THE EXPERIENCE OF ECONOMIC COOPERATION WITHIN THE CMEA AND ITS RELEVANCE TO THE CONDITIONS OF DEVELOPING COUNTRIES

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In South Asia, as the Times of India's editorial recently put it, the efforts so far have been concentrated on lessening political tensions rather than forging constructive economic links. In my view, current political issues, being of great importance, should not however, overshadow the long term objective imperatives and prospects for meaningful economic cooperation within the region. Otherwise it is easy to lose the general perspective.

In this connection I would like to examine some features of experience of socialist economic integration within the Council of Mutual Economic Assistance and its relevance to the conditions prevailing in the developing countries as a whole and in South Asia in particular.

The CMEA has just completed its 33rd year of operation. It was created initially by the USSR and five East European socialist countries in 1949. The GDR joined the organisation a year later, Mongolia in 1962, Cuba in 1972 and Vietnam in 1978 thus raising full membership to 10 countries. Since 1964 Yugoslavia activeI participates in the activities of CMEA. Observer status is provided for Korean Peoples Democratic Republic, Laos, Ethiopia and Angola. Apart from it CMEA has cooperation agreements with Finland, Iraq, and Mexico. In 1971 the member-countries adopted a comprehensive "Aggregate Programme for Further Deepening and
Improvement of Cooperation and Development of Socialist Economic Integration”, which opened a new stage in the development of the CMEA. The economic summit held last year gave a new mighty impetus to further cooperation.

When CMEA countries began economic cooperation in the early 1950s most of them confronted some problems resembling those faced by many developing countries at present. It might be therefore useful to study the experiences of the CMEA countries in connecting economic integration and accelerated national economic development.

Among the problems that influenced economic cooperation between the CMEA countries at an early stage, the most relevant to South Asian conditions are in my view the following.

1. Major differences in the level and structure of economic development, particularly in industrial production, existed between the member countries. The economic cooperation was accompanied by gradual equalisation of the level of economic development. The variation between the highest and the lowest per capita national income decreased from 220 per cent in 1950 to 50 per cent in 1983. New problems of this kind are now being solved as the participating group of countries expands.

2. The discriminative policies of the developed capitalist countries, especially the establishment of so-called coordinating committee for East-West Trade Policy in Paris, sought to introduce and implement a comprehensive boycott of the socialist countries. The present US administration with its mania of economic sanctions has tried to revive the dead spirits of the cold war in East-West trade relations. The developing countries of South Asia and other regions find themselves in a similar position when they now come across more and more strict protectionist barriers in the West and more severe restrictions on technology transfer. The answer of the CMEA countries to these discriminative practices of the developed capitalist countries was greater collective self-reliance. The present situation opens one more answer
for the developing countries in addition to collective self-reliance. That is the development of cooperation with socialist countries whose external economic policy is free of any discrimination and dictates and is based on equality and mutual benefits.

3. During the first stage of CMEA activities industrial cooperation between the member-countries was made more difficult by the low level of intra-regional trade inherited from the structure of pre-war East-West trade. In general, the western countries had exchanged industrial commodities for agricultural goods and other raw materials from East European countries. Major efforts were undertaken to change regional structure of foreign trade by raising the share of intra-regional trade within the CMEA. Simultaneously it led to a radical improvement of commodity composition of exports. For instance, the share of machinery and equipment in total exports rose during 1960-1980 from 13 to 47 per cent in Bulgaria, from 49 to 55 per cent in the GDR, from 28 to 45 per cent in Poland, from 17 to 30 per cent in Romania, etc.

4. The member countries of the CMEA faced and successfully solved a problem of combining creation of a balanced domestic industrial complex as a basis for self-reliant economic growth with ensuring maximal economic efficiency in all countries based on wide utilisation of benefits of participating in the international division of labour. A major solution to this problem was to link from the initial stages, industrialisation within single countries with planned international specialisation and cooperation in production.

5. Another problem which is also, in my view, quite relevant to South Asian conditions stems from regional distribution of natural raw-material deposits. In the CMEA, a special factor is the concentration of the most important raw material and energy resources in the Asian part of the USSR, which led to a considerable transport costs. One method to tackle this problem consisted in joint construction of “Friendship” oil-pipeline and recently gas pipeline from deposits in the USSR to East European countries as well as creation of joint “peace” power grid able to redistribute electric power between the member countries. Ano-
ther policy to minimise these problems aims at concentrating much of the production of energy-intensive goods in eastern regions of the USSR.

6. The industrialisation is closely connected with correlation between import-substitution (or domestic market-oriented development) and export orientation. Both strategies have enough proponents and opponents in South Asia. Meanwhile, the CMEA's experiences show that, given socialist socio-economic relations in the countries forming an integrating community, these two strategies should not be necessarily treated as alternatives. Export-orientation and import substitution can be combined from the early stages of industrialisation and international economic cooperation. However, this calls for a simultaneous comprehensive production planning in individual member countries and international cooperation in planning.

7. Impact of integration on economic development of individual countries is related to the type of integration pursued by a particular group of countries. The experience of the EEC and that of ASEAN clearly indicate that just a market integration based primarily on reduction of intra-regional trade tariffs usually favours the most developed countries of integrating community and discriminates against its less developed members. The CMEA countries chose another type of integration, that is production and development integration which involves conscious programming of the production of those industrial sectors which cannot be developed to an optimum size within national limits.

