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## 7. Some Questions Concerning Division of Labor and Specialization Within the CMEA

Aladár Sipos

### 1. Introduction

When discussing the base of specialization, we can analyze the division of labor on three levels: within the national economy, on the regional level, and on the intertwining world-wide scale. Considering today's stage of economic development the economic situation in the CMEA countries can be evaluated only on the world-wide scale of the division of labor. It is of great significance that CMEA cooperation in the regional division of labor is established on a definite political and economic base.

Regional division of labor can be viewed as being integrated since it is organized by common institutes. These institutes strive to harmonize economic development policies with complex management systems. If such harmonization is actively pursued, spontaneous cooperation and specialization, as well as territorial transportation benefits, will lead to stimulation of the economies and other fruitful results. The essence of integration is the division of labor between countries and among certain enterprises within them. Although there are means and solutions shared by all, coordination is only realized through cooperation. In the cases of infrastructural investments beyond a country's borders, protection of the environment, basic research work and national economic concerns, greater sacrifices and efficiency are demanded for an extended period of time. An example is the development of backward regions within the borders of an integrated community, for which a policy of common support is required.

### 2. Main Characteristics of CMEA Cooperation

Cooperation within the frame of the CMEA has served the purposes of quicker economic development and increased social efficiency of production within each country's communities. Among the important sources of economic development were industrialization, the transformation of the macroeconomic structures of the CMEA countries, as well as the joining of and cooperation with the Soviet market, which is extremely rich in energy and raw materials.

For twenty-five years from 1950 until 1975, the CMEA countries carried out the great task of industrialization. Already by the late fifties, the Soviet Union, Czechoslovakia and the GDR had developed to the point where industry and construction contributed 50 percent of the national income. In Czechoslovakia the contribution was even higher, 70 percent. By 1975 these percentages from Czechoslovakia and the GDR had increased. Radical changes in the breakdown of national income had also taken place in Hungary, Poland, Bulgaria, and Romania.

Because of the rearrangement of the sectoral proportions of the internal economy, it was necessary to search for more intensive means of increasing the efficiency of production. The result was a more reasonable organization of production, modernization of the production structure and stimulation of technological development. All of this required the evolution of price and money relations. Changing conditions were reflected in continual reform of the economic management system.

When in some CMEA countries the possibilities for transforming the internal macrostructures to increase national production were exhausted, the demand to build up international contacts based on comparative advantages became stronger.

In the period after World War II, the sectoral character of the division of labor dominated. For instance, if we analyze the development of the machine-building industry within the CMEA, we learn that in the period between 1950 and 1973 some countries with previously underdeveloped industries later became significant machine industry exporters. In addition to Czechoslovakia and the GDR which had industrial backgrounds, Poland became a net-exporting country. However, the Soviet Union became a machine-industry net-importer. In exchange for raw materials, chemical products and energy sources, she received manufactured goods, consumer products, machines and a significant amount of food.

Therefore, the need to increase foreign trade activity originated in the development of an integrated regional division of labor in the CMEA.

By the end of the sixties more stress was put on the practice of new forms of cooperation. Since efforts were made within the CMEA to increase specialization and cooperative activities, the demand for investment loans grew. This led to common enterprises and a growing interest in successful foreign trade. There was a general recognition that the traditional type of international cooperation should be developed into a new type of socialist integration.

In some CMEA countries economic theories concerning integration were devised and were used in shaping official economic policy.

These views were combined in the Complex Program accepted in 1971. This document on integration is highly significant since it specifies both general and concrete aims and incorporates different concepts of the mechanism of cooperation.

CMEA cooperation may be considered to be a peculiar type of integration. Economic relations within the CMEA are characterized by a high level of trade between countries, and institutions exist for the purpose of organizing foreign economic contacts.

CMEA cooperation is decidedly different from other kinds of integration in the world. During the past years the proportion of internal trade in the former has been much higher, almost twice as much as that in the Common Market. This is partly explained by the fact that the CMEA, as opposed to the Common Market, is to a great extent self-sufficient in raw materials and energy resources. The Soviet Union, the largest country in the CMEA, supplies materials needed by the industries of the other countries. The compulsion for outward open-type integration is smaller than it is in the Common Market. Consequently the CMEA, with little inclination for foreign trade, has not taken full advantage of such resources

as geographical environment and more economical transportation to increase its efficiency.

A characteristic of the member countries of the CMEA is that the compositions of internal and external trade significantly differ from each other. In internal trade, machines and equipment constitute the largest portion. In external trade, chiefly in exports, raw materials, less-processed products, and agricultural items make up the bulk.

