CHAPTER 1

THEORETICAL BASIS OF INDIA'S TRADE AND ECONOMIC COOPERATION WITH EAST EUROPE

There has been a tremendous increase in India's trade with East European countries. At present, it constitutes a significant proportion of our total trade.\(^1\) Besides the rate, pattern and the size of the trade, the mode of trade and payments has provoked many researchers to examine critically India's trade with East European countries. The present thesis is an attempt in the same direction.

There have been divergent views on the benefits of trade between the centrally planned economies of Eastern Europe and the developing economies. These originate from the classical and the neo-classical trade theories.\(^2\) But some of the current research in trade theory provides not only an explanation for the type of trade involving preferential agreements, but also incorporates the validity and

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1. By 1976, India's trade with East European countries constituted nearly 10 per cent of her total trade.

usefulness of such a trade.

Heckscher-Ohlin theorem equally supports the validity of such a trade and hence its usefulness in enhancing world welfare. But still stronger support is given to such a trade by the theory of discriminating monopoly. According to this theory, there are strong reasons for the discriminating monopolist to go in for bilateral trade arrangements. This germinates from the attempts to maximise the profits by bulk trading or to improve the overall terms of trade. The theory of discriminating monopoly as applied to bilateral trade is based on the following axioms.

The trade agreements result in discriminating transactions because (a) they specify the quantity of each individual commodity to be exchanged and allow non-commercial transactions in terms of inconvertible currency and (b) certain institutional arrangements like state trading are made to replace competitive market forces to settle the terms of trade agreements and to implement them.

Again trading arrangements imply discrimination since there is prohibition on resale of commodities. Developing countries have often complained about the resale or "switch trade" practiced by the socialist countries. These countries

have been guilty of this practice in an attempt to earn hard
currency to finance their imports of machinery and know-how
from the West European countries. Johnson gives a convincing
explanation for the possibilities of such trade by the East
European countries. According to him, "if the goods entering
in the bilateral trade agreement are later on bartered away
to the third markets, then bilateral trading appears as a
means of avoiding the explicit use of money but not as a
partitioning of the market into segregated sectors with widely
differing exchange rates and the economic wastes involved may
be only the rather trivial cost of shipping goods to their
final uses by more indirect routes and through the commeche
of more transactors than would be the case in a market
employing money."

Finally, such trading agreements will be more attractive
when the demand for a particular principal export item declines
at the given prices. Such trade agreements enable the countries
to meet the difficult balance of payments situations by selec-
tive price reductions (in favour of the partner) rather than
through general price reductions measures like devaluation.

One-Sided Dependence

One further case for India's trade with East Europe rests
on the one-sided dependence of this country on the developed

1. Johnson, H.G., "Notes on Some Theoretical Problems Faced
by the Foreign Trade of Centrally Planned Economies",
Brown, A. and Neuberger, E. (Eds.), International Trade And
Central Planning, University of California, 1965, pp. 130-165.
India's trade with East European countries has undoubtedly helped to reduce this dependence. Of late, India has been directing greater part of her attention in obtaining concessions in trade and aid from the developed countries and this is despite the developed countries' discrimination against less developed countries' exports.

This discrimination stems from four sources: first, increased protection of domestic agriculture in all the developed countries; secondly, development of discriminatory trading systems; thirdly, the extension of quantitative restrictions imposed on the imports of manufactures from the developing countries and finally, increased effective protection policy against the labour intensive exports of special interest to the developing countries, mainly low-cost manufactured consumer goods and processed raw material. 1

It is true that India's trade dependence on the developed world is of paramount importance and will continue to remain so for some time to come, hence it is perfectly in order for India or for that matter any other developing country, to make all possible efforts to obtain better terms of trade in their trade dealings with the developed world.

Unfortunately developing countries particularly India, have been facing highly unstable and dealing prices for their major primary exports as a result of the worsening of the terms of trade due to the blatantly

protectionist policies pursued by the developed countries in their trade dealings with the developing countries. This trend is more marked with respect to the prices of primary commodities exported from India e.g. in the prices of jute, tea and iron-ore. India has to pull herself with her own bootstrap and a lessening of her dependence on the developed world is, therefore, one of the chief objectives of India's trade and economic cooperation with East European countries. This one-sided dependence has added to the difficulties in other economic fronts arising out of the trade deficits. The magnitude of the deficits increased steeply in a number of countries.

