CHAPTER II

THE POTENTIAL ROLE OF THE SOVIET UNION AND OTHER EAST EUROPEAN COUNTRIES IN THE GROWTH PROBLEM OF THE DEVELOPING COUNTRIES WITH SPECIAL REFERENCE TO INDIA
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Up to the First World War, trade has some notable effects upon the growth of the developing countries by promoting the development of their primary goods in which they enjoyed comparative advantages. The foreign exchange receipts were enough to pay for the debt as well as the imports of consumer goods. But after the war, the economic growth of the industrially advanced countries did not help the production of food stuffs and raw-materials by increasing their demand for these products of the developing countries. Consequently, the per capita income in mostly of the so-called dependent countries remained stagnant. The discrepancies in economic growth between these two groups of countries variously described as industrial-preindustrial, developed-developing, the rich and the poor, continued to be wider and the 19th century trade which played a prominent role in the development of the primary goods of the developing countries lost its significance.


2. Ibid.
The post Second World War period is dominated by two important events: (a) most of the colonial countries attained independence and aspired for an accelerated rate of growth which has been reflected in substantial amounts of investment undertaken by them for their industrial development; and (b) the emergence of centrally planned economics on a world scale because of their rapid economic development.\(^1\) The trade and economic relations which were almost negligible in the pre-war period between the centrally planned and the developing economies have risen to a significant level since 1955.\(^2\)

Imports of capital goods required by the developing countries in order to finance their ambitious programmes of economic development exceeded their export proceeds and created 'chronic balance-of-payments difficulties' for them.\(^3\) The export proceeds of these countries have been a far from satisfactory. For instance, while the current value of world exports rose from $33 billion to $186 billion between 1928 and 1965, the exports of developing countries over the same period increased merely from $9.7 billion to $36.7 billion. The share of the developing countries in world exports declined from 28 percent in 1928 to 20 percent in 1965.\(^4\) The decline in the exports of the developing countries is even higher\(^5\) if, however, the exports contributed by the petroleum and mineral producing countries are considered separately. These two groups accounted for approximately 53 percent

\(^{1}\) Patel, J.S. op, cit; p.2.
\(^{2}\) Ibid.
\(^{4}\) Patel, J.S. op. cit; p.3.
\(^{5}\) Ibid.
of the growth of exports from the developing countries between 1928 and 1964 and for over 70 percent between 1952 and 1964.\(^1\)

The remaining countries which account for nearly 90 percent of the population of the developing countries have increased their combined exports from $4.4 billion in 1928 to $5.6 billion in 1964, i.e. only 40 percent.\(^2\) The per capita foreign exchange earning in these developing countries which includes mainly, Argentina, Burma, Ceylon, India, Indonesia, Pakistan and the U.A.R. is only a little over $7 while in the petroleum producing countries it is over $200.\(^3\) This means that the imports of the advanced countries have declined because of some important changes in the structure of their demand, low income elasticity of demand for the primary products, protection for domestic agriculture and synthetic substitutes. This development has created a "built-in-tendency"\(^4\) that is to say that the main "gains" from the trade are being distributed in favour of the petroleum producing countries which account for a very small population. Hence, the problem is not only the highly undistributed "gains" from trade between the developed and the developing countries but also among the developing countries of the world themselves.

Thus, the developing countries which have been termed as "problem" countries in development economics are facing serious

\(^1\) Ibid; p.3.
\(^2\) Ibid.
\(^3\) Ibid; p. 5.
\(^4\) Ibid.
foreign exchange problems in the process of their industrialization. The demand of the developed countries for their primary products is income inelastic and tending to decline. The more gains from trade are going in favor of the petroleum producing countries. These trends in world trade compelled the underdeveloped countries to search for new avenues for their exports. The centrally planned economies, particularly the Soviet Union and the other East European Countries were in need to expand their trade with the underdeveloped countries because of their economic necessity. The trade between the two blocks therefore, increased to a considerable extent. During the 10-years period 1955-65, the export of the less developed countries to the centrally planned economies increased from $580 million in 1955 to 1,404 million in 1960 and to $2,815 million in 1965. The imports of the developing countries from the centrally planned economies increased to a much greater extent. They increased from $630 million in 1955 to $1,445 million in 1960 and to 3,290 million in 1965.

