CHAPTER 9

SUMMARY AND CONCLUSIONS

9.1 Summary and Conclusions of Chapter 1

The theme of the present study is, the foreign trade of the socialist countries, particularly of those socialist countries of Eastern Europe, which today form the Council for Mutual Economic Assistance (CMEA).

The CMEA bloc is an important world trading bloc. It accounts for nearly 40 per cent of the world's production of manufactured goods* (1.1), but its participation in the world trade is no more than 10 per cent (Table 1.1). The intra-CMEA trade is, however, very significant (1.1).

The CMEA was formed by the socialist countries in 1949 and is the part of the world movement towards economic integration, which has been a notable characteristic of the post Second World War period (1.1.1 and 1.1.2).

After the formation of the CMEA, there were rapid changes in the economic structure of the CMEA countries (1.2.4). By forming a close-knit bloc, the CMEA countries achieved spectacular successes in the national income

* In the case of national income, industrial output and foreign trade, many problems arise, where value judgements have to be made, even if the countries are adopting the same foreign trade system. "In some social studies, the socialist bloc is credited with 40 per cent of world's industrial output, in some Western sources the proportion conceded is only 30 per cent (Wilczynski, 1982, p.206).
and industrial output (Table 1.4). It is reflected in the changes in the employment structure (Table 1.5) and, in the foreign trade of the CMEA countries (1.3). The period 1950-53 marked a quickening of the pace of intra-CMEA trade (1.3.2).

But, in the recent past, average annual growth rates of gross domestic product (GDP) average annual growth rates of exports (Table 1.9) and imports show decelerating tendency (Table 1.10). As the CMEA countries found it difficult to achieve planned economic growth rates, they have scaled down the planned growth rates, but, even the scaled down growth rates are not being maintained (Table 1.11). The process of economic integration in the CMEA countries now appears to have grown weaker as the CMEA bloc has been moving from its 'extensive growth phase' into an intensive growth phase (1.3.2).

So, an attempt is made here to find out why the initial growth rates are not being maintained and why the process of socialist economic integration could not be achieved with much success. In this connection, the following questions arise:

1) Are the characteristic features of the centrally planned CMEA countries different from the capitalist bloc countries? If they differ, how do they affect the foreign trade behaviour of the socialist countries?
ii) What is socio-economic integration and its organizational framework as embodied in the formation of the CMEA bloc countries?

iii) What role do these countries play in the development of the world trade as well as in their mutual trade? What is the changing composition of the foreign trade of the CMEA countries?

iv) What is the nature of the trade relations of the CMEA countries with the West?

v) What led to the sudden interest in the CMEA-LEC trade and aid in mid-and-late 1950s?

vi) In what respect are CMEA aid and repayment terms different from Western terms?

vii) Are the slackened growth rates, due to the specific policies, they have been following?

viii) What problems do CMEA countries face in the expansion of their foreign trade?

ix) What efforts have the CMEA countries made to tackle the emerging problems in the field of exchange rate, convertibility, common currency, intra-CMEA trade pricing, etc., and with what success?

x) Are these problems systemic such as could be removed only by revamping the whole planning
apparatus they have built up over the years?

Or,

Will the current wave of partial reforms do the job?

Or,

Is it that the reforms will have to be of a very radical nature striking at the very root of centralized planning?

It becomes imperative to study the characteristic features of the centrally planned socialist countries, in order to understand the nature and problems of the foreign trade system of the socialist countries. This we examined in Chapter 2.

9.2 Summary and Conclusions of Chapter 2

Central economic planning with direct controls was the most important distinguishing characteristic feature of the socialist countries (2.1.2). There was social ownership of the means of production (2.1.1) and the foreign trade monopoly was the distinctive characteristic feature of the socialist countries and even in the reform period, it has been maintained albeit in a modified form (2.1.3). Planning through 'material balances' was the technique used for allocation of resources (2.1.5).
It has been said that the socialist countries have adopted the policy of autarky (2.1.4), but, the recent data contradict the hypothesis of autarky (Table 2.1). Our finding is that having recognized the role of foreign trade in their growth strategy, the socialist countries, have been relentlessly pursuing their objective of trade expansion (2.1.4.2).

Central planning by direct controls, with its lack of free markets, inevitably involves, the development of what are often termed "irrational prices" which do not reflect scarcity conditions in the CMEA bloc (2.1.9). The currencies of the CMEA bloc are inconvertible and the countries of the CMEA bloc operate a disequilibrium exchange rate system (2.1.9). This leads us to conclude that with all these characteristic features of the central economic planning, it is inevitable that the intra-CMEA trade takes the form of bilateral trade (2.1.10).

