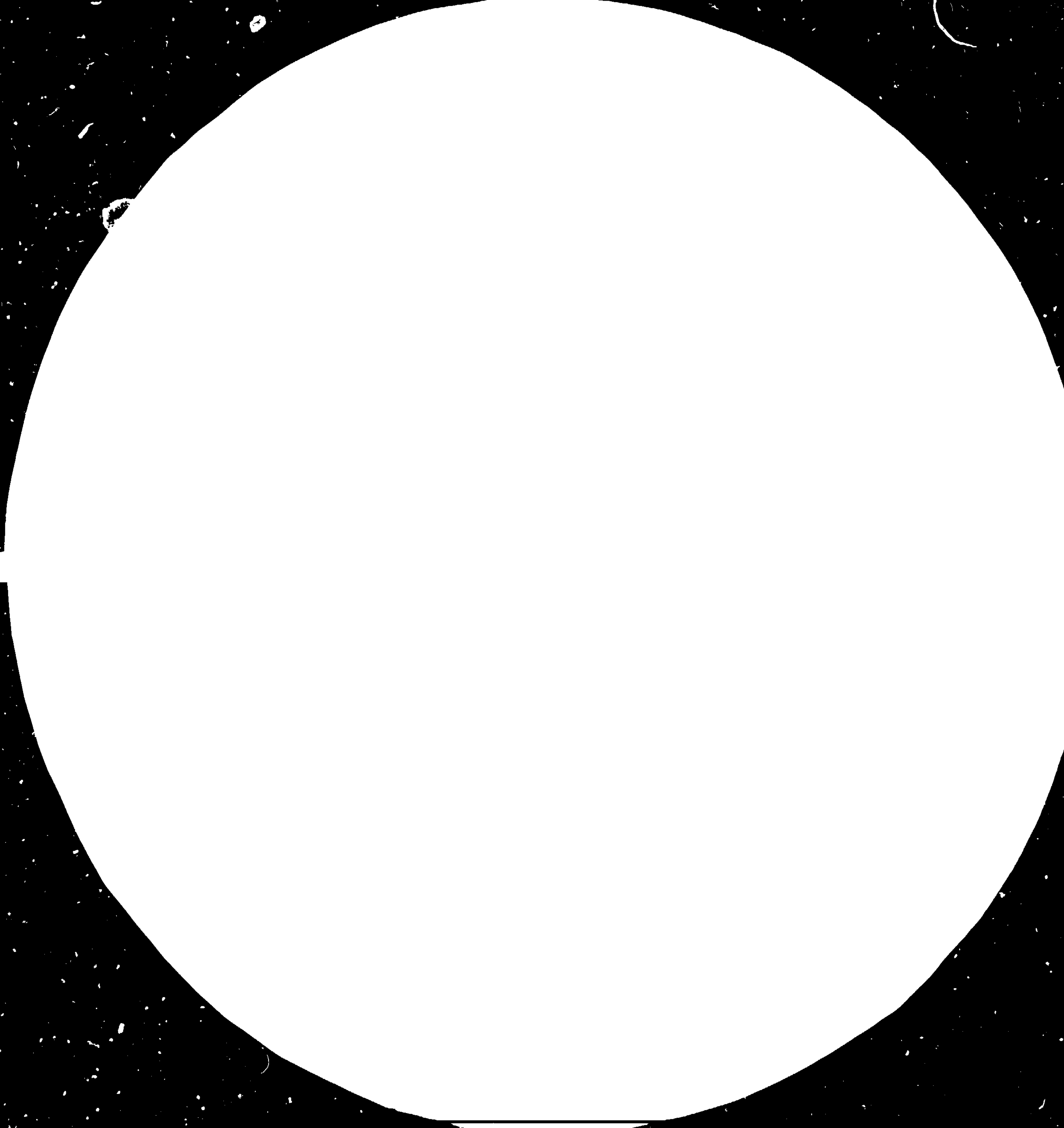
18/ The positive trade balance with developed countries of \$1 billion was more than offset by a deficit on the invisibles account.

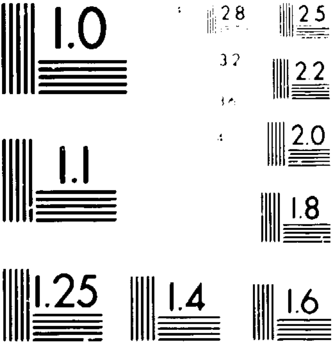
In addition to cushioning the decline in economic performance, trade with developing countries also served as an important source of convertible currency earnings though it is not possible to present precise figures. According to various estimates, the export surplus of the ECMEA countries is being financed to the extent of around one-third by hard currency payments. If this is more or less correct, the hard currency earnings derived from trade with developing countries significantly exceeded the 1982 (hard currency) export surplus in trade with developed market economies.

The East European countries have won a battle, but their fight against the consequences of the indebtedness which they accumulated during the 1970s has only started. The hard currency net indebtedness of the East European countries was estimated at around $60 billion in 1981. The burden of debt was particularly heavy in Poland where the figure reached as much as $24 billion. It has also been heavy in the German Democratic Republic and Romania, each of which had an accumulated debt of over $10 billion. While the threat of solvency which faced a number of countries has passed, or at least has been reduced, the problem of debt servicing will continue to loom large for a number of years. To overcome this most countries will probably opt for a policy of fast reductions in hard currency debt. They will aim at maximising exports and minimising imports from convertible currency areas.

The pattern of development of trade between East European countries and the Soviet Union is less clear. The East European countries, like the West, have accumulated considerable debt with the Soviet Union since the mid-1970s. Since the price of oil imported from the Soviet Union is scheduled to increase for another two to three years, the East European countries will evidently be harder pressed to achieve a surplus in their volume of trade with the Soviet Union. Whether this pressure will mean a current account surplus is less evident. Interest rates on rouble debt are much lower and very likely the Soviet Union will be willing to grant a certain amount of current deficits to be repaid by surpluses when balance-of-payments pressures on the East European countries are lessened.

Soviet indebtedness in hard currency was estimated at $12 billion in 1981, a figure which, according to preliminary estimates, was reduced by $3 billion in 1982. Such a level of borrowing has not given rise for concern; and although





MICROCOPY RESOLUTION TEST CHART
NATIONAL BUREAU OF STANDARDS

Soviet terms of trade with market economies are likely to move in a negative direction, the country's short-term external position will apparently not be such as to dictate an excessively restrictive trade policy. However, Soviet hard currency imports may not be allowed to rise faster than experts which, in volume terms, would mean a constraint in economic policy which the Soviet Union has escaped for quite a number of years.

