Spring 1988

International trade and investment in Eastern Europe and the Soviet Union

Yassaman Saadatmand

*University of New Hampshire, Durham*

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International trade and investment in Eastern Europe and the Soviet Union

Saadatmand, Yassaman, Ph.D.

University of New Hampshire, 1988
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UMI
INTERNATIONAL TRADE AND INVESTMENT IN EASTERN EUROPE AND THE SOVIET UNION

BY

Yassaman Saadatmand

BA, N.I.O.C. College of Finance and Accountancy (1975)
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in Partial Fulfillment of
the Requirements for the Degree of

Doctor of Philosophy
in
Economics

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12/16/87
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To my parents
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ABSTRACT

INTERNATIONAL TRADE AND INVESTMENT IN EASTERN EUROPE AND THE SOVIET UNION

by

Yassaman Saadatmand
University of New Hampshire, May 1988

How should one analyze the economic relations between advanced capitalist systems and other economic systems? So far the economists have mainly concentrated their efforts on studying the relations between developed capitalist countries (henceforth DCs) and the less developed countries (henceforth LDCs) of the world. There has not, however, been a significant effort in devising a systematic theory of economic relations between DCs and the socialist countries. I intend for my dissertation to be a contribution in that direction. It is concerned with investigating the role of international trade and investment in the countries of Eastern Europe.

In the process of observing the economic relations of the DCs and LDCs, two major schools of thought have emerged: the dependency school and the diffusionist (mainstream neo-classical) school. The latter, in general, sees the positive aspects of the links between DCs and the poor countries. The dependency perspective, on the other hand, argues that the problems of the poor (peripheral) countries are, in fact, their economic relations with the DCs (center). The exploitation by the center draws off most of the surplus that
otherwise might have been used in the process of industrialization of the poor countries.

My dissertation begins by examining how these two schools of thought have been theoretically successful in incorporating yet another dimension of the economic relations between different economic systems - the relations between the DCs and the socialist countries. In addition, my dissertation will also focus on another approach which I will refer to as the 'Eastern European' approach. In the final chapter I will try to empirically verify the validity of the theoretical investigations of these schools. My conclusion is that although all the approaches discussed in my dissertation make some contribution to understanding East-West economic relations, none are entirely successful in presenting an accurate picture of such economic relations.
INTRODUCTION

How should one analyze the economic relations between advanced capitalist countries and other economics systems? So far, the economists, as well as sociologists, have mainly concentrated their efforts on studying the relations between advanced capitalist countries and the less developed countries of Asia, Africa, and Latin America. In this process, two major schools of thought have emerged: the dependency school, and the mainstream neo-classical school (or the diffusionist school as it is often referred to in the development literature).

My dissertation begins by examining how these two schools of thought have been theoretically successful in incorporating yet another dimension of the economic relations between different economic systems -- the relations between the Developed Capitalist Countries (henceforth DCs) and the socialist countries. In addition, my dissertation will analyze another approach which I will refer to as the 'Eastern European' approach. It is a less emphasized view in Western literature, but it is among the dominant views in Eastern Europe, in particular in the more reform oriented countries of Eastern Europe. In my opinion, the inclusion of this school is crucial in understanding how some of the Eastern European economists

---

1 Throughout this dissertation, I will refer to these two schools as the dependency school and the neo-classical school.
interpret the economic relations between East and West and how they view the impact of such relations on their countries.

This dissertation will be divided into six chapters. In chapters two and three I will concentrate on the two dominant schools' views on the economic relations between the DCs and the socialist countries. In the fourth chapter I will examine the Eastern European countries' view on the subject of East-West economic relation, and in the fifth chapter I will try to verify empirically the validity of some of the theoretical investigations of these schools of economic thought. The emphasis will, however, be on the dependency school since it is the only school among the three which has vigorously attempted to theorize the East-West economic relations. Moreover, since it was mainly in the 1970s that the East-West economic relations flourished, I will limit my empirical investigation to that period. Table (I) shows the amount of exports and imports of Eastern Europe with the Western Industrial Countries for the period of 1970-1980.²

My dissertation, however, will not be an "empirical" one, in the sense that it does not attempt to generate elaborate econometric models and then try to test them. It deals primarily with the area of methodology of economic thought applied to the understanding of

² In the same period, in addition to conventional trade, new forms and methods of economic cooperation came into existence. Industrial Cooperation Agreements between the East-West cover a wide range of activities including: licensing, turnkey contracts, subcontracting, production cooperation and joint ventures. There will be a more detailed discussion of Industrial Cooperation Agreements later in the dissertation.
East-West interaction. In other words, I am merely interested in searching for methodologies adopted by different schools of thought in the investigation of East-West economic relations and to locate the consequences resulting from adopting such methodologies. In the process I have to conduct a substantial literature survey, since it is only through such a survey that I will be able to ascertain each school's method of analysis.