Thus, in the second chapter, we attempted a survey of the characteristic features of the socialist countries. Central planning with direct controls is the main form of organisation of those countries and all the above-mentioned characteristics necessarily stem from central planning. In fact, it is impossible to think of the foreign trade of the socialist countries today without centralized planning and its related features.
In the subsequent chapters we tried to unravel in greater detail, these inter-relationships and their consequences for the future of the socialist countries' foreign trade.

9.3 Summary and Conclusions of Chapter 3

Chapter 3 contained a discussion of economic integration and the organizational structure of the CMEA.

International economic integration is one of the characteristic tendencies observed in the contemporary world economy (3.1). For instance, in the West, the East European Community (EEC), and, in the East, the Council for Mutual Economic Assistance (CMEA), are the two main types of international economic integration. In both the types mentioned the similarities are that the purposes of integration tend to be similar (3.1). But both of them differ in adopting instruments and mechanism of economic integration. In the Western integration process, the market plays an important role, while in the East the coordination of national economic plans provide the most important instrument of integration. The development of CMEA is often described briefly as a transition from "cooperation to integration" (3.2.1). The method of socialist economic integration and "Comprehensive Programme" of 1971 have given the real contents to the evolution of the socialist economic integration (3.2.2). It has been
noted that the western economies have managed to integrate their economies to a greater extent than the centrally planned economies of the East (3.1). Our conclusion is that there are several areas in which far-reaching reforms need to be carried out if CMEA integration is to make headway. The areas in which reforms are necessary are (3.4):

1) currency convertibility,
2) bilateralism,
3) foreign trade pricing,
4) exchange rates,
5) common currency
6) foreign trade system.

These areas are discussed in detail in the subsequent chapters.

9.4 Summary and Conclusions Of Chapter 4

Chapter 4 contained the analysis of the intra-CMEA trade. The focus of our study was essentially on the trade among the socialist countries of Eastern Europe, namely, Bulgaria, Czechoslovakia, GDR, Hungary, Poland, Romania and the USSR (4.1).

In the period following the Second World War, we noted that the restriction on trade with Western Countries, together with Soviet policies toward economic integration of the area, have increased greatly the economic interdependence of the CMEA bloc members and
is reflected in the data (Table 4.2).

Among the CMEA members, the USSR was the only country richly endowed with fuel, mineral and forest resources. Due to the intensive industrialization, the smaller Eastern European countries, which were having the scarcity of raw materials (hard goods) were fully dependent on the USSR. The data show that the CMEA countries' trade with the USSR was greater than their trade with each other (Tables 4.6 and 4.8).

We can clearly identify two distinct stages of the development of the intra-CMEA trade. Upto 1954, there was gradual diversion of trade from the West into intra-CMEA channels. So that, in 1953, 68 per cent of their foreign trade was within the group (Table 4.2). Since that time, its proportion to total trade has tended to decline well below 60 per cent. It has been noted that the systemic factors such as foreign trade monopoly, irrational prices, etc., are responsible for the reduction in intra-CMEA trade. These factors are examined in detail in Chapters 7 and 8.

It has been noted that:

1) the intra-CMEA trade has increased at the expense of East-West trade. It was a case of trade diversion and not of trade creation (4.9), and
ii) the intra-bloc trade is a poor substitute for the East-West trade (4.9.3).

9.5 Summary and Conclusions of Chapter 5

Chapter 5 looks into the East-West trade and the East-LDC trade. Since 1955, the trade of the CMEA countries with the West and with the less developed countries (LDCs) has been increasing at the expense of intra-CMEA trade (Table 5.1). This signifies that the CMEA countries do not follow an "inward looking growth strategy" and that they have recognized, the importance of foreign trade as a growth determining influence. It is worth noting that the CMEA countries have now clearly entered into an 'intensive growth phase' as distinguished from the 'extensive growth phase' of the early post-war years. The growth rates of the export trade of the CMEA countries are the highest followed by those with the developed market economy countries (Table 5.1).

Trade with the West has been conducted entirely in convertible currencies (CCs) and thus multilateral trade with the West was possible. The possessor of western currencies has an extremely wide range of products to choose from the West. The attraction of high quality and of machinery and equipment and manufactured goods were some of the important economic factors motivating the Eastern countries to open the trade channels with the West in the 1950's (5.3).
The East-LDC trade on the other hand is on the basis of long-term trade agreements which makes for assured supply for the partner countries. The trade imbalances are settled in export and imports of mutually agreed products or in inconvertible currency (5.7.2). Thus, it has been noted that the remarkable growth in economic cooperation between the socialist countries and the less developed countries has taken place largely in a framework of bilateral agreements (5.7.1).

It became clear that technology is extremely important for the intensive growth of the East and thus the East was forced to recognize that in many spheres it lagged well behind the advanced countries of the West and modern technology would play an important part in the future development.