Both the East European sub-grouping and the Soviet Union will devote themselves to faster exports to developed market economies - the former, as already mentioned, with the hope of achieving the greatest possible balance-of-payments surplus and the latter with the hope of raising the level of badly needed imports. During the last two years, Soviet efforts to promote exports to developed market economies have been much more successful than those of the East European countries. This was because of differences in the commodity composition offered. With oil and gas accounting for 70 per cent of Soviet exports to developed market economies in terms of prevailing prices, the growth of Soviet exports to these countries is evidently geared mainly to the export performance of these commodities. With the present situation on world oil markets being as it is, there is no reason why Soviet export performance in the markets of the developing countries should continue to be so much better than that of the Eastern European countries.

The situation in trade between the ECMEA and developing countries is more complex. As far as trade involving settlements in hard currency is concerned, both the East European countries and the Soviet Union will follow a policy which does not differ from that followed in relation to trade with market economies. Nor will it be much different from that followed in the past in relation to this type of trade. Here the new elements are the slackening of demand which can be expected in connexion with recent developments in world oil markets and the tighter financial situation in the developing countries which have so far expanded their hard currency imports. As far as trade involving bilateral settlements is concerned, the objectives followed by the East European countries may be expected to differ from those of the Soviet Union. Because of internal pressure, the East European countries may be interested in expanding these exports only to the extent to which they contribute to the expansion of imports. They may eventually be willing to accumulate trade surpluses but only if such surpluses contribute to a better use of their underused engineering capacity. Since it is less hard pressed, the Soviet Union will evidently show greater vigour in pursuing its long-term policy of providing credit and fostering economic co-operation.

B. LONG-TERM PERSPECTIVES AND IMPLICATIONS FOR TRADE WITH DEVELOPING COUNTRIES

1. Problems of restructuring

The problems of the present industrial structure of the ECMEA countries have been analysed in various UNIDO papers, and a summary of this analysis was presented in the final report on the 1982 seminar in Budapest.[19/] To avoid unnecessary repetition only the most relevant features are taken up here.

Industrial growth was, for a long time, conceived as the extension of productive capacities and based on absorbing manpower from agriculture and increases in the labour force, with less attention being given to raising the productivity of factors of production. Increases in labour productivity were nevertheless considerable, and were enforced by a low base and a rapid pace of structural change which, among other things, also provided for significant economies of scale. However, technology itself did not play its potential role in rising productivity levels, and the emphasis on maximum absorption of manpower tended to temper the need for up-to-date technologies. Policies and conditions were not conducive to fostering stringent work organization, and did not put sufficient pressure on management to opt for the highest productivity and most up-to-date technology solutions. By the same token, capital goods-producing industries were under little pressure to raise the technological standards and efficiency of their products.

The intra-branch pattern of industrial growth followed certain well defined criteria, and industries were established more on the basis of these criteria than on the basis of strictly economic cost-benefit calculations. The established priority system, which was conceived to begin with in a large country and under greatly restraining external conditions, tended to become increasingly restrictive under the challenge of opportunities provided by the intensification of foreign trade. Preconceived notions about "laws" governing structural change tended to oppose restructuring on the basis of actual internal scarcities and external economic interplay considerations.

19/ ID/WG.357/11.

Industrialization according to a priori conceived proportionalities was facilitated by the easy availability of energy and raw material supplies, mainly from the Soviet Union. The price system was formed so that the costs of domestic and imported inputs were kept at a low level which facilitated the development of heavy industry, including the engineering industry. Under such circumstances, these industrial branches could seemingly operate economically, even on the basis of imported raw material resources. This however ran against an efficient utilization of raw material inputs.

The process of industrial transformation, which focused on the development of key sectors by using as many resources as could be mobilised, began to lose momentum as the supply of manpower diminished. Although the situation differed in various countries, it can be said that from the middle of the 1960s the transfer of labour from agriculture to industry slowed down considerably. Female participation could not be increased much further and the natural increase of the labour force fell to lower levels. The emphasis given to capital widening, i.e., to the building of new factories to accomodate the influx of workers into industry, was changed to an emphasis on capital deepening, i.e., improvement in the quality of machinery and the up-grading of technological processes. An "extensive" pattern gave way to an "intensive" pattern of growth.

Early efforts to halt the deceleration in the growth of industrial output through speeding up the growth of industrial labour productivity were partly successful. From 1965 to 1975 the growth path of industrial labour productivity increased slightly in most countries. This was the result of rising capital stock per employed worker, which culminated in a general deterioration in capital-output relationships. Later on, trends in labour productivity deteriorated - although capital per worker actually rose faster than previously - and factor productivity deteriorated greatly.

A deterioration in labour and capital productivity was also witnessed in the West at about the same time, and these changes undoubtedly reflect in both cases adjustments which were necessary in connexion with the increase in relative energy prices and various other responses to national and international imbalances which arose in recent years. Evidently the structural adaptability of both the East and the West is in the process of being tested. While pointing out these similarities it should not be forgotten that broad policy issues differ greatly: for the West industrial up-grading and restructuring basically represents a process of adjustment to the dynamic long-term trends in the world economy, while for the East it represents much more.

What is involved in the latter case is the bringing of the level of economic welfare and the level of the already attained industrial intensity into harmony. The latter is expressed in the volume of industrial capital accumulated, the size and quality of the industrial labour force disposed of and, not least, the education and scientific standards achieved.

A policy aiming at the intensification of growth factors is clearly being followed in all ECMEA countries. Systematic efforts are made to reduce the raw material and energy intensity of production, including measures to lower the structural share of basic industries in total industrial output. Growing attention is given to the increase in the quality of industrial products and emphasis is laid on speedier applications of new technologies, advances in automation and the technological up-grading of production processes. The structure of capital investments is being rationalized and efforts made to reduce the volume of unfinished construction. Problems in personal and enterprise initiative and innovation are similarly given more attention than in the past.

Official announcements and economic commentaries point to some changes in attitudes regarding the type of proportionalities looked for in the pattern of structural change. The emphasis on industry is more limited and the development of consumer goods output is being given higher priority. However, although the weighting given to various sectors and branches has changed, structural aims still appear to be based on proportionality concepts which are more compatible with the objective of setting into motion, rather than with the objective of deepening, the restructuring process. These include, as before, maintaining a certain product structure at the interbranch level which gives priority to such branches as engineering and the chemical industry, while at the same time spurring the development of all other major industrial branches. One may assume that a structural policy incorporating macro-proportional objectives of this type is in contradiction with the aim of developing the intra-branch product structure in accordance to the postulate of fully participating in the opportunities offered by constantly changing international patterns of comparative advantage.