At the end of each chapter, I will include a brief criticism of the school discussed in that chapter. I do not intend to present a comprehensive criticism of these school's arguments, since most of the problems associated with their discussion of East-West economic relations stems from their method of analysis and their world outlook in general, which in most cases have in turn been mentioned and criticized by others. I will argue, however, that none of the schools' (approaches) discussed here, have been completely successful in presenting an 'accurate' and comprehensive picture of East-West interactions. By bringing these schools' (approaches) together in my dissertation and examining their problems, I hope to contribute to both a better understanding of East-West economics relations, and to devising a possible "theory" of such interactions.

3 Certainly, one can choose to study how these schools of thought have employed their methodologies in investigation of other phenomenon. My interest is, however, in the East-West interactions.
Table (I)

Foreign Trade of Eastern European Countries and the Soviet Union with the Western Industrial Countries

(millions of U.S. $)

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<td><strong>Eastern Europe:</strong></td>
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<td></td>
<td></td>
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<tr>
<td>Exports</td>
<td>4287</td>
<td>4707</td>
<td>5812</td>
<td>8297</td>
<td>10961</td>
<td>10775</td>
<td>12179</td>
<td>12652</td>
<td>14258</td>
<td>19847</td>
</tr>
<tr>
<td>Imports</td>
<td>4944</td>
<td>5495</td>
<td>7061</td>
<td>10850</td>
<td>16141</td>
<td>17259</td>
<td>18666</td>
<td>18759</td>
<td>20563</td>
<td>22813</td>
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| **Soviet Union:** | | | | | | | | | | |
| Exports | 2393 | 2758 | 2944 | 5093 | 8269 | 8511 | 10392 | 11974 | 12735 | 26981 |
| Imports | 2822 | 2890 | 4150 | 6333 | 8116 | 13452 | 14357 | 13459 | 16064 | 24265 |

Source: *Eastern European Economics* 1981

The neo-classical approach in general sees the positive aspects of the links between advanced capitalist countries and other

---

4 Herold and Kozlov (1983)
economic systems. For instance, in investigating the economic relations between DCs and the poor nations of the world, the neo-classical approach argues that the latter do not possess sufficient production, technology, skills, and values to provide their people with goods and services necessary for raising their standard of living. These countries, it is argued, should seek the advanced industrialized countries' capital, technology, training, and values. This approach tends to see underdevelopment as a situation which all nations have historically experienced. Some have already overcome it, and the rest eventually will, with the help of industrialized countries. (Chilcote et al. 1974 and Stevenson 1980)

In fact, the existence of a dichotomy which constitutes the polar ends of an evolutionary development path is one of the basic assumptions of the neo-classical approach. At one pole, there are traditional societies; at the other, the modern (advanced) societies. The neo-classical approach maintains societies move along this path from traditional to modern. Moreover, since in the process of modernization all societies will experience essentially similar changes, the history of the modern nations is taken as a source of useful generalization. (Valenzuela 1976, Chilcote et al. 1974, Preston 1982 and Bernstein 1979) The definition of modernity constitutes a set of characteristics which can be applied to all societies. Modernity conceptualized in this way, then, may be used as a yardstick to measure the degree of advancement of any society. Such reasoning leads this school to define an underdeveloped country as having
either a per capita income below $300-$400 or as having other characteristics including illiteracy, hierarchy, lack of social mobility, low level of technology and productivity as well as other specific economic and institutional features. (See, for example, Chilcote et al., 1974)

In the perspective of this school, a major impetus to modernize in the now advanced (developed) countries resulted from technological progress which permitted the creation of agricultural surplus and its transportation. Thus, improvement in both technology and in long distance trade were essential stimuli in cultural and institutional transformation and eventually the progress of now advanced (developed) countries. Since the nature of the development (modernization) process is identical for every society and only its pace and intensity differs, it logically follows that economic growth and development in the poor nations (late developed) can largely be generated and sped up by an inflow of foreign aid, investments, and culture from the industrialized countries (early modernizers). Just as technological progress brought forth a new form of production and economic organization hundreds of years ago in the now developed countries, the capital and