The Eastern countries were ill-adapted to innovating, and developing technology under central planning. Hence, they turned towards the West for the import of technology but the financial constraints and the problems like the denial of most favoured nations treatment to the East from the West clogged the East West trade channels (5.4).

On the other hand, the Eastern bloc exports manufactured goods to LDCs and in return accepts raw materials from the LDCs. Thus it is understandable that the trade between the "East" and the "LDCs" is based on their interbranch complementarity (5.7.3). But the interbranch
complementarity is gradually exhausting its potential in the generation of trade. The utilization of the existing inter-branch division of labour and mutual adjustment to the emerging inter-branch complementarity will determine the future dynamics of trade (5.7.4).

9.6 Summary and Conclusions of Chapter 6

In Chapters 6 and 7 we looked into the major problems of the socialist foreign trade system. In Chapter 6 the rigid bilateralism is shown as a serious handicap in the growth of the intra-CMEA trade.

Immediately after the war, bilateralism prevailed both in the western capitalist countries (6.3) and in the socialist countries (6.5). But the capitalist countries escaped from the stranglehold of bilateralism through the formation of the European Payments Union (EPU) (6.4). The CMEA countries, however, could not get rid of bilateralism, as it has been a part of the socialist system of planned foreign trade (6.5.1).

As the socialist countries started progressing towards socialist economic integration, by means of production specialization, cooperation and plan coordination, they experienced the trade-reducing effects of rigid bilateralism. They also realised the need for multilateralization of trade (6.11).
We also examined the attempts of the CMEA countries to multilateralise their mutual trade. The CMEA countries started their efforts towards multilateralization of trade, experimenting with a few trilateral trade agreements (6.12). For multilateral clearing, the attempts made were:

i) the creation of the central clearing office in the State Bank of the Soviet Union, in 1957 (6.13).

ii) the creation of the International Bank for Economic Cooperation (IBEC) (6.15), and

iii) the introduction of the common currency of the CMEA, the Transferable Ruble (TR) (6.15.1).

But inspite of such efforts made by the CMEA countries, the extent of multilateralism within the CMEA is very low. Hardly 2 to 3 per cent of the total trade turnover was multilateralized (Table 6.3).

9.7 Summary and Conclusions of Chapter 7

Chapter 7 deals with some other but more important problems of the socialist foreign trade system such as:

i) Pricing (7.1),

ii) Exchange rate (7.2),

iii) Inconvertibility of currency and commodity (7.3),

iv) International financial institutions (7.4).

Pricing (7.4): It is noted that the socialist foreign trade prices are irrational, that is, they do not reflect the
scarcity conditions and thus cannot provide a basis for the maximization of gains from international trade, based on comparative advantage.

When the socialist countries found themselves without a price system of their own on which to base intra-CMEA trade, they began to use world market prices (WMPs) in the late 1940s (7.1.4.2). But, the world market prices were an uneasy compromise (7.1.4.3). The socialist planners were aware that they will have to evolve a socialist world market price. The study of the evolution of the intra-CMEA foreign trade price system makes it clear that, in 1949-50, with few exceptions, current world market prices were directly used, but recently for the period 1976-90 they have decided to use average of world prices for the five preceding years. It implies constant shifting of the price base which remains always "cleared" average world price for five year periods (7.1.5.3).

The world market prices reflect the capitalists world scarcity conditions. The socialist countries are trying to have the prices reflecting the scarcity conditions prevailing within their own area. Thus, to develop their "own" independent pricing system, based on socialist world market conditions has been one of the important goals of the CMEA (7.1.5.1). The quest for an independent price base (IPB) is going on.
There, it has been noted that, the current socialist foreign trade price system of the CMEA, does not make for multilateralization of the intra-CMEA trade which has been one of the cherished objective of the CMEA countries (7.1.5.5).

Exchange Rate (3.2) : The exchange rate in the CMEA bloc are not indicative of the purchasing power of the CMEA bloc currencies and thus they neither directly determine the profitability of foreign trade nor do they influence the size and direction of CMEA bloc trade. The size of CMEA bloc foreign trade is determined on the planned basis, in which, exchange rates are of little relevance (7.2.3).

The CMEA countries have been making attempts to establish rational exchange rate system. But, the systemic factors of the CMEA economies do not permit the establishment of an equilibrium exchange rate system (7.2.4).

Far-reaching reforms of the exchange rate system require the use of market instruments which have not been, so far, popular with the socialist countries.

The Problem of Convertibility

The lack of convertibility of the CMEA currencies is an important hurdle which has been holding up the rapid progress towards multilateralization of the CMEA trade (7.3). Commodity inconvertibility is a more serious problem that
the CMEA countries are facing. Attempts toward convertibility have been made but whether reasonably complete convertibility is compatible with the central planning of CMEA bloc is open to doubt (7.3.1).