A somethat related continuity of perception is to be found in the attitude relating to the role which trade with developing countries has to play in the restructuring of the ECMEA countries. Policy statements and discussions on the subject provide abundant evidence of a desire to promote long-term co-operation on the basis of mutual interests of the ECMEA and developing countries. However, for the most part the potential for such long term co-operation is seen in an unchanged form. As proposed, such co-operation would allow the developing countries access to an increased volume of investment funds with the ECMEA countries assisting particularly in the development of fuel, mineral and metal processing industries. In exchange, the developing countries would increasingly take over the role as suppliers of raw materials and semi-processed products.

The fact that East-South economic interchange should continue to be dominated by inter-sectoral complimentarities is evidently in contradition with the equally strong prevailing attitudes whereby, having outgrown the extensive model of development, most ECMEA countries entered a phase of growth where foreign economic relations acquired momentous importance and their merger into the international division of labour was an essential precondition for the improvement of their economies' efficiency and viability. Evidently the increase in efficiency and viability can be improved by widening the forms of specialization and by entering into more complex forms of economic interchange. This is clearly true with respect not only to developed but also developing countries.

2. <u>Food and energy problems</u>

The ECMEA countries are facing two sectoral problems which have a particular bearing on the future level and structure of East-South trade. One is the problem of agriculture and the other of energy. Before entering into a discussion on prospective development of East-South economic relations, it would be useful to have a closer look at these problems.

The Soviet Union, and mostly because of it the region as a whole, is short of food supplies. To be exact, Soviet agriculture is able to supply enough foodstuffs to maintain a level of consumption commensurate with adequate health standards. This level, however, is not enough when compared with standards which nations have come to expect at the attained level of per capita income. The problem mainly concerns meat supply. The large-scale animal husbandry programme which was embarked upon by the Soviet Union in the mid-1960s was not supported by the amounts and composition of animal feed domestically produced. The effect has been a chronic non-fulfillment of consumption targets and a dramatic increase in grain imports.

Climatic conditions have been a major factor in the poor agricultural performance since 1978. However, harsh and variable weather represents an obstacle which only partly explains the inadequacy of Soviet agricultural performance. The deeply rooted reasons often discussed in Soviet literature are mostly structural. These have been strong enough to offset the efforts made over the years in investment outlays, in land improvement, in the development of an agro-chemical industry, and last but not least in the support provided by scientific services for protection of crops, development of new high potential grain varieties, etc.

The problems are manifold and need not be described here in detail. They range from manpower shortages to problems of infrastructural investments and inadequate technology. The efficiency of Soviet agriculture has been affected by administrative rigidities and inconsistent price setting. Other factors, without exhausting the list, are an unsteady and, on the whole, still inadequate supply of fertilizers and other agro-chemicals, an inefficient fodder supply industry, and inadequate standards of livestock upkeep.

Given these deep rooted problems, it is difficult to anticipate a drastic turnabout in the situation in the near future. The new food production programme recently launched may well succeed in raising grain yields to new levels; but even so, the problem of food supply can hardly be solved. Per capita meat consumption is not higher at present than it was in 1975. The dramatic increase in grain imports which has since taken place was needed to prevent the level from declining.[20/] With grain yields starting to recover, the Soviet authorities will evidently have the possibility of reducing imports. However, given the importance currently attached to raising living standards, it is

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20/ Net grain imports rose from around 10 million tons in 1975 to over 40 million tons in 1982. This was against a decline in the average annual grain output from 205 million tons in 1976-1980 to an estimated 180 million on average for 1979-1982.

unlikely that this alternative will be used. More likely grain imports will be kept at present levels and meat consumption will be increased so as to eventually meet the per capita consumption target. 21/ The demand for imported food will continue to grow, reflecting the still low level of diversification of food consumption, as well as the low share of meat.

The energy problem may be characterized as being diagonally different in the Soviet Union and in Eastern Europe. The former is a major net exporter of energy materials, and has difficulties in preserving this role in the face of depletion of deposits in "old" producing areas and difficulties in the development of the "new", distantly located deposits. Eastern Europe, on the other hand, is a net energy importer and has a problem in minimising its import dependence and in securing the supplies it is obliged to acquire from abroad. Another problem is that the markets for exports and sources of imports have grown in complexity as a result of developments which took place during the 1970s.

The Soviet Union, lured by high energy prices and better opprotunities to earn foreign exchange, has been diversifying an increasing share of its export surplus towards market economies, principally the industrial West. It has become, in effect, greatly dependent on energy exports to these markets, and these exports account for as much as 60 per cent of all Soviet hard currency earnings. This type of concentration has rendered the Soviet Union highly vulnerable to changes in energy demand and prices on Western markets.

Eastern Europe was increasingly obliged to turn to Western markets, prinicpally the developed countries, to cover this import requirements. With the import demand of oil producing countries for investment goods running high, the East European countries had, as already mentioned, not much of a problem in securing energy imports as such. However, with trade agreements being settled, in part, in hard currency, the East European countries were interested in keeping their energy imports from developing countries low. This was even more the case since the prices they were obliged to pay were much higher than those they paid for Soviet imports. Even so, energy imports from developing countries rose sharply, and at present they are 50 per cent of the total

21/ The target was originally set at around 80 kg of meat and meat products per capita. At present consumption is 57 kg, the lowest in the region.

imports from these countries (in current prices). The rising importance of oil greatly limited all other types of imports, and the volume of these imports has either expanded very little since 1975, as was the case with food-stuffs, or has declined, as was the case with raw materials and consumer manufactures.

Forecasts of energy production and requirements are particularly tricky at the moment as energy systems are undergoing profound changes. The growth of Soviet energy production has fallen to 2.2 per cent in recent years. However, some earlier projections made in the West that oil production would decline did not materialise, and it would appear that some recovery in the growth rate of energy production can be expected, as recent investments in the coal industry will begin to bear fruit. According to official national and ECE scenarios, 22/ Soviet energy output is expected to grow at rates between 2.2 and 3.1 per cent in 1981-1990. This will be achieved by a reversal of the trend in coal (coal output declined between 1978 and 1981) - output growing at a rate of 1.1 to 3.4 per cent; a slight rise in oil - output growing at a rate of 0.3 - 0.7 per cent; a continued fast expansion of natural gas - output of which is to grow at a rate of 4.8 - 5.6 per cent; and finally a fast growth of nuclear power - output from "all other sources" rising at a rate of 4.3 - 4.9 per cent per year.