The differences in the structure of trade with capitalist and socialist countries are shown by the figures for Hungarian foreign trade. During the last twenty-five years products of the machine industry sold to capitalist countries have amounted to less than 9 percent of the nation's exports, while similar exports to socialist countries have constituted 30 to 40 percent. It is further evident that the CMEA countries concentrate mainly on export of products of the machine industry, and most of the production profiles of the countries are developed to equal proportions. For this reason there is a parallel availability of products, which can be realized only within the CMEA market.

The disparity between the export-import compositions of East-West trade also indicates a structural problem of CMEA trade. The Community's export of machine industry products is significantly below its imports. The increase of machine-imports for investment purposes or for technological advancement is a good and desirable process. However, the low capacity for export of these particular products shows that it is not appropriate for the CMEA to join the international division of labor.

The composition of trade within the CMEA is also not satisfactory. For a long time specialization and cooperation within the framework of the manufacturing industry have been below a desirable level.

### 3. Comprehensive Program

The formation and development of cooperation in the CMEA are reflected in three basic documents. The first one is the "CMEA Charter" adopted in 1949 and effective even now. The second one is entitled "Fundamental Principles of the Socialist International Division of Labor" and was adopted in 1962. The former was not amended, but a new emphasis was given by the latter's stress on international specialization and cooperation. The third one, "Comprehensive Program for the Intensification of Cooperation and for the Development of Socialist Economic Integration," was passed in 1971. Again the earlier documents were not nullified, but rather the concept of cooperation was clarified.

The latter long-term program is aimed at promoting development of all of the CMEA member countries' productive capacities. It focuses on advancement of scientific technology, economization of production and more efficient use of social labor. Furthermore, integrating the latest technological gains into the production structures is of primary importance. In order to meet the growing needs of the member countries, the nations must consider the long range needs for fuel, energy, raw materials, modern equipment, agricultural products, food and food additives, and other

consumer goods.

The Comprehensive Program provides for pooling the efforts of the CMEA member countries in resolving major national economic problems which are of prime importance to each of them. A complex of about 200 practical measures has been formulated to develop a number of industrial branches, agriculture, transport, and also foreign trade, currency, financial relations, etc.

The measures concerning extension of cooperation in material production can be subdivided into three major groups. The first includes measures aimed at resolving fuel and raw materials problems by the joint efforts of member countries; the second promotes the extension of international specialization and co-production; and the third encourages scientific and technological cooperation among the CMEA member countries.

All the integration measures are carried out by the CMEA member countries on a voluntary basis. They do not involve the establishment of supranational bodies or any encroachment on the sovereignty of those countries. Neither do they affect domestic planning and financial and cost accounting operations of the members. The countries taking part in these measures can enjoy the benefits of an extensive international division of labor among all countries willing to participate.

International specialization and co-production constitute major areas for improving the efficiency of cooperation and overall economic integration. These processes promote more effective development of the national economic structures of the CMEA member countries and eliminate unnecessary parallelism in production. Thus, they facilitate optimal specialization, complement each national economy, and in combination provide for comprehensive development of all, regardless of a nation's population, the size of its territory, or the scope of its domestic market.

The Comprehensive Program stipulates that the main method of organizing cooperation and extending international socialist division of labor is cooperation in planning. The document points out that the major areas for cooperation among the CMEA countries in planning are :

1. Drafting of forecasts in major fields of the economy, science, and technology;
2. Coordination of long-term plans in major branches of the national economies and types of production;
3. Further improvement in the coordination of national five-year economic development plans;
4. Joint planning by interested countries of individual industries and types of production;
5. Exchange of experience among the CMEA member countries in improving the system of planning and economic management.

The first Concerted Plan of Multilateral Integration Measures was drafted jointly by specialists of the CMEA member countries and approved by the 29th Meeting of the CMEA Session in 1975. It contained agreements specifying the commitments of each country to the joint construction of major integration projects. These include the "Soiuz" gas pipeline stretching for 2,677 km, the Ust-Ilim pulp and paper plant and the Kiembai asbestos mining and dressing combine with an annual

capacity of 500,000 tons each, and also a number of other major projects in the USSR and other countries. The interested CMEA member countries have set aside a total of more than nine billion roubles of capital investment to carry out these giant construction projects.

Important measures in specialization and co-production, particularly of machinery and equipment, have been taken in accordance with programs stemming from the agreements included in the Concerted Plan, as well as under contracts at state-to-state and branch levels. The CMEA member countries have concluded several multilateral and bilateral agreements to carry out these measures as well as their long-term specific programs for cooperation.