The more important is the export of both manufactured and semi-manufactured goods to the countries of the Eastern Europe. The exports of these goods have increased at a faster rate than those of primary products. For instance, they were negligible in 1955 but increased to $192 million by 1962 and $558 million in 1965. Equipment and machinery formed a substantial proportion of the exports of the U.S.S.R., the major trading

partner from this bloc, which the underdeveloped countries were requiring largely in order to meet their developmental requirements. The import of these products was also important in the sense that the export proceeds of the developing countries were lower and foreign assistance was also not meeting their requirements.

This has at least been found true in the case of Guinea, U.A.R; Ceylon, Burma, India and the Sudan. The Soviet bloc’s share of these countries trade turnover rose to a maximum of over 40 percent in 1964. The economic credit supplied by the Soviet Union and the East European countries also played an important role in these countries. Fifty percent of the machinery and plant exported from the U.S.S.R. to the less developed countries were financed by such credits. The largest trading partners of Russia in 1962 from the developing countries were India (total trade turnover $ 307 million); U.A.R., ($ 170 million); Brazil($ 65 million and Malaysia( $ 64 million-mostly rubber). The main attraction of trade with the Soviet Union and the East European countries is the greater continuity and avoidance of price fluctuations which is made possible by long term trade agreements.

Since the mid-fifties, the Soviet Union and the East European countries have attained a prominent position in World trade. Their share in world trade in 1962 amounted to 11 percent.3

2. Ibid; p.201.
but the share of these countries in the world industrial output in 1958 was about 27.2 percent and in 1964 it amounted to nearly 30 percent as against merely 5 percent share in the world industrial output in the twenties. The per capita trade turnover of the Soviet Union and other East European countries during the period 1948-62 increased at a faster rate than that of west Europe and the United States. For example, the share of these countries in world trade increased from 7.3 percent in 1950 to 11 percent in 1962, as the value of their trade turnover increased over the period by 285 percent compared with the world-trade expansion of 150 percent.

Although the absolute level of trade between the Soviet bloc and the developing countries is still low the relative expansion in their trade has been of considerable assistance in solving

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1. Ibid., p. 172.
3. Ibid.
4. The growth of per capita trade turnover in the Soviet Union, Other East European countries, West Germany, U.K. and U.S.A. might be stated in the following table:

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>35</td>
<td>65</td>
<td>194 W. Ger 49</td>
<td>238</td>
<td>469</td>
<td></td>
</tr>
<tr>
<td>Czechoslovakia</td>
<td>122</td>
<td>170</td>
<td>308  U.K. 300</td>
<td>378</td>
<td>442</td>
<td></td>
</tr>
<tr>
<td>E. Germany</td>
<td>16</td>
<td>136</td>
<td>276  U.S.A 134</td>
<td>161</td>
<td>202</td>
<td></td>
</tr>
<tr>
<td>Hungary</td>
<td>36</td>
<td>116</td>
<td>233</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Poland</td>
<td>44</td>
<td>68</td>
<td>117</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rumania</td>
<td>17</td>
<td>51</td>
<td>94</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Soviet Union</td>
<td>18</td>
<td>33</td>
<td>61</td>
<td></td>
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</tr>
</tbody>
</table>


the growth problems of the developing countries. The share of the Soviet Union and the East European countries between 1955 and 1962 increased from $400 million to $1,900 million to the developing countries while the expansion to the rest of the world over the same period was only from $1,900 million to $700 million. This can be explained with the help of the following table:

**TABLE I**

Exports of the Soviet Union and other East European Countries.