According to the same scenario, the Soviet Union will be able to defend and even strengthen its position as energy exporter during the present decade. On the assumption that the Soviet NMP will expand at a rate of between 3.2 and 4.0 per cent, domestic energy demand is expected to rise at a rate of 2.6 to 3.2 per cent. This would imply that the energy export surplus either remains at the 1980 level of 207 million tons or that it increases to some 270 million tons in crude oil equivalent. A precondition of the latter is that natural gas, and to some extent also coal, replaces oil as an export earner.

The prospects of the East European energy system have also been revised. Greater optimism is felt as far as energy efficiency and import requirements

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22/ ECE, Senior Economic Advisers, The Impact of Energy on Future Economic Growth, ECAD (XIX) R 5 and ECAD (XIX) R 5 Add.1, December 1982.

are concerned. Not long ago, East European import requirements were estimated by Eastern commentators to run as high as 200 million tons in 1990 in terms of oil equivalent, but the new scenarios put net imports at the level of 120 to 125 million tons by the end of the decade. True enough, these figures are based on some rather restrictive assumptions, including the assumption that the energy dependence of Eastern Europe, as measured by the share of net imports in apparent consumption, has to stop rising. To realise this there would have to be a relatively slow - 2.5-3.5 - rate of increase in NMP, a relatively high - 1.3-2.1 - rate of increase in domestic energy production, and a continued significant improvement in the efficiency of energy use. However, all this is quite plausible considering the current conditions, policies and the overall economic prospects of the East European countries.

What is most relevant from the present viewpoint is that what this scenario suggests is that the area as a whole will remain a net exporter of energy until the end of the decade. Soviet exports of natural gas to Eastern Europe will rise sharply. This will naturally reduce the effect of any curtailment which the Soviet Union may be obliged to make in its oil supplies. If and how such a curtailment will take place is, of course, difficult to evaluate. Soviet policy during the past "oil crunch" has been to maintain the level of oil exports to Eastern Europe. It was only to cover the increment in demand that Eastern Europe was obliged to turn to the South. If this policy should continue, the total demand of Eastern Europe for such imports may rise from some 20 million tons in 1980 to 23-34 million tons of oil, according to the various variants of the described scenarios.

3. A scenario for East-South trade in the 1980s

One useful thing in reviewing past trends and present problems is the help one may get in looking into the future. It is therefore expected that a study such as this should deal with prospects of East-South trade and perhaps pinpoint these prospects numerically. Unfortunately if the former is difficult, the latter seems to be an utterly impossible task. The future is never a simple extension of the past, and extrapolating procedures have often failed even in times of steady trends and no disruptive elements. The credibility of such forecasts would be restricted, particularly today as the incertitudes are such as to practically nullify the usefulness of long term historical parameters in making projections. Besides, the world is interlinked and it would be naive to try to trace the future on the basis of only partially structured trends.

What follows should not be considered as a forecast. An attempt is made to bring together "learned hypotheses" and to form them into a structure which may provide better grounds for apprehending future developments. In order to link the structure, and also to facilitate clarity and consistency, it is useful that the hypotheses are quantified. This, then, is the justification for the construction of a numerical scenario.

The Soviet Union will come close to its NMP growth target during the present quinquennium. It will accelerate its growth rate so that between 1980 and 1990 the growth of its NMP will average 3.6 per cent per year. This is a figure which represents the mid-point of the previously mentioned official and ECE scenarios. Eastern Europe will manage a growth rate of 1.5 - 2.0 per cent in the present quinquennium. By 1985, Poland will have sufficiently overcome the present difficulties to have embarked on a sustained process of recovery. This will help to increase the rate for the group so as to come closer to the historical trend position. Altogether, a good orientation point for the growth of NMP in Eastern Europe in the period 1980-1990 may well be the rate of 3.0 - 3.2 per cent which, as for the Soviet Union, is about the mid-point of official and ECE scenarios.

Thus, as a plausible starting point one may assume that the ECMEA countries will expand their NMP at a rate of 3.5 per cent during the present decade. Industry would then be expected to grow at a rate of some 4.0 - 4.5 per cent and agriculture at a rate of 1.5 - 2.5 per cent, this implies that the engineering industry can be expected to expand at a rate of about 5.5 - 6.0 per cent. Gross fixed investment, after rising at a rate of around 1.0 - 1.5 per cent in the first quinquennium, would pick up in the second, finishing with a rate of growth of about 3 - 3.5 per cent for the decade. With the domestically used NMP rising in the Soviet Union somewhat faster than the produced one, social and personal consumption could well expand at a rate of 4 per cent per year. Assuming that there will not be too much of a shift in favour of social consumption, this might be translated into a 2.5 rate of increase per capita private consumption. In Eastern Europe the growth of the NMP used cannot reasonably be assumed to match the growth of the NMP produced. Per capita private consumption would then, on the basis of these hypotheses, remain practically unchanged over the decade.

The forces which will shape the development of foreign trade are particularly difficult to assess. The growth of intra-ECMEA trade is bound to be dampened by the slow expansion of investment demand within the area. Inter-regional co-operation will be intensified, particularly in such sectors as energy, engineering and chemicals. Whether this will offset the impact of the first mentioned factor, however, is not clear. The growth of trade with market economies will be primarily determined by the growth of the world economy and conditions on world markets. This again is something difficult to evaluate.

What remains, then, is to go back to recent trade-NMP relationships - preferably in a period which includes some of the turbulence of recent years. In 1976-1980 the elasticity of foreign trade turnover in relation to the NMP amounted to a coefficient of 1.3. Applied to the NMP, this yields a growth rate of 4.6. On this basis, and using relationships characterising developments during the second part of the 1970s, the growth of ECMEA trade turnover with developing countries might be projected at a rate of 7.0 per cent per year. This is a figure markedly close to the forecast generated by the UNITAD model which puts the growth of South-East trade at a rate of 6.3 per cent in the period 1975-1990. (See below) Both figures imply a slower growth than in 1976-1980 when the rate was 8.4 per cent (Table 4), but, nevertheless, a significantly faster growth of East-South trade in relation to the total ECMEA trade.