The agreements provide for specialization in mining, in the production of refrigerator equipment, battery-powered loaders, container and transportation technology, basic groups of metal-cutting machine tools and forging and pressing machinery, complete production lines for foundry workshops and plants, transport products such as diesel locomotives and freight and passenger cars, ships, farm machinery and tractors, and automobiles, as well as in engineering for light industry, etc.

The existence of long-term specialization and co-production agreements, as well as agreements for mutual supply of different types of output, enables the CMEA member countries to confidently expand production. Other areas of concern are the distribution of necessary financial, labor and material resources, enlargement and modernization of production units, energetic research and development, and introduction of advanced methods of labor organization.

Through cooperation on a planned basis, the CMEA member countries have made considerable progress in accomplishing a number of scientific and technical tasks. More than 110 councils of authorized representatives, 63 coordinating centers, and 8 international interim groups of scientists and specialists have been set up under multinational agreements and are functioning to carry out this cooperation.

A number of comprehensive inter-branch programs for scientific and technological cooperation over the next ten to fifteen years have been developed. They cover, in particular, fuel and energy problems, protection and improvement of the environment, and the making of scientific instruments. Already research and development work in accordance with the programs for cooperation in resolving the fuel and energy problems has been carried out on forty-five problems in seventy-eight subject areas.

The progress made by the CMEA member countries in extending cooperation and developing socialist economic integration has made it possible to transfer to new, improved forms of cooperation in planning. Presently the drafting and carrying out of long-term specific programs for cooperation (LTSPCs) constitute the essence of the concerted strategy for cooperation among the CMEA member countries in various fields of production.

There is a close connection between the Comprehensive Program and long-term specific programs. By the middle of the 1970s the economic conditions became considerably different from those that had prevailed between 1968 and 1971 when the Comprehensive Program was drawn up. The CMEA member countries had to respond to the problems caused by the new situation in the world economy. Therefore a search

for new methods of integration became necessary.

Coordinating and integrating plans has been a primary method of CMEA integration. However, there are now two central problems which face long-range planning in the CMEA. These involve the choice of appropriate policies for the use of raw materials and energy. There is a great need for adaptation to higher prices caused by the raw material and energy crisis. The plans of the individual countries for 1968-80 reflect a selective investment policy that was applied to development of sources of raw materials and energy.

A new method of planning target programs has been adopted to deal with these problems. The projects represent a new, concrete step in economic cooperation among the CMEA countries and in the development of integration.

The most important aspect of these projects is that they are comprehensive. They cover all aspects of development of the area, from scientific research to the launching of products, from the exploitation of natural resources to the development of processing machines. Naturally they also provide for the most effective forms of the division of labor.

The CMEA member countries have agreed to use part of their natural resources, production potentials, and financial reserves to resolve these problems. The programs provide both for measures intended to ensure more efficient use of raw materials and other reserves and for expanding the production of various types of goods. The implementation of the programs, which include 340 major undertakings, is facilitating the rapid growth and rising efficiency of social production and is helping to further improve the material and cultural living standards of the populations of the CMEA countries.

Two of the five specific programs, those in the agriculture and food industry and in the consumer goods industry, are directly intended to meet the growing demands of the CMEA member countries' populations by intensification of domestic production in each country and expansion of the economic, scientific and technological relations between them.

The program includes a complex of measures aimed at strengthening the material and technical base of agriculture and the food industry. Also covered are ways to expand the production of a number of farming products in those countries possessing favorable natural conditions.

Specifically the program provides for specialization and for co-production of tractors with a capacity of 150 hp or more and a set of farming attachments for each, as well as for implementation of various measures to further mechanize crop farming and livestock breeding. The interested CMEA member countries have signed and carried out multilateral agreements to improve various breeds of cattle, pigs, and fine-fleeced, rough-wooled, and semi-rough-wooled sheep.

The long-term specific program in consumer goods includes about forty major projects intended to better meet the demands of the CMEA member countries' populations for fabrics, clothes, footwear and durables.

Naturally, the production of food and consumer goods in the CMEA member countries can only be expanded in coordination with further development of the pro-

duction base of each country. Particularly crucial are the ready availability of fuel and raw materials, engineering developments and intensification of production processes. The long-term specific programs and bilateral agreements between the CMEA countries stipulate major cooperative undertakings to this end.

The most important project involves Soviet assistance in the building of atomic power stations with an aggregate rated capacity of up to 37 million kw in European CMEA member countries and two APS's with a capacity of four million kw each primarily to supply electricity to other CMEA member countries. These power stations will generate as much electricity as could be obtained from burning more than 70 million tons of conventional fuel a year.