<table>
<thead>
<tr>
<th></th>
<th>1955</th>
<th>1962</th>
<th>Annual growth rate (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>To CMEA Countries <em>(a)</em></td>
<td>4,750</td>
<td>10,150</td>
<td>11.5</td>
</tr>
<tr>
<td>To the rest of world</td>
<td>1,900</td>
<td>4,760</td>
<td>14.0</td>
</tr>
<tr>
<td>To industrialized private enterprise countries</td>
<td>1,480</td>
<td>2,750</td>
<td>9.3</td>
</tr>
<tr>
<td>To developing countries</td>
<td>420</td>
<td>1,910</td>
<td>24.0</td>
</tr>
<tr>
<td>Total Exports</td>
<td>7,950</td>
<td>1,9770</td>
<td>10.4</td>
</tr>
</tbody>
</table>

 *(a) CMEA - Council for Mutual Economic Aid, includes Soviet Union and the other East European countries.


This table shows that the annual growth rate in the total exports of the CMEA countries was only 10.4 percent between 1955 and 1962. In the case of the Intra-regional trade it expanded at the rate of 11.5 percent over the same period and the exports of these countries to the Industrialized private enterprise countries of the world expanded at an annual rate of 9.3 percent. The rate of expansion of the exports of the CMEA countries in the case of the developing countries is considerably higher, which accounted
for a 24 percent annual rate of growth during the period 1955-62. The Soviet bloc's countries not only expanded their exports with the developing countries but also supplied to the developing countries the machinery and equipment which were required by these countries in order to launch the programme of their industrial development.

On the side of exports of the developing countries also, the picture gives a good account of the considerable expansion of their exports to the Soviet Union and the other East European countries as compared to the Industrially advanced countries of the world. The annual percentage increase in the exports of the developing countries is 3.1 between 1955 and 1962. The exports of these countries to the CMEA region increased from $ 4,45 million to $ 1,420 million over the same period showing an annual growth rate approximately 18.0 percent, while the exports to the industrialized private economies increased from $ 17,120 million in 1955 to $ 21,030 million in 1962 showing an annual growth rate about 2.9 percent only. The annual rate of growth of the exports of the developing countries can be understood from the following table:

<table>
<thead>
<tr>
<th>Exports of developing countries (In millions of dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>To industrialized private enterprise countries</td>
</tr>
<tr>
<td>To developing countries</td>
</tr>
<tr>
<td>To CMEA countries</td>
</tr>
<tr>
<td>Total Exports</td>
</tr>
</tbody>
</table>

Source: Ibid.
This table shows that the CMEA countries are taking a much larger share of the exports of the developing countries which remained more or less stagnant in the case of the advanced market economies of the world. The prospects of the trade expansion among the developing countries themselves are also not favourable owing to their low income and low productivity. The trade among these countries has expanded only at an annual rate of 1.6 percent between 1955 and 1962. In the export of the developing countries to the CMEA region, foo, beverages, tobacco, and raw materials as a group (excluding fuels) have occupied an important place. These products formed more than half of the share of the total imports of the CMEA countries between 1955 and 1962. From the developing countries, the increment in the exports these products over the same period was almost equal to the total increase in the exports to all destinations. The exports of the food, beverages and tobacco from the developing countries during the period 1955-61 increased by about 114 percent and the exports of raw materials nearly 94 percent. These exports have played an important role in the development of underdeveloped countries. The increase in food has been largely due to changes in the destination of exports of Cuban sugar.

So far as the commodity composition between the developing and the CMEA countries is concerned, the most characteristic feature of exports from the Soviet Union and other countries of Eastern Europe was their relatively small share of food and larger share of machinery which accounted for 39 percent of the total exports of the machinery and transport equipment in 1961. Against this,

2. Ibid.
3. Ibid; p. 178.
nearly 95 percent of all their imports from the developing countries consisted of raw materials and food. The share of the raw materials in 1961 declined and that of food increased. This development is mainly attributable to the changes in the pattern of imports from Latin America in which the share of food increased to about 80 percent in 1961 against 51 percent in 1966 which was, as stated above, in response to the increased imports of Cuban sugar. For the Asian and the African countries, the reverse is true. In their case the share of the food in 1961 declined while the share of the raw materials and the manufactured goods other than equipment increased.