What assumption might be acceptable with regard to the relative growth of exports and imports? At first sight it looks as though the historical tendency to accumulate export surpluses should weaken. With the changed financial situation in the oil producing countries, the ECMEA countries should find it harder to use export surpluses of trade with developing countries to reduce deficits with developed market economies. As already mentioned, for some time at least the East European countries may be expected to forego an expansion of credit and aid on a scale similar to that in the past. It may finally be argued that since the East is faced with difficulties of financing imports from the West, it will be harder pressed to increase imports from the South. In fact, it is the ability of the CMEA to generate markets for their exports by fostering imports that may be seen as an important factor in the assumed relatively fast growth of East-South trade over the 1980s.

It was evidently on the basis of this type of reasoning that Dobozi and Inotai, 23/ in the only quantitative scenario available from Eastern economists, assessed that ECMEA imports from developing countries would increase at a much higher rate than exports in the period between 1978 and 1990. Having assumed that developments in the sphere of political and economic relations between the East and South will remain "propitious also in the 1980s", they assessed the growth of ECMEA exports to the developing countries at a rate of 9.5 - 11 per cent and the growth of imports from these countries at a rate of 14 - 15.5 per cent. The rather significant - \$5 billion - export surplus characterising the 1978 exchange (including Cuba) was to disappear entirely and to turn into an import surplus by 1990.

Development between 1978 and 1982 has only partly vindicated this forecast. In terms of current prices, ECMEA exports to developing countries rose in this period at a rate of 13.9 per cent whereas imports expanded at a rate of 15.0 per cent. This, however, had the effect of raising the export surplus, which doubled in the four years (see Table 19). Moreover, as shown in the previous section, the relationship between imports and exports was very unfavourable for the developing countries in 1981 and 1982 since ECMEA exports rose at a rate of 10 per cent whereas imports declined at a rate of 1.8 per cent in terms of current prices.

While the assumption that the need for imports will be the driving force of East-South trade during the present decade is not realistic, so the opposite extreme of seeing trade mostly as a function of import demand of developing countries does not fit the actual record. According to the scenario of the UNITAD model designed to study the implications of a pattern of global development that reflects the assumptions contained in the United Nations Third Development Decade, 24/ the volume of ECMEA exports to developing countries in 1970 prices, was to grow at a rate of 8.4 per cent between 1975 and 1990.

23/ I. Dobozi and A. Inotai, "Prospects of Economic Co-operation between CMEA Countries and Developing Countries". In: C.T. Saunders, ed., East-West-South. Economic interaction between three worlds (MacMillan, London) 1981.

24/ See the UNITAD team article "The UNITAD Project: a world model to explore institutional changes over the long-run", Industry and Development, No.6 (1982).

This was against a volume growth of imports corresponding to a rate of only 3.6 per cent. Actually, exports increased at a rate of some 10 per cent and imports at a rate of some 5.5 per cent between 1975 and 1982, calculated in the same prices. The ensuing ECMEA export surplus for the first half of the period was, in effect, then significantly smaller than would emerge in this scenario.

Given the record of past years, one must conclude that the ECMEA countries will finish the decade with an export surplus more substantial than the one at the start - though there are also clear limits on this surplus. One of the outcomes which would fit this reasoning is to assume that the relationship between the growth of imports and the growth of exports would stay as it was between 1975-1982 - i.e., a coefficient of 0.65. On this assumption, the growth of exports would amount to a rate of 8.2 per cent and the growth of imports to a rate of 5.3 per cent during the decade. Exports having risen much more than imports in 1981-1982, the implied projection for the rest of the decade would be a rate of 6.7 per cent for exports and 5.3 per cent for imports.

The problem with these figures is that they imply a rise in the export surplus of $17 billion (in 1980 prices) which, to be realistic, would require an additional assumption, namely that terms of trade will move against the ECMEA countries for most of the decade. It is useful therefore to provide for an alternative setting a lower limit for the surplus. A plausible alternative could be based on the stipulation that the surplus will rise to a figure, say, twice that of the base year. On this basis the growth of all exports, imports and the surplus would be assessed to grow at a rate of 7 per cent during the decade.

As can be seen from the preceeding account, it can be expected that the exports of machinery will remain the catalist for the expansion of exports. In the words of Dobozi and Inotai, "the ECMEA countries envisage - in keeping with their practice so far, only more so - that their exports of machinery and equipment, and more specifically the exports of complex plants within that group, will be the main vehicles of their exports". And further on: "we see the satisfaction or otherwise of this criterion (a sharp increase in machinery experts) as the greatest question mark against both the dynamic growth and the balance of trade with developing countries".

What the writers have, in effect, envisaged is an increase in the share of machinery in exports of 13 percentage points. A different attitude is implied in the UNITAD model, which envisaged that the share would remain constant over the 1975-1980 period. An increase in the share is to be taken as probable, if only on the basis of the very recent trends. However, the figures proposed by the Hungarian writers must be judged as overstating the extent of the expected change. A less pronounced increase is also implied by the expected changes in the shares of the other major commodity groups. Even so, with machinery and vehicles now accounting for 55 per cent of total exports, any further shift in this direction evidently yields a pattern even more "skewed" than it was in the past.

The share of fuel in ECMEA exports to developing countries has historically tended to decline after the elimination of the impact of price changes (Table 9). Although energy exports to these countries seem to be too small an item (in relation to total energy exports) to be much affected by the overall energy situation in the ECMEA countries, the share may be expected to decrease further. A movement in this direction is postulated in the scenario of the Hungarian economists, and although they do not provide separate figures, it is clear that they are very pessimistic about the situation. This reflects the stance taken by Eastern economists, in general, when writing on trade perspectives, and comes from the satisfaction of a growing share of requirements of fuels and raw materials out of imports.

Foodstuffs represent a trade category where the relative importance of Soviet exports to developing countries declined whereas the relative importance of East European exports rose slightly. In the Soviet Union the share of foodstuffs in total exports to the South has reached at present a level from which there is not much room left for further contraction. In Eastern Europe these exports represent an important component of the export structure to developing countries, and most likely also an important source of hard currency earnings. On the assumption that their share in exports will increase at about the same rate as in the past, the share of foodstuffs in the area's exports to developing countries would still point downward. However, the decline would be less pronounced than in the 1975-1980 period, an assumption also shared by the UNITAD and the Dobozhi-Inotai scenarios.