Cooperation between the CMEA member countries in developing and producing computer technology has been extended. This cooperation will make it possible to use micro-computers far more extensively in the industries of the CMEA member countries, thus considerably raising labor productivity.

In the past ten years tremendous progress has been made in specialization and cooperation within the CMEA. The member countries have signed numerous two- and many-sided specialization agreements, especially with regard to the production of machinery, vehicles, chemicals, and some types of electronics. Agreements have also been reached concerning nuclear energy development.

The new forms of cooperation include numerous progressive features in comparison with the earlier ventures. Most important is the formation of agreements between participants instead of the so-called CMEA-recommendations. In case of failure to fulfill an agreement, sanctions are imposed.

A cooperation-specialization agreement is not simply an agreement on natural conditions. An organic part of it is price; an agreement without price is not valid. Consequently it is critical that the directly interested economic units (enterprises) be involved in an agreement with detailed conditions — a practice that has significantly improved the efficiency of cooperation.

One of the main features of specialization in the CMEA, however, is the focus on the finished product, that is, the domination of the so-called horizontal type of specialization. This magnifies the apparent degree of specialization and cooperation and slows down the intensification of production and strengthening of trade relations. This type of specialization does not encourage the elimination of parallel production structures. Specialization in finished products is limited by trade and monetary relations and by extensive production integration.

Specialization and cooperation of the vertical type demands definite organizational, economic, and infrastructural preconditions. The CMEA countries are not properly prepared for this at present, and the decade of the eighties will not be enough time to create the necessary conditions. Since vertical specialization means closer ties, there is a greater degree of mutual economic dependence between partners. Consequently, it demands stricter regulation of technology and transportation than does ready-product specialization. The recognition of this has not yet spread in the CMEA.

CMEA specialization has also been shaped by the fact that member countries,

because of growing uncertainty of external supply, are not eager to change existing productive structures. Since the conditions for such changes and material interest were missing, specialization was carried out chiefly in newly created areas. Examples of these are the manufacture of new products of the machine- and instrument-building, vehicle-building, chemical (olefin programs, medicine and fertilizers), and electronics industries, as well as the supply of energy (nuclear power stations). Beginning on a modest scale these production groups have gradually organized the production and mutual transportation of spare parts and part units.

#### 4. Further Development of CMEA Integration

The economic environment of the 1980s will be more difficult for the CMEA member countries than was that of the 1960s or even the 1970s. Since 1976 general decline of economic growth, emphasis on resolving problems of external equilibrium, the worsening of internal market equilibrium in some countries, and the seeking of new resources and methods for the purpose of intensive economic development have been typical traits. In the foreground of the strategies for cooperation have been the development of qualitative factors and the protection of the CMEA from the impacts of unfavorable world market conditions.

All these factors press for quick and successful technological development, well-organized large-scale and efficient production, punctual and guaranteed supply, and other services. These can only be attained through common efforts by establishing adequate production bases, by harmonizing technological development, and by improving relations and the systems of existing organizations.

Within the CMEA the necessity for creating a modern, high-level international specialization and cooperation mechanism is not generally recognized, but without such a mechanism intensive specialization cannot be realized.

1. One of the most important targets is the deepening and further development of international specialization and cooperation. This target is generally acknowledged and is given due importance in the documents on cooperation. However, in reality its translation into practice is often lacking or without substance.

The CMEA member countries have not yet sufficiently coordinated the programs for long-term development with the affected industries. Cooperation based on enterprise interests is very infrequent among the CMEA countries.

Why are the results of specialization initiated by central decision-makers more substantial than those of cooperation motivated by enterprise interests? The reasons are clear. Long-term and annual foreign trade agreements reflect real needs of the countries based on internal product balances. In contrast, cooperation implemented on the basis of enterprise interests has been motivated mainly by the desire for profitability, which is less important than the former factor. The existing specialization agreements on the basis of central directions have proved a firmer basis for the development of specialization, which at the governmental level allows the exporting country to determine what it wants to produce and secures needed machines for the importer.

Specialization of final products now predominates. Specialization of parts and

components, certain technological processes, or groups of products is less widespread.

It is incorrect to interpret specialization as a system in which the whole production cycle of branches of industry or groups of products is based in the domestic industry. Such a system prevents the development of optimal capacity and economy of production in the individual stages of the vertical production process. Moreover it does not allow the phases to be technologically developed on a continual basis and in harmony with each other. The development of products and production must not be restricted to the construction of the end product, but rather equal weight should be given to every stage of production. That is, every phase should be individually developed to a level which enhances the overall efficiency of production.