The imports of food, beverages, tobacco and crude materials and oils continued to be growing rapidly. During the period 1960 and 1964 the expansion of more than one-fourth in the exports of these products from the developing countries was due to the increasing demand from the centrally planned economies. These countries have demanded almost negligible amount of products like minerals, fuels and related materials from the developing countries, thereby restricting the unfair distribution of gains from the trade among developing countries themselves. The importance of the centrally planned economies lies in the fact that the increase in the imports of these countries of the "difficult-to-expand" items increased by about 54 percent in 1964 over the 1960 level, while the increase in the imports of these products on the part of the developed countries was merely 9 percent over the same period. However, the volume of trade was very small in the case of the centrally planned economies; the developed market economies in 1960 imported about 10 times as many of these items as the socialist countries.

1. Ibid.
3. Ibid.
but the later countries provided 45 percent of the "expansionary impulses." This marginal increase in the imports of these products to the centrally planned economies from the developing countries played a crucial role in helping the later to stabilise the prices of these products and in "avoiding a still greater fall" in their prices. The commodity composition between the developing countries and the centrally planned economies between 1960 and 1964 can be understood from the tables III and IV.

The Soviet Union and the East European countries have formulated long term plans for considerable expansion in their foreign trade. If these plans are completed in all respects, the total imports of these countries are expected to increase from $15,200 million in 1962 to over $50,000 million in 1980. Assuming that the share of the developing countries will be maintained at around 10 percent (1961) of the total, this would mean a potential expansion in the export markets of the developing countries in the CMEA region from $1,400 million in 1962 to over $5,000 million in 1980. Moreover, the rapidly expanding imports of tropical foodstuffs and beverages offer bright prospects of the trade of the developing countries with the Soviet Union and the other East European countries. It has been assumed that if the per capita consumption of these products in the CMEA countries in 1980 reaches a level prevailing in the advanced countries (1962), the imports of these commodities in the CMEA countries