Higher import prices contributed substantially to the deteriorating trade situation in most developing countries particularly in India. Of particular significance are the prices of oil, foodgrains and fertilizers. By global standards amount paid for oil imports may relatively be small. However, in view of their balance of payments difficulties, the increase in such payments posed a most serious threat. An intensification and diversion of trade among the East European countries is, however, a direct means of lessening this dependence in the short run. The potential complementarity in trade of these countries has now been recognised.¹

The Colonial Pattern

India attained freedom after World War II in 1947, but it continues to have the lowest living standards for her people. The colonial power which ruled India for centuries, shaped her economy to suit her own interests. The trade pattern of India consisted mainly of exports of primary agricultural and mineral products and imports of finished goods mostly for final consumption. The import of capital goods in the form of machinery was a later development in the wake of development efforts in this country.

Unfortunately, India still continues to be in the old tradition of colonial subordination as also a traditional pattern in respect of her commodity trade. "It is a fact that because of the colonial nature of our economies, a unique economic isolation has been forced on various parts of our continent. Our African currencies now pegged to the currencies of present or ex-metropolitan countries are exchanged with great deal of difficulty. Our transport and communication systems have been designed for political rather than economic convenience. Intra-African trade is hampered by exchange difficulties, transport bottlenecks and unfair tariffs ....all instituted by colonial rule.

These barriers are sources of tension and must be broken down immediately. What has been said about African states is equally true about India of two decades before.

In her own interest, India must come out of her traditional trade pattern. She has to struggle out of the straight-jacket of the international division of labour imposed on her by the imperialist powers during colonial rule as a result of political domination. For this it is necessary that India must some how augment her bargaining power and protect herself against possible exploitation by the advanced nations through trade and cooperation with East European countries.

In light of the fact that post world war II period has in fact seen that the capitalistic mode of production penetrating into most developing countries the backwardness in comparison to what has been achieved by the industrialised countries appears to falsify the pertinent theorem of classical economics. Free trade is deeply discredited as "rule of the game" because so the critics argue that it only serves to retain an international division of labour which inherently discriminates against less developed countries and which does little if any thing to mitigate their (economic and social) problems. We perceive the third world's profound dissatisfaction with the present international economic system in the form of claims for a fundamental change in

the parameters of that system.¹ The existing code of behaviour in international economic relations, based on the concept of trade liberalisation, is suited to the traditional foundations of highly developed industrialised countries, operating in conditions of free competition among individual private entrepreneurs. But those foundations are no longer valid in the contemporary world. They are clearly invalid for the developing countries with 'overvalued' rates of exchange and domestic prices deviated from the static equilibrium level; and in which government intervention plays a decisive role in economic decision-making. The existing "code of behaviour" depicts certain elements of the relationship between the developed and the developing countries that are irksome to the at latter.

The existing international economic order operates against the fundamental interests of the Third World and the attempts of the poor countries to transform the international order have been unsuccessful because the rich countries benefit from the existing system and refuse to make substantial concessions to ease the burdens of the poor. Unequal partnership, which characterises the relations of developing countries with the developed countries, is

generated through the world-wide operation of the market system and the unfettered working of that system benefits the rich at the expense of the poor. OPEC alone was able to change the ground rules of the world petroleum market and force the advanced countries to take the claims of the third world seriously. The other developing countries are not that fortunate to be able to face such fundamental changes in their relationship with the developed world. And the piecemeal reforms are just not adequate to bring forth any significant results. A new international economic order is indispensable for redressing the fundamental imbalance between the developed and the developing world. But in its absence, the developing countries must, of necessity, open the new front of healthy and growing relations with the East European countries.

Needs of Economic Development

The economic position of the developing countries including that of India relative to the developed world has worsened in the decades of 1960s and 70s. The high hopes of the two Development Decades have almost remained unfulfilled. Despite their good performance, the developed countries have been moving away from their Development Decade commitment. Some of them have shown reservations even to the idea of Overseas Development Assistance moved at the UNCTAD IV and UNCTAD V. The developed countries are still parting with only 0.34 per cent of their GDP against the United Nations target of 0.7 per cent.

There is a gross uneven distribution of the world's wealth between the developed and the developing countries. This inequality in the distribution of wealth is not so much either because of the varying natural endowments of the different parts of the earth's surface or because of the different level in the application of technological skills to win high material rewards but more so due to the use by certain people of their technological skills to subjugate and exploit less technologically-endowed peoples in other parts of the world.