Efforts should be made in CMEA cooperation to progressively replace the end product approach with the specialization of components and parts. Furthermore, international cooperation should not be restricted to division of the phases of production, but should be equally implemented in product design, technological development, trade, and services. Further steps need to be taken to direct the CMEA mechanism to this end, as well as to improve planning, pricing and other financial regulations.

In addition to the present bilateral trading and settlement relations, advances should be made in the direction of multilateral settlements. This would facilitate joint investment projects and the creation and maintenance of common enterprises.

Concerning technological development and the differing capital requirements of basic and applied research, it would be useful to organize research on fundamental problems affecting every participating country. Then by assigning these concerns to jointly organized, coordinated, and financed research institutes, technological development could become the responsibility of larger national or international enterprises.

An indispensable condition for this would be the existence of direct contact among enterprises. This would apply not only to clearly related industries, but also to enterprises operating in the most diverse spheres of the economy. Thus, direct relations should be established between the producing enterprises and other enterprises such as research-development institutes and user-seller enterprises, both within and outside of national borders.

2. The inability to create and maintain interest seriously slows down the development of specialization and cooperation. The present circumstances lead to a significant devaluation of the transported products and cause conflicts of interests in the partners.

Within the present framework of CMEA specialization, it is worth producing chiefly ready products; the production of spare parts or part units and their supply is not profitable. An inevitable consequence of this is the chronic lack of spare parts in the CMEA countries. This condition reduces the efficiency of otherwise good specialization transactions.

In the specialization mechanism prices play a key role not only in stimulating the manufacture of modern good-quality final goods, but also in facilitating adequate production and distribution of spare parts and part units of that caliber.

3. It is important to emphasize that enterprises, the main acting partners of international production specialization and cooperation, should be directly involved with the transactions. We have to take into consideration that production specialization and cooperation are being carried out not in the macro, but in the micro sphere. A positive experience shows that *enterprises* must be given significantly more independence than before.

4. Significant progress should be achieved in the field of standardization. It is not accidental that within the framework of CMEA joint production specialization has been successful in all spheres with advanced standardization. The spheres which are first in production are those of roller-bearings, various standardized spare parts and part units, ships, and metal-working machine tools.

5. A number of problems arise in connection with the settling of international accounts, especially concerning the limited recognition of the connection between money and goods. Given the characteristics of internal price and monetary systems of some countries, the bilateral character of present mutual monetary accounts, and the realization of manifold evaluation systems in common estimation of output, it is unlikely that areas will be found in which social labor can be economized.

The special commercial policies and market relations existing in international trade within the CMEA in many respects bear more resemblance to those of the domestic markets of the participating countries than to those of world markets, which are influenced by international competition. The basic method of cooperation is plan coordination, and market and monetary relations play a subordinate role.

International accounts among the CMEA countries are settled in transferable roubles. The transferable rouble has a definite and declared exchange rate to the U.S. dollar. When investigating the problem of settling accounts, it is necessary to take into consideration that the transferable rouble is not convertible into gold or other convertible currencies.

The theme of convertibility is an extremely complicated problem, partly because of the existence of several forms of convertibility. With regard to convertibility into goods, the transferable rouble is inconvertible. The reason for this is very simple: foreign trade inside the CMEA is bilateral. Convertibility of the transferable rouble would mean that owners of the common currency could, on demand, use it for purchasing goods from other CMEA countries. But such a system presupposes multilateral trade.

The present payment system functions well at the current stage of development of CMEA integration. This system of accounting ensures, ultimately, the expansion of trade, and it satisfies the need for short-term credit that arises in the course of bilateral trade. However, only limited use is made of this system to balance multilateral trade. The system is still basically a bilateral one.

The modernization of the transferable rouble was largely completed by the mid-seventies. It is now perfectly clear that in the current decade modernization of the transferable rouble cannot be separated from other forms of economic cooperation. Further development of the transferable rouble can be achieved through the integration of national economic plans and signing of foreign trade agreements. The latter

would ensure that the supply of transferable rouble credits is adequate for the planned volume of trade. Thus plan coordination and the signing of agreements on mutual deliveries limit the use of the transferable rouble. It can therefore be expected that the monetary functions of the transferable rouble, as opposed to its role as a unit of accounting, will be forced into the background in the coming years.

6. An important aspect of the development of specialization and cooperation is the facilitation of the international flow of information.