Taking these initial conditions into account, two principal conclusions were established at the very early stage of economic cooperation within the CMEA. Firstly international industrial cooperation linked with scientific and technical cooperation forms the focal point of economic relations between the member countries. It serves as a foundation for both a high level of intra-regional trade and foreign trade with third countries. Secondly, the economic cooperation between the member countries is governed primarily by planning rather than by spontaneous play of market forces.
The above mentioned conclusions to a great extent predetermined major elements of the mechanism of socialist economic integration.

A. The decisive role in this mechanism is played by cooperation in the field of planning. Voluntary co-ordination of national economic development plans is a new form of international economic relations. While analysing cooperation in planning the absence of any supranational authority competent to take decisions against consent of a member country must be emphasised. So centre exists with the power to enforce decisions where the views of partners involved diverge. Certainly the principle of consensus may lead to a suboptimal solution from the point of view of the community as a whole. In the first period of cooperation in planning the development of intra-community trade was its main subject. Since the early 1970s the primary focus of plans coordination is gradually shifting towards industrial cooperation as well as scientific and technical cooperation.

B. Medium-term bilateral trade agreements based on the coordination of five-year national economic plans constitute the next step in detailing cooperation programmes. Initially these agreements provided principally for specialisation in the field of finished manufactured goods. For instance, since the 1950s the GDR, Poland and the USSR have specialised in ship-building each concentrating on particular type of ships. In transport machinery the production of bases concentrated in Hungary, only Czechosolvakia produces trams. Bulgaria specialises in electric cars while the USSR produces most of heavy-duty trucks. At present long term agreements on international specilisation and cooperation in production increasingly regulate the volume and composition of trade.

C. Since the 1960s multilateral and bilateral agreements on specialisation and production cooperation have gained in importance as an instrument for organising industrial cooperation. Over 120 multilateral and 660 bilateral agreements on industrial cooperation cover approximately 25 per cent of total trade
within the CMEA and more than 40 per cent of intra-regional turnover in machinery and equipment. These agreements are concluded at ministerial level or the level of individual industrial combines and enterprises. An important role is also played by special agreements on research and development. However, the current trend is towards combining R & D and production cooperation within a particular agreement.

D. Finally, the CMEA member countries extensively cooperate in joint financing and construction of major industrial projects on production sharing basis. This form is particularly valuable in capital-intensive production of mineral raw materials.

Thus, the mechanism of socialist economic integration within the CMEA is characterised primarily by planning. This is its principal difference from the mechanism of capitalist economic integration (for instance, in the EEC) with its greater reliance on spontaneous market regulators and competition. The planned character of economic integration of the CMEA member countries, on the one hand, provides for the establishment of stable, long term industrial cooperation both within the CMEA and between the socialist and developing countries. On the other hand it permits proper taking into account the national interests of every member of the community, thus bypassing the sharp contradictions characteristic for the capitalist integration, for instance, within the EEC. One hardly needs to be reminded of the fate of British steel and mining industries or the fate of French petty farmers and fishermen in the Common Market.

In my view, the main principles of equal and mutually beneficial cooperation of the CMEA countries are quite relevant (certainly, not in minor details) for forging long-term constructive economic links between the South Asian countries. Moreover, it is yet to be seen how far these generally desirable principles may be implemented under conditions when the SARC countries go along the capitalist path of development.

Relatively low initial level and rates of economic growth in the South Asian countries, considerable economic disparities between
them, in particular, varying levels of diversification of their economic structure have a controversial impact on long term possibilities of regional economic cooperation.

Similarity of sectoral composition of economic activities based on domination of agriculture and traditional light industries to a certain extent restricts the complementarity of the South Asian economies. In primary raw materials and energy this complementarity relates mainly to exports of iron ore from India, natural gas from Bangladesh and hydel power from Nepal to other countries of the region. For some agricultural raw materials and products of their processing the South Asian countries enter the world markets as competitors. This certainly leaves much room for coordination of export policies in such commodities as tea, spices, cotton cloth and ready-made pieces, jute goods, shrimps, etc. But the low price elasticity of most traditional export items puts a constraint on probable benefits of such coordination. A major re-adjustment of existing industrial structure between various members of the SARC suggested by some scholars does not seem very feasible. That is why the most prospective direction of long term industrial cooperation may lie in planned specialisation and production cooperation in new technology-intensive sectors. The creation of joint technology-intensive superstructure over the existing industrial structure of South Asian countries may not (and probably will not) yield immediate tangible results but it will facilitate laying foundation for the new intra-regional division of labour in the long run.

While looking at the prospects of economic cooperation between the South Asian countries one should take into account not only internal imperatives and obstacles to such cooperation, it should also take into account the international environment in which the South Asian countries develop their economies. The hard fact is that by its rate of economic growth the South Asian region considerably lags behind other developing countries. The strengthening of integration tendencies in other developing countries, particularly in ASEAN and Gulf countries, the growing protectionism in the developed capitalist countries add new
dimension to the imperatives of intra-regional cooperation and joint struggle for restructuring international economic relations on just and equitable basis.

One major external obstacle to promoting extensive economic cooperation is represented, in my view, by the destabilisation policies of the US in South Asia and in particular the US deliberate attempts to prevent emergence of India as a major world power. This American attitude greatly results from the fact that, as Prof. R.A. Scalapino puts it, "for the United States, the South Asian subcontinent has never been an area of primary importance, whether the measurement be economic, political or strategic". (See R. A. Scalapino, "US-PRC Relations and South Asia" in this volume).