How big is this gap? The World Bank Atlas 1970 depicts in a significant manner the misdistribution of the world's gross product in real and money terms. It shows a group of 32 countries in the world in which per capita GDP in 1976 exceeded 5,000 dollars a year. Between them these countries have 645 million inhabitants or 16 per cent of the world's population, while 60 per cent of the world's people live in 73 countries whose per capita income is below 1375 dollars — half of them in countries in which per capita GDP is less than 675 dollars. The poorest of all these countries, 20 in number, have about 6 per cent of the world's population and have GDP per capita in the range of 275-500 dollars. 18 per cent of people living in the developed world have command over 70 per cent of the world's resources, and an average citizen of the United States consumes over thirty times the material resources used by an average citizen of countries such as Bangladesh, Bhutan or Mali.1

The world today stands divided between the industrialised countries that export manufactured goods and others that export primary products. The unfortunate thing is that it has come to be accepted as an article of faith in the developed world that the developing countries have a comparative advantage in agriculture. The developing countries not only want to industrialise but also need structural changes in their pattern of trade. But the problem is that expansion of manufactured imports from developing countries now under way is occurring at a time when the industrialised countries are already facing unmanageable unemployment problems. As such, the developed countries are blatantly protectionist in matters of their agricultural products and selectively protectionist with regard to the import of manufactured goods. This new form of protectionism is disturbing to the developing countries. The developed countries have imposed not only the quantitative and qualitative restrictions but have also entered into bilaterally negotiated "voluntary agreements" totally contrary to the spirit and indeed the rules of GATT. The selectiveness and discriminatory character of these voluntary agreements is another undesirable feature, which can create trade diversion in favour of less competitive exporters in highly developed countries.¹

The developing countries have to sell cheap and buy dear. We wonder the terms of trade go against these countries. The prices of almost all the primary exports have been either stagnant over the years or even declining in some cases, while the prices of manufactured goods exported by the developed countries have shown a rise of 200 to 300 per cent. The unequal terms of trade lead to a simple transfer of income from the developing to the developed world.

To quote Lewis, "The factoral terms available to the tropics, on the other hand, offered the opportunity to stay poor— at any rate until such time as the labor reserves of India and China might be exhausted. A farmer in Nigeria might tend his peanuts with as much diligence and skill as a farmer in Australia tended his sheep, but the return would be very different. Just price, to use the medieval term, would have rewarded equal competence with equal earnings. But the market price gave the Nigerian for his peanuts a 700-lb.-of-grain per acre level of living and the Australian for his wool a 1600-lb.-per-acre level of living, not because of differences in competence, nor because of marginal utilities or productivities in peanuts or wool, but because these were the respective amounts of food that their respective cousins could produce on the family farms. This is the fundamental sense in which the leaders of the less developed world denounce the current international economic order as unjust, namely that factoral terms of trade are based on
the market forces of opportunity cost and not on the just principle of equal pay for equal work."¹

India's efforts at planned economic development resulted in a continuous increase in demand for imports both developmental and maintenance. This coupled with the fact that export earnings till the mid-sixties were stagnant resulted in an ever increasing adverse trend in its balance of payments. One reason for relative stagnation of Indian exports was that the demand for some of the leading Indian exports in the traditional markets of U.S.A., U.K., Canada and Japan showed a relative stagnancy.²

As the demand for some of the items was tending towards a saturation level and hence some new outlet was to be found which could sustain the export earnings. The East European countries provided such an outlet. Quite similarly these countries found it very difficult to get markets for their manufactured goods in Western countries. The developing countries provided an outlet to the exports of manufactures from the East European countries.³


There appears to be little scope of increasing the exports of India’s primary products to the western world. The consumer goods exported from India are also facing increasing resistance in the industrialised countries. Obviously India should pay greater attention to the steady growth of her mutual trade with the East European countries. India has yet to develop her production and industrial structure. Trade expansion should not be based on the existing capacity of the country that has severe limitations. It is only the deliberate creation of a new pattern of production that would result in a new pattern of trade as also the expanded trade.