7. We must take into consideration, when dealing with the development of CMEA cooperation, that the internal economic mechanisms of the majority of the member countries do not stimulate independent activity in the field of international specialization and cooperation. When the internal production prices differ from the world market and CMEA trade prices, production becomes separate from foreign trade economically as well as organizationally. The lack of an active currency system leads to a bilateral and inflexible system of accounting in foreign trade. It is notable that only Hungary has a mechanism which allows the "extrovertedness" of enterprises, whereas other member countries' enterprises to a great extent are "introverted." We cannot expect other member countries to make basic changes in their economic mechanisms, though from time to time some changes take place. At the same time we cannot ignore the further development of our economic mechanism without taking into consideration Hungarian circumstances.

There are three solutions. One is to try to make "introverted" mechanisms approach each other so they will not become "extroverted." Another is to try to stabilize the differing influences of various internal mechanisms by a forceful integrational mechanism; however, part of our problems will remain unsolved since a conflict will arise between the influences of the internal and international mechanisms. The third way involves the following:

- gradual partial coordination of national economic policies;
- making state-level collaboration more flexible;
- gradual widening of enterprise-connections.

Efforts to improve the system of internal and external direction are gradually appearing. Nonetheless, it is logical and useful to research all those possibilities in keeping with the present frame of specialization and cooperation in the CMEA.

The prospects for progress are much more favorable than in earlier years. The fact that the necessity for increasing specialization of internal production is even considered by some member countries and in common CMEA forums is an important link in the chain. This recognition can serve as an encouraging base for accelerated advancement in this direction. In spite of the difficulties, the broad areas of specialization and cooperation can be exposed and realized.

8. More intensive use should be made of world economic relations (with advanced industrial and developing countries) in the interest of vitalizing CMEA cooperation and raising CMEA technological standards. With their present 43 percent share of the foreign trade of the CMEA countries, world market relations have obviously become a primary factor in an indispensable source of development. Passive acceptance is not sufficient. An active strategy has to be devised for the

development of relations both on the level of the Community and on that of its member countries. There should be a strong interest in the inflow of the most advanced technical knowledge and technology from the other world market countries into all of the CMEA.

Today the development of cooperation in production is severely handicapped by the rigid separation of the West from socialist cooperation. This exclusion deprives the CMEA of important economic and technological resources. Cooperation between the West and the CMEA is restricted by economic and structural barriers. This is also true of cooperation between the West and individual interested CMEA countries. It is unfortunate that the options for production specialization and cooperation are not being taken sufficient advantage of in the present system. Continuing development and renewal of the CMEA may hinge on utilizing those opportunities to the fullest.

## Comment

Noboru Miyanabe

In his interesting paper, Sipos mentions eight factors hindering the extension of CMEA specialization and cooperation. By doing so, he suggests that the further development of CMEA integration requires that these factors be overcome through the introduction of comprehensive economic reforms in the CMEA countries and also through their more active participation in trade with the West.

I agree with Sipos' view in the sense that the factors impeding successful CMEA integration may be overcome at some time in the future in the ways he outlines. However, I do not expect this in the near future. To explain my prediction, I would like to point out the following international and regional circumstances.

First, the development of East-West trade during the 1970s, which was characterized by a rapid expansion of imports from the West, resulted in CMEA's large net hard currency indebtedness to the West in the late 70s. This indebtedness in turn, coupled with the growing difficulties met by CMEA countries in Western markets, has produced a change in their attitude toward trade with the West; there has been a transition from an "extrovertive" to an "introvertive" CMEA. These circumstances, notwithstanding the large debts, made it imperative for all the CMEA countries to trade with the West more efficiently; but so far none of them (except Hungary) has taken any significant measures to do so. Of course, it is necessary for the CMEA countries to take part more intensively in trade with the West in order to promote intra-CMEA specialization, but this appears to be very difficult at the moment.

Second, Sipos repeatedly suggests the necessity of comprehensive economic reforms in individual CMEA countries, key elements of which must be economic decentralization, a reform in the price mechanism, and the introduction of currency convertibility. He suggests that reform of the whole CMEA mechanism will come about through such domestic economic reforms. In this respect, however, it is very important to consider the fact that in the CMEA's most powerful member, the Soviet Union, there is at present no prospect of radical domestic economic reform, and that the Soviet Union probably wants to maintain the present CMEA integration mechanism essentially unchanged. If so, then there seems to be little chance that needed comprehensive economic reforms will be realized in the near future in the CMEA.

## Comment

Kiichi Mochizuki

First, Sipos said that integration in the CMEA "does not involve the establishment of supranational bodies or any encroachment on the sovereignty of those countries." I remember that CMEA integration involving a supranational body was proposed by Khrushchev once, but was not realized because of resistance by Romania and others.