2. Ibid.
4. Ibid.
<table>
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<th></th>
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<tbody>
<tr>
<td>Food, beverages and tobacco:total</td>
<td>8,070</td>
<td>10,280</td>
<td>2,210</td>
<td>100</td>
<td>100</td>
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<tr>
<td>Developed Market Economies</td>
<td>6,230</td>
<td>7,400</td>
<td>1,170</td>
<td>77</td>
<td>72</td>
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<tr>
<td>Developing Countries</td>
<td>1,460</td>
<td>1,910</td>
<td>450</td>
<td>18</td>
<td>19</td>
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<tr>
<td>Socialist countries</td>
<td>349</td>
<td>935</td>
<td>586</td>
<td>4</td>
<td>9</td>
</tr>
<tr>
<td>Crude materials, oils and fats</td>
<td>7,640</td>
<td>7,730</td>
<td>90</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>5,750</td>
<td>5,930</td>
<td>180</td>
<td>75</td>
<td>77</td>
</tr>
<tr>
<td>Developed Market economies</td>
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<td>990</td>
<td>-110</td>
<td>14</td>
<td>13</td>
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<tr>
<td>Developing Countries</td>
<td>775</td>
<td>795</td>
<td>20</td>
<td>10</td>
<td>10</td>
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<tr>
<td>Socialist Countries</td>
<td>3,840</td>
<td>5,485</td>
<td>1,645</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Developed market economies</td>
<td>5,160</td>
<td>7,830</td>
<td>2,670</td>
<td>67</td>
<td>73</td>
</tr>
<tr>
<td>Developing Countries</td>
<td>2,260</td>
<td>2,540</td>
<td>280</td>
<td>30</td>
<td>24</td>
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<tr>
<td>Socialist Countries</td>
<td>2</td>
<td>11</td>
<td>9</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Mineral fuels and related materials</td>
<td>3,840</td>
<td>5,485</td>
<td>1,645</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Developed market economies</td>
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<td>3,627</td>
<td>1,062</td>
<td>67</td>
<td>67</td>
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<tr>
<td>Developing Countries</td>
<td>1,140</td>
<td>1,600</td>
<td>460</td>
<td>30</td>
<td>29</td>
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<tr>
<td>Socialist Countries</td>
<td>97</td>
<td>170</td>
<td>73</td>
<td>3</td>
<td>4</td>
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<tr>
<td>All exports: total</td>
<td>27,350</td>
<td>34,350</td>
<td>7,000</td>
<td>100</td>
<td>100</td>
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<tr>
<td>Developed Market economies</td>
<td>19,780</td>
<td>24,910</td>
<td>5,130</td>
<td>72</td>
<td>73</td>
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<td>7,080</td>
<td>1,070</td>
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<td>21</td>
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<tr>
<td>Socialist Countries</td>
<td>1,220</td>
<td>1,915</td>
<td>695</td>
<td>5</td>
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Source: Patel, J.S. op. cit; p. 12.
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<tbody>
<tr>
<td><strong>Food, beverages and tobacco: total</strong></td>
<td>4,660</td>
<td>5,930</td>
<td>1,270</td>
<td>100</td>
<td>100</td>
<td>100</td>
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<tr>
<td>Developed market economies</td>
<td>2,960</td>
<td>3,500</td>
<td>540</td>
<td>64</td>
<td>59</td>
<td>43</td>
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<tr>
<td>Developing Countries</td>
<td>1,460</td>
<td>1,910</td>
<td>450</td>
<td>31</td>
<td>32</td>
<td>35</td>
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<td>Socialist Countries</td>
<td>236</td>
<td>515</td>
<td>279</td>
<td>5</td>
<td>9</td>
<td>22</td>
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<tr>
<td><strong>Crude materials, oils and fats: total</strong></td>
<td>2,140</td>
<td>2,350</td>
<td>210</td>
<td>100</td>
<td>100</td>
<td>100</td>
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<tr>
<td>Developed market economies</td>
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<td>44</td>
<td>53</td>
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<td>990</td>
<td>-110</td>
<td>51</td>
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<td>-52</td>
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<td>Socialist Countries</td>
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<td>124</td>
<td>26</td>
<td>5</td>
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<td>12</td>
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<tr>
<td><strong>Mineral fuels and related material: total</strong></td>
<td>2,900</td>
<td>3,100</td>
<td>200</td>
<td>100</td>
<td>100</td>
<td>100</td>
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<tr>
<td>Developed market economies</td>
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<td>390</td>
<td>-160</td>
<td>19</td>
<td>13</td>
<td>-80</td>
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<td>Developing Countries</td>
<td>2,260</td>
<td>2,540</td>
<td>280</td>
<td>78</td>
<td>82</td>
<td>140</td>
</tr>
<tr>
<td>Socialist Countries</td>
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<td>160</td>
<td>75</td>
<td>3</td>
<td>5</td>
<td>38</td>
</tr>
<tr>
<td><strong>Manufactures, etc: total</strong></td>
<td>18,300</td>
<td>22,430</td>
<td>4,130</td>
<td>100</td>
<td>100</td>
<td>100</td>
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<tr>
<td>Developed market economies</td>
<td>16,360</td>
<td>19,000</td>
<td>2,640</td>
<td>89</td>
<td>85</td>
<td>64</td>
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<tr>
<td>Developing Countries</td>
<td>1,140</td>
<td>1,600</td>
<td>460</td>
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<td>7</td>
<td>11</td>
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<td>Socialist Countries</td>
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<td>1,818</td>
<td>1,016</td>
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<td>8</td>
<td>25</td>
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<tr>
<td><strong>All imports: total</strong></td>
<td>28,000</td>
<td>33,810</td>
<td>5,810</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Developed market economies</td>
<td>20,820</td>
<td>24,130</td>
<td>3,310</td>
<td>74</td>
<td>71</td>
<td>58</td>
</tr>
<tr>
<td>Developing Countries</td>
<td>5,960</td>
<td>7,040</td>
<td>1,080</td>
<td>21</td>
<td>21</td>
<td>19</td>
</tr>
<tr>
<td>Socialist Countries</td>
<td>1,229</td>
<td>2,625</td>
<td>1,396</td>
<td>4</td>
<td>8</td>
<td>23</td>
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</tbody>
</table>