The centrally planned economies are also in a position to coordinate their development plans taking into consideration the projections made by India. As such, India can look for coordinating her complementary activities. Complete plan harmonization, however, is an ideal, but it is possible to implement partial plan harmonization schemes. It is quite safe in the beginning to proceed on the commodity to commodity basis. The chances for the successful coordination of the development activities are greater, the earlier the start is made. Later on newly vested interests may be a serious hindrance to an optimum distribution of the productive capacity.


The needs of economic development are of primary concern in opening trade and economic cooperation with the East European countries. It becomes possible to ensure a sufficiently large market for the parallel development of new industries. In carrying out the process of industrialisation, the exploitation of the economies of scale unattainable in the small national market will assume importance. It will further reduce the vulnerability of the country and bring forth greater stability in the external market.  

Rationale of the East European Countries' Trade and Cooperation with India

Trade and economic cooperation between East European countries and India represent an intricate socio-economic category. A proper appraisal of such a trade and cooperation can be made only subject to a comprehensive consideration of the objectives and the aims of the partners in cooperation taken together. It is possible to outline here three main trends in economic, scientific and technical cooperation between the East European countries and India. There are two sets of objectives which seem to have prompted the relationship with the developing countries in general and India in particular those which tie in with their own economic interests and those which relate to the needs of the developing countries.

During the last 20 years, East European countries have shown considerable change in their attitude towards trade with the outside world. Earlier external trade had played an insignificant role but of late it has become an important factor in their strategy for growth and also a significant instrument in shaping the domestic economy. The expansion of economic relations with the developing countries, therefore, should be seen in this broader context. There are also very significant economic reasons of the East European countries' trade with India. It offers the East European countries an opportunity to import goods which are either too expensive to produce at home or cannot be produced at all. Such imports are then financed through exports so that there is no need to part with scarce foreign exchange. The trade with India would not have expanded to such an extent in the absence of special payments arrangements which eliminated the use of convertible currencies in trade.

The other reasoning though not very strong one that has been put forward relates to the needs of the developing countries. While pursuing their own economic interest, the East European countries also want to establish stable economic as well as political relations with the nations of the third world. The following passage sums up this objective:

"...the world socialist system actively facilitates the consolidation of the principles of sovereignty and equality, mutual benefit and friendship among nations in international economic relations. Expansion of economic cooperation of socialist states with Asian, African and
Latin American countries, based on these principles, is an important factor promoting the independent economic and political progress of young national states. 1

Besides, the East European countries tend to stress the equality of trading partners and express the desire to develop a new type of division of labour. The object is to remove backwardness and assist in the development of a dynamic, modern sector in India and other developing countries.

The reality, however, is harder than the ideal. East European countries starved of hard currency, of necessity, have to import from India and other developing countries especially when it gives them the outlet for expert. East European countries have then sold machinery, transport equipment and other manufactured goods to India and other developing countries in exchange for primary products and industrial raw materials.

Yet another trend is assistance in eradicating backwardness and building up a dynamic modern economy in India, accelerating progressive social and economic changes and raising the standards of living of the masses; and to meet through greater trade and industrial cooperation the needs of the East European countries for those goods which are cheaper to import than to produce locally or whose production is inexpedient for other reason.

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Nevertheless it is not possible to apply a universal criterion to evaluate the effectiveness of trade and economic cooperation, what is needed is a system of interrelated indicators, which could ensure the adoption of optimal decisions by each partner in the course of cooperation.

In a less developed country like India where the main task is industrial development, industrialisation and the building up of a modern infrastructure assumes greater importance. Here special significance attaches to evaluating economic decisions not only on a microeconomic scale i.e., at the level of individual projects but also on the macroeconomic national economic scale. In a number of cases, macroeconomic considerations assume supreme importance, particularly in India where national economic plan is elaborated in detail. Realisation of this thesis is important for determining properly the objectives of cooperation and evaluating their effectiveness. The concept of national economic benefit includes profitability at the microeconomic level only as one of the important stages in determining the end effect of economic undertakings; this stage is supplemented by a wide range of social and economic evaluations and prognozes and also economic measurements in physical terms. The implementation of the national plan in India in conjunction with private initiative at the microeconomic level creates the possibility of merging the macro and the microeconomic interests through the rational use of all the resources of the society with a view to stimulating economic growth.
The emergence of new phenomena in the economic relations between East European countries and India lends great importance to the problem of determining the effectiveness of cooperation connected with the building up of expert enterprises whose output in full or in part goes to the East European countries. These countries, in deciding upon the sum of the credit or the volume of technical services take into consideration the following criteria:

(a) The cost of the project to be built in India;
(b) The relationship between the internal expenditure and the credits made available to ensure maximum reduction of the building span, the earliest commissioning at full capacity and the repayments of credit;
(c) The investment needed for domestic production of goods which otherwise might be imported from India as repayment in kind;
(d) The outlays needed to produce equivalent exports in exchange for goods in question which might be obtained without a credit arrangement.