Capitalist countries, after World War II, tried to remove artificial barriers to the flow of goods, production factors, and capital. This sort of liberalization of international trade had two characteristics: (a) indiscriminate and multilateral liberalization symbolized by the Kennedy Round (the so-called "GATT" — General Agreement on Tariffs and Trade), and (b) liberalization within the bloc economy in the countries concerned. In the latter case, when countries try to cooperate or to harmonize their respective economic policies, we might consider this as economic integration in a wide sense. According to Bela Balassa, the process of integration is classified by its stages as follows: (a) free trade area, (b) customs union, (c) common market, (d) economic union, and (e) total economic integration. In the last case, a supranational authority might be set up in which a unified budget and financial and social policy are carried out. Given these definitions and our concept of socialist countries, I wonder why economic integration of the highest stage has not been realized in the CMEA so far. In answer to this question it is usually said that East European countries, especially Romania, have feared that arbitrary control would be exercised by the Soviet Union through the supranational authority. Does the CMEA have any plans to establish a supranational authority based on truly democratic principles after closing the gaps among economic levels within the CMEA in the future?

Second, in 1970 the EC (European Community) introduced a "common foreign trade policy," according to which member nations would not be allowed to conclude bilateral agreements for foreign trade with socialist countries after 1975. Agreements concluded before 1975 would cease to be valid after that year. CMEA countries, which wanted to develop foreign trade with EC countries, were troubled by this policy, which suggested that they had to conclude treaties with the EC as a whole instead of with individual members after 1975. As a countermeasure the CMEA established the Trust-Committee in 1976. The draft of a general foreign trade agreement was proposed by this Trust-Committee; however, it was rejected by the EC, which asserted that the Trust-Committee of the CMEA could not have the representative right according to international law and could not be recognized as an equal partner in negotiations with the EC. In a realistic reaction, the CMEA countries, instead of concluding bilateral trade agreements, tried to conclude an agreement for scientific, technical, and industrial cooperation, and then, as the following step, set goals to conclude agreements for steel, steel goods, and textile

trade between the EC and each member CMEA country. I would like to know more details about the relations between Hungary and the EC.

Third, are there any contradictions between the Comprehensive Program and the long-term specific programs? As Sipos mentioned, in 1971 the Complex Program was considered fundamental. However, at the following general meeting of the CMEA in 1974 the long-term specific programs were adopted. There are many observers who say that the relation between the two is not always clear. If there is consistency in the two programs, what relations exist between them?

Fourth, Western observers often say that the Soviet Union has been exploiting CMEA countries, achieving an inequivalent exchange of goods through unfair pricing, for example, of Polish coal and so on. However, it is also said that recently the situation has shifted in the opposite direction, with the CMEA countries becoming a burden to the Soviet Union. For example, the USSR exports oil to the CMEA countries at a price below that of the world market, and is then paid in soft currency instead of getting hard currency. What benefit does the Soviet Union expect to obtain in return for this lost revenue? Is it a political one? Who benefits more from economic contact within the CMEA, the Soviet Union or East European countries?

Fifth, I would like to know more about the long-term agricultural joint projects in the CMEA. At present the Soviet Union is a big buyer of agricultural products from Hungary, Bulgaria and so on. However, in the future, she wants to become a self-supporting country through the so-called "food program up to 1990" initiated in 1982. In that case, what kind of international division of labor is expected in the long-term agricultural joint program within the CMEA?

Sixth, in foreign trade statistics important categories such as crude oil and refined oil products have been aggregated and quantities have been dropped since 1976. There seems to be a general trend toward increased concealment of data in Soviet economic statistics. According to the investigation of Trembl's group, in foreign trade statistics for 1972, 55 percent of total trade turnover was reported in quantities, whereas for 1978 quantities were given for only 22 percent of the total. This phenomenon has been visible in statistical data not only in the Soviet Union but also in East European countries since 1976. Why has this phenomenon occurred? Some say that it must have something to do with the serious economic situation in the concerned countries.

Finally, after the Polish economic crisis did the policy, which was heavily oriented to foreign trade in the 1970s, undergo a change? If so, in which direction did it change? In other words, what did the CMEA learn from the Polish event? Considering the serious accumulation of debts in the CMEA countries and the recession in the Western bloc, there seems to be little possibility of increased trade between the two blocs. In addition, the CMEA might hesitate to expand foreign trade for the time being if it has learned the risk of the casino-like world market, and might turn inwards. Taking advantage of this opportunity the CMEA might try to adjust the economic mechanisms within itself in order to become stronger economically.