Expected changes in the share of raw and intermediate materials are similar. Historically the share of these materials in exports to developing countries has declined in both the Soviet Union and Eastern Europe. This trend may be expected to continue, with perhaps a slight acceleration owing to the situation with chemicals. The share of this sub-category was on the rise, but because of the sharp deceleration in output growth ceased to increase in the last few years.

Finally, although the share of "other manufactures" (mostly consumer goods) in the area's exports to developing countries has consistently declined, a deceleration in the decline or even a turn-about in the trend might be reckoned with. This is because of the greater emphasis on consumer goods production in the area which makes it tempting (on the grounds of economies of scale for example) to push the export of selected products in this group. It is evidently with this in mind that the Hungarian authors postulated a minimal change in the share of this category.

Turning to imports, a general observation should be made that changes in their structure are much more difficult to assess than those in exports. The reflects the incertitudes about the factors determining the ECMEA demand for various categories of products already discussed. Differences in the appraisal of the strength of these factors are at the bottom of what represent diagonally different assessments of the pattern of structural change in the UNITAD and the Dobozi-Inotai scenarios. In the former, changes in the composition of Eastern imports from the South are determined by the growing need for foodstuffs and intermediate products. In the latter, they are determined by the need for fuel. By foreseeing a strong to very strong growth in the imports of food-stuffs and industrial raw materials, the UNITAD model did not leave any room for an increase in the share of industrial consumer goods. The Dobozhi and Inotai scenario manages to incorporate an increase in the share of manufactures. This is the only positive feature as far as changes in the composition of trade is concerned in any of the two mentioned scenarios, when seen from the point of view of the aspirations of developing countries.

It is very likely that the structural shifts in the ECMEA imports from developing countries will be much less intense than envisaged in either of these forecasts. The requirement that food imports decline in absolute volume over the period 1978-1990, as put forward in the Dobozhi-Inotai scenario, is certainly unrealistic. Given the previously discussed deep rooted problems besetting Soviet agriculture, Soviet food imports from developing countries will evidently continue to increase rapidly, quite probably at a pace exceeding the growth of total imports. In Eastern Europe, improvements in domestic fodder production may have a dampening effect on the growth of overall import requirements for foodstuffs. Even so, a sharp decline in the share is unlikely here also.

On the other hand, the requirement that the share of imports or raw materials and intermediate products rise by as much as 10 percentage points between 1975 and 1990, which was specified in the UNITAD model, cannot be given much credibility. The South has only a very limited range of products falling into this category which it can offer to the East. The demand for these products has declined because of their substitution by man-made materials, and over the last 15 years the share of this category in total imports from the South has fallen by as much as 60 per cent. True enough at present new factors - including a significant slowdown in the growth of output of such materials as plastics and man-made fibres are coming into the picture - and perhaps also the need for upgrading the quality of output of non-durable consumer goods may bring some recovery to the demand for materials of agricultural origin. Even so, the trend in the share would seem to point in the downward rather than the upward direction.

As previously emphasized, it is to a large extent the evolution of energy imports which is apt to determine the future composition of Eastern imports from the South. In the scenario prepared by the Hungarian writers, as much as one half of the projected increment in imports was taken up by petroleum. This clearly sharply limited the prospects of growth of the other main categories of imports. In the UNITAD model, on the contrary, the share of energy declined between 1975 and 1990. This is the assessment which may deserve greater credibility, although the extent of the decline may well have been overstated in this model.

Finally and most important from the present angle, although levels of private consumption will evidently rise very slowly during the present decade, there seems to be room for a reversal of the trend which started in the 1970s, whereby the share of manufactures in the ECMEA imports from developing countries sharply declined. The basis of this assessment is a projected let-down in the pressure for food and more importantly energy imports. It is essentially on the assumption that the share of oil imports will decline over the period 1980-1990, or at least not exceed the 1975 level, that one can look forward to a rise in the share of manufactures in the ECMEA imports from developing countries.

How these various assumptions and considerations fit together in what is a plausible scenario is shown in table 20. It is clear that even when using the same building blocks some variations are possible. No attempt has been made to spell these out even if, as a matter of logic, some at least should have been given explicit form. Variations belong here, particularly in the import structure which is likely to emerge if one or the other of the assumed growth rates find a place.

Given the present world economic conditions, the figures may have the air of excessive optimism. ECMEA exports to developing countries are presented as growing at a rate of between 7.0-8.2 per cent and imports at a rate of between 5.4-7.0 per cent per year over the present decade. Marked prospects for growth are indicated in most areas, which shows a further intensification of the international division of labour between the two groups of countries. The incorporated feasibility of a very significant acceleration in the growth of manufacturing imports from developing countries is also greatly reassuring.

It is also evident that, even if developments should follow this optimistic scenario, the pattern of trade will remain disappointing in the developing countries. By and large trade will continue along established lines, not providing enough feedback to meet the aspirations of developing countries for export- as well as substitution-oriented industrialization. The achievement of even a 9-11 per cent annual increase in ECMEA imports of manufactures would not even have the effect of re-establishing the level held earlier by this commodity group in total imports.

TABLE 20

A scenario for East-South Trade 1980-1990

	Exports					Imports				
	Growth rate			Shares		Growth rate			Shares	
	1971-1980	1981-1990		1980	1990	1971-1980	1981-1990		1980	1990
		A	B				A	B		A
Total	9.0	8.2	7.0	100.0	100.0	7.3	5.4	7.0	100.0	100.0
Foodstuffs	8.2	6.9	5.7	8.4	7.5	10.4	5.5	7.2	47.0	48
Fuel	6.5	5.9	4.7	11.2	9.0	22.2	5.0	6.7	27.7	27
Raw materials, chemicals and metals	8.3	6.5	5.3	14.7	12.5	4.1	3.1	4.8	18.5	15
Machinery	9.7	9.1	7.9	55.7	60.0	3.0	9.4	11.2	6.8	10
Other manufactures	7.5	9.2	8.0	10.0	11.0					

Sources: Author's estimates.

A = Implied in the assumption that the growth coefficient of imports to exports will be as in 1975-1982.

B = Implied in the assumption that the export surplus in 1990 will be as twice as high as the average of 1979-1981.

CONCLUSION

Contrary to sometimes held notions, East-South trade has been of great economic importance for the ECMEA as well as for the developing countries. There is no doubt that recent world developments tended to strengthen the economic inter-dependence between the two regions. This is also another reason to think that East-South trade will continue to grow rapidly during the present decade. It can be assumed that it will represent the most dynamic component of world trade. Most probably the developing countries will offer the fastest expanding market for ECMEA exports and will serve as the fastest rising source of imports.