A comparison of the entire credit expenditure with the eventual outlays for organizing production illustrates the magnitude of the economic effect resulting from cooperation.

Therefore, we may consider as economically reasonable such terms of credit granted to expand the production of goods for export to an East European country as meet the requirements recorded in the following general way:

\[ T \sum_{t=0}^{T-t} \text{Ex} (1+1 \text{ of}) \leq \sum_{t=0}^{T-t} \text{In} (1+1 \text{ of}) \]

Where \( \text{Ex} \) = Expenditure (current and capital taking into account the time factor) for the production and delivery of goods on credit;

\( t \) = Moment of the delivery of goods within the framework of the credit agreement;

\( T \) = Moment of the complete repayment of credit;

\( \text{of} \) = Normative coefficient of efficiency of capital investments in the East European country concerned;

\( \text{In} \) = Expenditure for the home production of goods analogous to the imported ones on a scale equal to imports.

If India can export, on the usual terms of trade, part of the output of an enterprise in receipt of a credit, in addition to the repayment deliveries, this is taken into

1. Ibid., p. 32.
account as an additional effect resulting from the expert and import operations. In a number of cases this may extend the scale of cooperation.

Naturally, India makes its calculations from its own point of view. The emergence of a similar result from both calculations may serve as a sufficient basis for implementing the examined variant because it ensures further division of labour on the basis of mutual benefit.

Appraisal of the economic results of variants of cooperation should, as far as possible, take into account not only the direct saving of the national labour force in the case of each partner but also their indirect long range impact on the national economy (changes of pattern, reduction or increase of capital output ratio in the given or related sectors, more intensive specialisation and so on) which is ultimately revealed in the productivity growth.

The existing practices show that when India decides to arrange cooperation with an East European country, it is usually guided by the results of comparing the outlays for the importing of goods received on credit or through foreign trade channels with the cost of the national production of these goods on a corresponding scale. In the non-socialist world the degree of deviation of the rate of interest on the capital employed from the average rate of profit serves as a criterion for judging different variants of economic
decisions. But this is not the sole criterion in the case of India.

In India, the criterion of profitability at enterprise level is far from being a complete measurement of the participation of separate enterprises in the growth of national income. The other considerations being the rise in the productivity of social labour, saving of foreign exchange by discontinuing or reducing imports, an increase in employment, rise in the skill of personnel, development of allied branches, growth of saving and so on. This type of indirect effect produced by the commissioning of an enterprise is a form of assessing the benefits from industrial investments which cannot in practice be accounted for at the enterprise which initiates this chain reaction. It seems that the planning mechanism designed to establish the main national economic priorities ensures the best possibilities for the preliminary reckoning and subsequent evaluation of the total economic effect resulting from any given economic decision.¹

¹ Theoretically a comparison of the outlays for imported goods and national production is not particularly complicated but in practice it runs up against serious difficulties. In the case of developing countries, most comparisons of expenditure for local production with the importing of manufactured goods come out in favour of imports. In these conditions, to proceed solely from a comparison of the expenditure would mean agreeing with those who advocate preserving the present economic pattern and with the arguments about the inadvisability of developing basic industries, industrialization, etc.
The expenditure for imported goods and import substitutes be compared with a view to the possibilities of utilizing to the maximum in national production the favourable natural and economic resources available in the country and also the achievements of advanced countries in the various sectors. For example, a country produces cotton and fabrics but in insufficient quantities to satisfy home requirements. The question arises whether to expand the sown area and capacity in the textile industry or to import cotton fibre and fabrics and develop other export crops. A comparison of costs for national production and imports is in favour of the latter because labour productivity in cotton growing is low, owing to the absence of machinery and mineral fertilizers and insufficient irrigation; textile mills operate on obsolete equipment. At the same time calculations show that the building of a hydro-electric power complex and factories for the production of mineral fertilizers and farm machinery will create the possibility of developing large tracts of land under cotton. Moreover the investments will be recouped comparatively swiftly. The yield and labour productivity will rise swiftly substantially and national cotton and fabrics will become cheaper than imports. Furthermore, an increase in the sown area and growth in the capacity of the textile industry will make it possible to produce a certain quantity of cotton and fabrics for export. The credits could be obtained from countries interested in cotton and textile imports. If a country is to be guided
by a comparison of expenditures based only on current circumstances it might accept the import variant, which would yield a certain short-run saving but would seriously harm the national economy and its long-range interests.