International Financial Institutions

As the socialist countries are moving from their 'extensive growth phase' into the 'intensive growth phase' a more flexible use of financial instrument has become an urgent need.

To foster multilateralism the International Bank for Economic Cooperation (IBEC) was created in 1963 by an Agreement on Multilateral Payments in Transferable Rubles (TRs) (7.4.1.1).

IBEC started extending credits for foreign trade and other transactions to member countries. IBEC has provided short-term credits to accommodate balances.

It has been noted that the IBEC has not at all succeeded even in introducing the partial substitution of multilateralism for bilateralism (7.4.1.5).

The Transferable Ruble (TR), the credit currency issued by the IBEC, is the collective currency of the socialist bloc. Its unit represents 0.987412 gm. of pure gold and a definite purchasing power in mutual trade and payments of CMEA countries. It is called upon to fulfil the basic functions of international money; that
measure of value, international means of payment and accumulation. But, the lack of convertibility of the TR either into gold or convertible currencies does not encourage the CMEA countries to accumulate TRs. Thus, the lack of convertibility of the CMEA currencies or the TR is an important obstacle in the progress of multilateralization of the intra-CMEA trade (7.4.2.2).

The CMEA introduced in 1970 another international financial institution, International Investment Bank (IIB), whose purpose was to grant medium and long-term credits for projects of common interest in CMEA countries, that is, either for joint projects or for projects of common interest of several member countries (7.4.3).

Our conclusion is that, as a credit instrument the TR has not achieved the purpose set for it. Removal of obsolete bilateralism and the convertibility of the TR were the aims of the CMEA member countries, and towards this end several proposals have been made. But the fact remains that the major part of the credit transaction in the IBEC and IIB are carried out in convertible currencies (CCs), (7.4.5).

9.8 Summary and Conclusions of Chapter 8

Chapter 8 delves into the reforms of the foreign trade system of the socialist countries. Eversince these countries recognised the growth-promoting role of the foreign trade sector they have gradually but unmistakably
moved away from the autarkic policies. They had built up and relentlessly pursued an elaborate foreign trade model in which foreign trade monopoly of the state was the chief element (8.1.2). It was a hierarchical organisation with the ministry of foreign trade at the top and producing organizations at the bottom (Chart 8.1). In this highly centralized model decisions regarding what to produce, how much to produce, where to sale and by whom and at what prices were taken by the ministry of foreign trade (MFT). The producing enterprises (PES) received instructions from above and their sole aim was to fulfil targets given to them. It was no part of their activity to seek and cultivate the export markets. That was supposed to be the job of the foreign trade enterprises (PTEs). In other words, the producing enterprises did not have to bother about the profitability of their operations since losses incurred and the profits made in the foreign trade operations went into the state budget. Naturally the producing enterprises did not have any incentive to promote exports or to reduce costs. The foreign trade system lacked the flexibility to meet day to day opportunities and seldom encouraged an expansion in the volume of foreign trade (8.1.3).

With the recognition of the growth-promoting role of the foreign trade sector, the CMEA countries started reforming their foreign trade model. The essence of the reform has been the decentralization of the decision-making
power. The producing enterprises are now given more autonomy in respect of the production decisions and direct contacts with the foreign buyers. Their performance will now be judged in terms of profitability of their operations (8.3).

In other words, the importance of the market-type instruments seems to have been clearly recognized. Some socialist countries outside the CMEA like Yugoslavia have been making greater use of market instruments in their planning as well as foreign trade systems (8.1.6.2).

Some CMEA countries like Hungary have been making relatively rapid strides on the pattern of the Yugoslav model while countries like the USSR and the GDR are moving in that direction cautiously and haltingly.

9.9 Overall Conclusion

The conclusion, however, emerges unmistakable: the socialist countries have definitely been moving away from their traditional, highly centralized, model (Chart 8.1). How far and how rapidly they will introduce decentralization in their planning system in general and the foreign trade system in particular cannot be said with certainty. But they are moving in a direction in which efficiency, profitability and decentralization will be the important considerations. In conclusion it could be said that, just as the Soviet model provided the blueprint to which
Eastern European countries had to adapt themselves from 1945 onwards, so the Hungarian reforms may indicate the guiding lines along which changes may come in the future. One thing can be said that the socialist countries will not sacrifice the gains from economic planning of which they have a long and rich experience. They may not, however, be averse to making a greater use of the market type instruments. In other words, their bold experimentation will, in all probability, be in the direction of a 'planned market economy' or a 'socialist market economy' - a type which is slowly evolving in the socialist countries such as Hungary.