The structural pattern trade will take will not offer much relief for the export-starved manufacturing industries in the developing countries. Trade will be driven by complementary interests and this will be true to no less an extent than it was in the past. This driving force has derived its strength from the fact that the East needs the South as a source of raw materials and foodstuffs and as a market for its manufacturing products. These are classical interests based on resource endowment which obviously do not create conditions for rapid growth of trade over long time horizons.

Indeed it may be said that East and South are locked in a pattern of trade which, in the long run, must become detrimental to its growth. The existing situation is a "mirror image" of the situation in which the East finds itself in trade with the West. Just as East-West trade is circumscribed by the level of Western demand for goods which the East can supply, so the growth of East-South trade is bound to be circumscribed by the Eastern demand for goods the South can supply. To keep trade growing, a profound process of diversification will have to be put into motion, for clearly there is a limit to the amount of raw materials and foodstuffs the East can be expected to require. The growth of imports of raw materials has been decelerating sharply and clearly the growth in the demand for foodstuffs will also taper off as domestic production will rise and consumption levels will reach higher standards. Energy needs could provide the driving force for a fast growth of import demand. However, the possibility that the area will become a large oil importer is remote, and anyhow does not provide a solution to the general problems of restructuring and growth.

The problem of "exhaustion of inter-sector complimentarities" has provided a basis for much pessimism in writings on prospects of East-South trade. The fact that this pessimism has not been warranted is due to the fact that income elasticity of Eastern demand for fuel, raw materials and foodstuffs exported by the developing countries has turned out to be higher than assumed. At the same time the East was able to increase its exports of engineering products even when demand for such goods from developing countries was falling. It is on the assumption that these factors will continue to prevail that the outlook for a certain period of time can remain optimistic.

The wider time horizon is less certain. The prospects for trade expansion will increasingly depend on the pace of structural adjustments in the ECMEA countries. The deeper the process of restructuring, the greater the use the ECMEA countries will make of prevailing differences in factor endowments and technological capacities they have accumulated, the better the outlook for a continuation and possible acceleration of economic interchange. The positive influence of this line of actions would come from the fact that it will create conditions for a wide opening of Eastern markets to labour-intensive manufacturing exports from developing countries. Obviously the interests of the ECMEA countries in raising their level of efficiency and productivity and the interests of the developing countries in changing their economic structure and diversifying the pattern of their exports are in full harmony. This provides some reassurance with respect to the prospects of broadening the benefits accruing to the two groups of countries in their economic interchange.

Clearly, however, prospects for trade expansion are not limited to exchange of capital- and/or technology-intensive against labour-intensive goods. A significant stimulus to East-South trade could come from the need of the ECMEA countries to up-grade the quality and range of consumer goods offered to the population. This could lead to the South attempting, in as far as technology, design, capabilities, licensing agreements and the like permit, to focus more on non-essential consumer goods of the type that has assumed growing importance in East-West trade. Finally, if the object is to change the composition of East-South trade, a potential is also provided in the form of up-grading resource based imports by allowing a greater amount of processing to take place in the exporting country.

With the mounting restrictions on manufacturing imports from developing countries on Western markets, the South will evidently have to exercise greater pressure on the East so that its products can reach Eastern markets. With further progress in industrialization and increased knowledge of Eastern markets, this pressure will evidently be maintained even if the movement towards greater protectionism in the West ceases. This "force of compulsion" will depend on the relative bargaining strength of the two sides, this being determined by the urgency felt in the East to export capital goods in exchange for other manufactures.

Needless to say, diversification of imports on a scale necessary to make a difference can be achieved only by a restructuring strategy which does not shy away from reducing, and if necessary making totally redundant, established production capacities. In this respect the situation of the ECMEA countries is evidently less complicated than that of developed market economies, where reducing capacity owing to replacement by imports raises the spectre of creating additional unemployment. The long-term planning system of the ECMEA countries should also be helpful in this type of restructuring.

The ECMEA countries have so far taken limited advantage of opportunities for dynamic industrial co-operation with developing countries, but structural forces in these countries are moving in the direction of greater use of these opportunities. The question of whether those moving in the direction of East-West trade are not stronger has been asked, with the implication that this might dim the long-term prospects of South-East trade. The importance of economic interaction with the West for both East and South can hardly be overestimated. But the notion that East-West and East-South trade are highly competitive with one another can be questioned, and this is true irrespective of whether East-South trade has been, as in the past, dominated by inter-sectoral specialization or whether it will become dominated by intra-industry or intra-branch type specialization.

The historical record shown on the previous pages gives testimony to the fact that trade diversion has not been an important factor determining the relative growth of East-West and East-South trade. This includes the late 1960s and the 1970s - a period of East-West economic and political rapproachment - when its effects should have been felt particularly strongly. The increase in the financial liquidity of the ECMEA countries, and the greater opportunities offered by Western markets to earn hard currency, seemed to have had some negative impact on the growth of imports from developing countries. However, the expansion of exports to the South proceeded unabated, giving rise to an accumulated (non-convertible) surplus and eventually also to an accelerated expansion of imports.

Naturally it is difficult to foresee the relative strength of forces pulling trade in one direction or the other when the nature of these forces, particularly those in East-West trade, will change. If predictions are at all possible, the main driving force behind East-West trade will apparently remain to be the Eastern desire to acquire high technology equipment and quality imports, while a major driving force behind East-South trade will be the Eastern desire to sell machinery in exchange for labour-intensive and some other products. It is not of overriding relevance which of these may turn out to be stronger; what is more important are the prospects of world trade as a whole, on which the prospects for both East-West and East-South trade will ultimately depend.

Economic restructuring in the ECMEA countries will lead to an upgrading of manufacturing exports and changes in their structural pattern. This is to be expected most of all in trade with the West, where the pattern will shift from complementary to competitive. Branches and products are involved here which may meet competition not only from Western producers but also from Southern exports. This is natural and obviously does not necessarily represent an obstacle to South-East trade.

Restructuring represents a challenge which the ECMEA countries can avoid as little as the rest of the world. In taking up this challenge, it is essential that the East recognises that by shaping their economic interchange with the South along lines that are restricted to relative resource endowment, they have missed the advantages offered by international division of labour to participants moving from simpler to more complex forms of international interchange. Not only does such trade structure not sufficiently help to transform the structure of production in the South, but it does not contribute in overcoming structural distortions of the East. It clearly cannot facilitate structural change in the world economy which is required for the establishment of a new international economic order.