Take another case of a country that has iron-ore deposit which it does not work because it has no iron and steel industry of its own to use this ore and it is unable to compete in the foreign markets with the ores from other countries owing to high transportation costs. On the other hand, national steel production is unprofitable because the ore deposits are not worked and there is no sense in importing ore; it is cheaper to import metal. This vicious circle can be broken only if a steel plant using local ore is built; the development of one branch would entail the development of another and the formerly idle resources would be drawn into economic circulation. The development of the steel industry will also promote the expansion of production in related branches and reduce costs and prices at enterprises supplying the steel industry, since they will enjoy the broader market for their output; as a consequence of all this, the profitability of steel production as such would rise in future.¹

The other considerations that a developing country like India would take into account in evaluating the effectiveness of industrial cooperation with the East European country are: the possibility of selling goods in the East European markets on a stable basis and receiving in exchange an assortment of imported goods needed for industrial development and industrialization; an increase in the scale of economic relations; measures to promote mutual trade; scientific and technical assistance and cooperation in personnel training, transfer of know-how, etc. Not all these factors can be quantitatively expressed, but there is no doubt that they influence the effectiveness of cooperation considerably and therefore, should be taken into account.

Thus, a variant of cooperation with a developing country aimed at the organization of production which full or in part is intended for export to an East European country, is regarded as satisfactory if the calculation of economic effectiveness demonstrates its advantages for the East European country and shows a positive current and long-range effects on the national economy of a developing country.

It seems to us that such an approach ensures the observance of the principles of mutual benefit and the equality of both sides, and it is in line with the spirit of the UNCTAD recommendations regarding assistance to developing countries in the establishment of new export industries.  

1. Ibid., p.33.
Future Prospects

East European countries are undergoing substantial economic and management reforms. These changes will undoubtedly influence economic cooperation with the developing world. One of their important tasks is to raise the efficiency of foreign trade, achieve an optimal composition of exports and imports and enhance the positive influence exerted by external ties on the economy. In this connexion, the question arises about the possible effects of the implementation of these reforms on economic cooperation with developing countries. The opinion is sometimes expressed that a more commercial approach to foreign trade in the changing world markets may give rise in some cases to a desire to curtail or even renounce existing economic relations. To us, however, these apprehensions seem groundless. Experience shows that the implementation of economic reforms is generally accompanied by an expansion in the scale of economic relations with developing countries.

Here two groups of factors operate: first the existing relations between the East European countries and the developing countries, see on the whole mutually advantageous and therefore their expansion observes the spirit of economic reforms; second, the planned socialist economies, in determining the effect of external ties proceed both from the current and long term interests of the partners. A combination of these two factors creates prerequisites
for further broadening the ties and extending the division of labour between the socialist and the developing countries in their mutual interest.

When we look into the existing structure of reciprocal trade, a further rise in the traditional exports of developing countries to East European countries may be expected in the very near future. Even if we allow for the structural disproportion which appears in the economies of East European countries and possibly give rise to a certain growth in imports above the norm, these countries can present the demand for raw materials and semi-manufactures at a considerably faster pace than the expected growth rate of production and exports of these goods by developing countries. The stable high growth rate of the East European countries furnish a reliable basis for the long term increase in purchases of traditional exports from developing countries provided favourable conditions are created (specifically a corresponding rise in imports from the socialist countries). Faced with a relative decrease in the demand for their goods on world markets, developing countries are interested in arranging stable ties with socialist countries. A further factor which helps to facilitate such ties is that the planned economy of socialist countries is also interested in long-term a stable ties and in the exchange of the output of the engineering industry for raw and other materials semi-manufactures and some goods of the manufacturing
industry of the developing countries.