Source: - Patel, J.S. op, cit; p. 13.
will increase from $130 million in 1961 to some $3,000 million in 1980. Similarly with the rise in income in the CMEA countries, prospects are better for an increase in their imports of manufactures and engineering goods from the developing countries. However, all this will depend upon the future policies of the CMEA countries to produce an alternate substitute for their demand of consumption, raw materials as well as of manufacturing goods.

India has been one of the biggest trading partner from the developing countries so far as the centrally planned economies are concerned. Her trade has grown in view of the needs of planned economic development which aimed at the development of new products and exploring new markets. It was found that owing to the declining for the traditional goods in the traditional markets, they were not expected to offer lasting solution to the growth requirements of the Indian economy. The Soviet Union and the other East European countries have offered a good market for our manufacturing products, particularly engineering goods, in addition to the rapidly increasing demand for our traditional goods. This has been extremely helpful to Indian economy in increasing her import earning capacity. In 1955-56 only 0.9 percent of India's exports went to the East European countries and import of India from this region was about 1.6 percent. In 1965-66, the peak year of trade with CMEA countries 19.4 percent of India's exports went to them and imports also rose to about 11.1 percent. This increase indicates the magnitude of change that has taken place in the direction of

India's foreign trade. Although the trade with the U.S.A. over the same period has increased to a much greater extent i.e., exports from 14.3 percent to 18.3 percent and imports from 13.2 percent to some 38.0 percent. What is important in this context is the sizeable export trade India has developed with CMEA countries vis-a-vis the United States and other developed market economies.

Although, India's trade suffered with the CMEA countries after the 1966 devaluation, with the execution of Protocols soon after the devaluation with each of these countries the trade resumed its buoyancy, so much so that by the end of 1966 total exports in terms of post-devaluation rupees were only marginally lower than for the earlier years. This progress was maintained during 1967 and the total exports during that year amounting to $308.87 million were appreciably higher than in previous years.

The important thing is that India is now slowly emerging as an important suppliers of quality industrial products. Exports of engineering goods in the first four months of 1968-69 amounted to Rs. 23.6 crores compared to Rs. 7.6 crores in the corresponding period of 1967-1968. Most of the exports of these goods have gone to the CMEA countries. In 1967-68, the export of electrical machinery to the East European countries amounted to Rs. 93 lakhs as against Rs. 57.8 lakhs in 1965-66. Over the same period the machinery other than electric to these countries amounted to Rs. 93.4 lakhs as against Rs. 26.9 lakhs; dyeing, tanning and colouring materials to Rs. 117.0 lakhs as against Rs. 47.5 lakhs, and the Medical and Pharmaceutical products amounted to Rs. 59.9 lakhs as against Rs. 9.3 lakhs. The trade with the Soviet bloc is being carried on and has been expanded through bilateral trade and
payments agreements which although unconventional has been very successful so far as India's trade relations with the CMEA countries are concerned.

To sum up, the Soviet Union and the other East European countries have played an important role in the economic development of the developing countries by importing a substantial amount of the traditional goods for which the world market was stagnant and thus helping overcome to some extent the foreign exchange difficulties. From the developing countries India has been the largest trading partner of the CMEA countries and they have, in recent years greatly increased their demand for engineering and manufactured goods in addition to her traditional products, making the employment prospects in these industries much better. The large amount of traditional products imported by the CMEA countries from India enabled her to stabilise or at least to avoid the decline in the prices of these products in the international markets. The trade is being carried on through the conclusion of bilateral trade and payments agreements and the payments are effected in non-convertible Indian rupees. Balances, if found, are used for the purchase of goods either from India or the CMEA countries as the case may be.