## Discussion

Concerning the comments of the two discussants, Sipos answered briefly that he knows very well that the CMEA has many difficulties to resolve. The problems presented by Miyanabe were too complicated for him to discuss in the time allowed. In addition, there are many definitions of economic integration. Sipos pointed out that Khrushchev's integration concept had been opposed by Hungary as well as Romania. As far as he knew, there were no agreements between the EC and the CMEA as a whole. But each country had concluded direct agreements with other countries; Yugoslavia, Romania and Hungary had agreements with West Germany, France, and so on.

Sipos said that he saw no contradiction between the Comprehensive Program and the long-term specific programs. After the adoption of the Comprehensive Program, energy and raw material needs had been felt more keenly. Hungarians had been forced to take measures to remedy the situation, as the long-term specific programs show. Therefore, they decided to adopt them in 1974.

As for economic relations between the Soviet Union and East European countries, Sipos answered that, so far, at least, good compensatory relations exist: raw materials and fuel from the Soviet Union are exchanged for food, consumer goods, and some industrial products from East European countries. In the case of Hungary and the Soviet Union there is a good compensatory trade relationship. This trade benefits both countries. Further, he said that Hungary has no opportunities to export food to EC countries because of overproduction and a protective policy for agriculture in the EC. Concerning the Soviet market for food, he thinks it will be a long time before the USSR becomes a self-supporting country in the production of grain and meats. Within the CMEA there are many agreements to work together to develop agriculture, as shown by the long-term joint agricultural projects. They include special programs in the production of such grains as corn and wheat, in breeding technology, and in the corn production system.

Kun expressed interest in the convertibility of the transferable rouble and in the ability of the Soviet Union to deliver crude oil and fuel. Sipos pointed out that Hungary had planned to make the forint convertible many years ago, but that then, because of her internal circumstances and her economic power, the time had not yet been ripe to do so. This situation has not changed so far. As for the fuel issue, Sipos offered that Hungary produces only two million tons of oil a year while consuming more than eight million tons. Because the ability of the Soviet Union to deliver oil for export is nearing its upper limit, Hungary also decided to build an atomic power station, which was completed in 1982. This is one way to resolve the problem.

On the issue of the convertibility of national currency many arguments came from the floor. Ocić argued about the preconditions for making a national currency convertible, saying that the most important precondition is the particular country's ability to export. It is certain that CMEA exports are hindered in part by pro-

tectionism within the EC, as Sipos had said; at the same time, however, he stated that Yugoslavs should try to improve the prices, quality, design, etc. of goods for export in order to make them more competitive. They had tried to make the dinar convertible in 1971, but it had proved to be only partially convertible. This indicates that a nation cannot use its currency as a medium of exchange in all cases unless it has a high level of competitive power.

With regard to the degree of convertibility, many concepts such as external, internal, and passive convertibility, and conversion into gold were mentioned. However, there was no time to discuss these concepts at the session. Instead, some ways in which a national currency is actually converted into hard currency were noted by Sipos. For example, in Hungary citizens can ask to convert forints into hard currency at the Central Bank. When citizens travel abroad, for example, for two weeks, 12,000 forint may be exchanged for dollars or other optional currency. Every year more than five million Hungarians go abroad. In the same period, more than fifteen million tourists come to Hungary from abroad, exchanging their own national currency for forints. Of course, foreign trade companies in Hungary have the right to use foreign currency. Currently agricultural products exported by Hungary to the Soviet Union are paid for not with roubles but with dollars. Similarly, there are two types of goods traded within the CMEA — hard goods (paid for with hard currency) and soft goods (paid for with soft currency) — the proportion of which it is usually difficult to determine due to insufficient statistical data. The problem of convertibility, and of the transferable rouble, is in practice that the balance of transferable roubles in a CMEA country is not always available for trade with a third country. Thus this system makes it difficult to develop multilateral trade.

Sato noted that Sipos had put too much emphasis on the part played by the production coordination project in the process of facilitating CMEA integration. However, Sato wondered how it was possible to calculate the costs and benefits of integration, of the CMEA investment program and so on, without realistic foreign exchange rates, as Morita had pointed out. In addition, any rational price system for trade among the CMEA countries is impossible if there are no realistic foreign exchange rates. Mochizuki pointed out that if the principle of pricing based on world market prices were adopted, for example, then in the case of Hungary agriculture would be at a relative advantage while the processing industry would be unlikely to be developed without some kind of protection.