It appears that over the next ten to fifteen years, cooperation between the East European Countries and the developing countries has the best prospects on an inter-sectoral basis; East European countries will supply the goods for the national industry and the transport and power facilities of the developing countries, receiving in exchange raw materials (for example, oil, gas, cotton, iron ore, non-ferrous metals and their ores), tropical foods and the goods of the fast growing manufacturing industries (textiles, jute articles, footwear, some electrical machinery, textile machinery, metal cutting machine tools, railway wagons, household appliances, etc.). This range of goods is cited because there is reciprocal benefit in exchanging them an increase in their production and consumption is envisaged in the national development plans of the developing countries and in the long range plans of the East European countries. Consequently strong material stimuli promote cooperation in the above indicated sectors between both sides. Thus the impression is created that in this period primarily horizontal division of labour will be developed with the simultaneous creation of prerequisites for subsequent transition to a large scale vertical division of labour.

Big reciprocal deliveries of goods on a long term basis has made it necessary to coordinate foreign trade more closely with national economic development plans of both the developing countries and the socialist countries.
The scale of these problems is such that their solution will be possible only at the national economic level, through the coordination of several aspects of the economic activity of the partners, exploration of a national solution of the transport problem and gradual introduction, as the corresponding conditions mature, of multilateral settlements (alongside bilateral settlements) with the object of achieving an optimal structure for the reciprocal flow of goods and a growth of their volume. It seems to us that the experience of coordinating national economic plans by the East European countries may be useful in applying practical measures to expand trade and extend the division of labour between the socialist and the developing countries.

In the future too, the extension and strengthening of cooperation with the socialist countries will apparently promote rational specialisation in developing countries for the production of goods, including those which now make up the dominant crops or raw materials. This proposition in no way runs counter to the task of diversifying the economy. The possibility of guaranteeing the sale of specialised goods on the socialist market, quoting prices over a fairly long period, deliveries of equipment and materials for the national industry, economic assistance, and scientific and technical cooperation of the socialist countries—all these factors make it possible to utilise specialization and the new division of labour as one means for ending

1 Ibid., p. 34
the concentration on one crop or industry and shaping a modern balanced economy, relying on favourable natural resources, the accumulated know-how and manpower resources and securing a high level of employment of the population. Given the appropriate organization of foreign trade ties, East European countries can be helpful in developing a national economy with a specialized assortment of goods, closely linked with the world economy. In the course of such cooperation both sides are able to derive the utmost benefit. Practice confirms the possibility of development along this path. It is in this way that national economic complexes are being developed in many countries including India. But a more fruitful shape can only be given if internal effort and resources are mobilized to the utmost in conjunction with foreign assistance likewise aimed at accomplishing these tasks.

The one-sidedness of an economy is particularly evident in agriculture. Concentration on one or two crops upsets the rational structure of agriculture, reduces the fertility of the soil and makes the harvest constantly dependent on weather conditions, increases the danger of tropical plant diseases and places the producers under constant pressures of competitive substitutes. The sale of food and raw materials of plant origin on foreign markets involves considerable difficulties: the long-range unfavourable trend in the terms of trade of agricultural products, cyclical change in prices, the agricultural protectionism of developed countries and the prevalence of the buyer's market.
The national economic development plans of the developing countries provide for substantial investments in agriculture which results in a bigger demand for agricultural machinery, fertilizers and equipment for irrigation and reclamation. East European countries are taking the initiative in delivering various farm machines and also assemblies and units. On the basis of agreements concluded, assistance is given in organizing the manufacture of such assemblies and units and the building of assembly plants. Complete industrial complexes for the manufacture of the necessary machines are also being built with the assistance of the these countries in larger and technically more developed countries chiefly India.

Definite possibilities for expanding reciprocal trade in agricultural commodities, including food could arise as a result of studying the prospects and tendencies of agricultural specialization in the socialist and the developing countries with an eye to carrying out joint measures to the mutual benefit of both parties.

The accumulated experience of trade, economic, scientific and technical relations between the socialist and developing countries makes it possible to draw the conclusion that the forms and methods of cooperation and the existing division of labour, which have been tested in practice, have considerable prospects and their possibilities are far from exhausted.
In the next few years they could, and evidently will, be intensively developed on a mutually advantageous basis. But it is evident that the further spread of cooperation between these groups of countries will be increasingly determined by new phenomena in their reciprocal economic ties and the further introduction of the new type of economic relations between countries with different development level.