III. GENERAL SUMMARY

During the thirty year period following post-war reconstruction the growth of foreign trade of the ECMEA countries has been rapid. In volume terms it has outpaced the growth of world exports - significantly up to the middle of the sixties, and slightly afterwards. And it has also been faster than the expansion of the GDP, pointing to increased relative economic interdependence with other economic regions.

Although the growth of trade relative to production has been as roughly the same in the ECMEA countries as in the world as a whole, the trade participation ratio of a number of ECMEA countries may still be lower than what might normally be expected judged by their per capital income and size. If so, this would represent a remnant of the initial low position, rather than an expression of factors specific to the prevailing planning and management system. The fact that during the seventies the trade elasticity was actually higher in the ECMEA countries than in the developed market economies points to a tendency towards the closing of any gap that may exist between actual and "expected" levels.

The situation differs, however, when one turns to the relationship between output and trade in manufactures. The elasticity of the exports of manufactures to the output of manufactures has been lower in the ECMEA countries than in the world at large; and while the share of ECMEA countries in world exports of manufactures has been rising in the post-war period, the increase has not been as steep as the increase in the ECMEA's share in world manufacturing production. These marked differences were the reflection of a structural pattern of growth of the ECMEA countries characterized by a high elasticity of manufacturing output relative to GDP, with this coefficient being higher than the one normally found both in countries at advanced levels of development and in developing countries.

This relatively low level of trade in manufactures relative to the level of manufacturing production resulted primarily from a relatively low level of trade in industrial consumer goods, with the ratio of trade in machinery to manufacturing production being much closer to that observed in market economies. These structural differences have been referred to in the paper as "over-industrialization", the output profile expressing itself by the fact that at any comparable per capita income level, the weight of industry has tended to be higher in the ECMEA countries than in market economies. In the trade profile it finds expression in a relatively high share of machinery and correspondingly low share of industrial consumer goods.

The fast growth of ECMEA trade has been the reflection of strong forces working in the direction of the expansion both of intra-ECMEA trade and of trade with the rest of the world. The forces working for the expansion of trade within the area mostly stemmed from the need for competitiveness and specialization at the micro-level, and they found expression in an expansion of exports and imports of products of the same category. On the other hand, the forces working for trade with the rest of the world were mostly complementary, and they expressed themselves in intra-sectoral specialization such as is usually found in trade between countries with different structures and at different levels of development.

Specialization in intra-regional trade has taken place primarily in the metal and machinery branches, and the share of the products of these branches in inter-CMEA trade has been significantly higher than in trade within the group of developed market economies. The high share of machinery in intra-ECMEA trade had its counterpart mostly in the low share of "other manufactures", mostly industrial consumer goods. With intra-regional trade weighted most heavily in the total, it was this component which mostly accounted for the described characteristics of the commodity structure of the total ECMEA trade.

ECMEA trade with developed market economic has been characterised primarily by the low share of machinery in exports and by its relatively high share in imports. Inter-sectoral specialization can also be found in foodstuffs, chemicals and metals, in which the ECMEA countries appear as net importers, and in fuels and raw materials, in which they are net exporters. At the same time, ECMEA trade with developing countries has been characterised by an extremely high share of machinery in exports and of foodstuffs in imports. Inter-sectoral specialization is to be found also in metals and chemicals (net exporter) and raw materials (net importer).

ECMEA trade with developed market economies and with developing countries are both characterized by a profile reflecting international division of labour according to classical lines. In the former, the developed market economies assume the position of the more developed partner; and in the latter it is the CMEA countries which assume this position. This is natural and to be expected. What is specific, however, is that the East-South trade profile is more classical than the West-South profile, the ECMEA exports to developing countries being around two-thirds machinery, while the exports of the industrial West to these countries are less than one-half machinery. On the other hand, ECMEA imports from developing countries consist nearly ninety per cent of foodstuffs, fuel and raw materials, while the corresponding figure for the developed market economies is just over sixty per cent.

The hypothesis put forward as an explanation of this structural pattern relates to the already mentioned phenomenon of "over-industrialization". Although the pattern of structural change that was followed led to the emergence of a great build-up of investment capacity, its technological level tended to fall below that which "naturally" or traditionally comes with a given level of development of capital and human resources. This, together with problems of adaptability to the requirements of Western markets, led to a situation whereby comparative cost advantages vis-à-vis the developed market economies could not be translated into sales. Coupled with the need to import Western technology, this tended to shift the balance of trade in investment goods more strongly in favour of the industrial West. By the same token, it created above normal pressures to find outlets for the products of engineering in less sophisticated markets.

Trade with developing countries was the most dynamic component of the region's trade over the period 1950–1965 - though this was from an extremely low initial position. Between 1965 and 1980 a distinction must be drawn between exports and imports, with exports to developing countries continuing to be the fastest rising export component (although with a rather narrow margin). Imports from these countries, on the other hand, fell below the growth of imports from the industrial West and, to lesser extent, below the growth of intra-ECMEA trade in the period 1965–1975 - though their growth exceed the growth of imports from other regions in the period 1976–1980.

Over the period from the mid-1960s the commodity structure of East-South trade has tended to become more one-sided. In exports, the share of machinery has risen and that of all other major commodity groups except chemicals declined. In imports, foodstuffs and fuel have become more important and raw-materials less important, and the share of ECMEA imports of manufactures from developing countries, having risen during the second part of the sixties, declined sharply during the seventies (in both current and constant price data).

In conclusion, then, three phases in the development of East-South trade since the mid-1960s can be distinguished. The first phase, ending with the outbreak of the first oil crisis, may be characterized as a relatively mediocre performance. The area's exports to the developing countries rose somewhat faster than the aggregate of exports, but this reflected the performance of only a few countries. In imports growth was relatively sluggish in most countries. The second phase, ending with the second oil price shock, was more favourable. In 1973-1978 practically all the countries in the area showed an increase in the share of exports to developing countries. The situation was mixed with regard to imports, some countries experiencing an increase and others a decline in the import share. The third phase, and the one which is still continuing, has been characterized by a pattern whereby the growth of exports to developing countries exceeds the growth of exports everywhere. The same appears to be true for imports, but because of the large annual fluctuations, the trend is less clear.

In continuing to restrict the breadth and purpose East-South trade within very narrow confines, the East has not only failed to take advantage of the benefits which the international division of labour could offer for the restructuring efforts in their own economies, but has also prevented the South from further transforming the structure of their production and accelerating their industrialization.