---

5 The specific elements included in the definition of 'modernity' and 'traditional' vary substantially in the literature. For a survey of the literature see (47).
technology introduced by these nations into the underdeveloped
nations will transform the poor countries.6 (Bernstein 1979)

The neo-classical economic also stress the positive and
beneficial aspects of East-West economic relations. I will argue that
such a conclusion is mainly due to the fact that these economists
establish their model at a highly abstract level. In other words, in
their model, the behavioral assumption governing the conduct of
economic actors are postulated to be uniform in all economic systems
including economies of Eastern Europe. Consequently, when free
trade is conceptualized to be advantageous to all parties involved it
will be irrelevant if one of these parties is an Eastern European
country with a completely different institutional persuasion.
Therefore, these economists maintain that Eastern Europe countries
and the Soviet Union conduct their trade with the DCs based on the
principle of "comparative advantage". I will devote a part of the fifth
chapter of this dissertation to ascertaining the validity of such a
claim. If these countries are taking advantage of the gains from
trade, stemming from the differences in comparative costs, then one

6 A branch of the modernization approach stresses the differences in values,
outlooks, culture and norms between two polarities. Some authors go so far as
to argue that modernization is possible only when individuals transform
themselves by adopting modern values. (Portes 1976) The stress on such
differences has important implications in regards to the concept of human
nature. The modern developed societies are characterized by the 'rationality'
of their members, whereas individuals in the developing countries behave
"irrationally" on economic grounds. As such, this particular branch differs
from transitional economics in the assumption that rational behavior is a
universal human characteristic. (See Valenzuela (1976) which cites an
argument by W. Moore who has pointed out the differences in the human's
nature in these two polarities.) For a general critique of this school see
should witness a rise in import-domestic supply ratios of those products for which DCs maintain a "comparative cost advantages" in their production. In other words, Eastern European countries and the Soviet Union should rely increasingly on imports to satisfy a growing share of domestic demand. (Brainard 1979) At the same time, one should observe an increase in the export-domestic supply ratios of those products in which these countries possess "comparative cost advantages" in their production. I believe by calculation the ratio of net imports and net exports of different categories of products to actual domestic production of these products, one can more or less determine whether these countries are conducting their trade based on the principle of comparative advantage.

Contrary to the neo-classical approach, the dependency perspective stresses the negative aspects of the links between DCs and other economic systems. For instance, in investigating the economic relations between the DCs and the poor nations of the world, the dependency school stood much of the neo-classical, diffusionist tradition on its head. In general, according to this school, the links to the advanced countries (center, core) were the problem, not the solution, since the exploitation by the center drew off the surplus that otherwise might have been used in the process of industrialization of the poor peripheral countries. Instead of hypothesizing the underdevelopment as an original state, it asserts that the developed societies were never underdeveloped and the present condition of underdevelopment was created. It argues that
the development of any region must be understood in connection with its historical insertion into the worldwide political economic system which came into existence with the European colonialization of the world. (Valenzuela 1976, Chilcote et al. 1974 and Stevenson 1980) In this view, therefore, the traditional modernity polarity has no value in conceptualizing the relations of developed and less developed countries. The presence of traditional and modern features may or may not help to differentiate societies, but it does not explain the origin and existence of modernity in some areas and its lack in the other areas of the world. (Valenzuela 1976 and Chilcote et al. 1974) Instead, it argues the most important and significant defining characteristic of the underdeveloped areas is economic dependency. Such dependency has given a particular form to the economic, social and political systems of the periphery and has produced features and characteristics by which underdevelopment is perceived and recognized. (Stevenson 1980)

Contrary to the assumption that the international division of labor, through comparative advantage, leads to parallel development, the dependency school argues that the different functions of center and periphery have led to the gain of the former at the expense of the latter. The same process which brought progress for the center involved a process of 'subordinate development' or underdevelopment for the periphery.7 (Stevenson 1980)

7 Both underdevelopment and development are aspects of the same phenomenon, both are historically simultaneous, both are linked functionally and, therefore, interact and condition each other mutually. This results in the
The general view is that the incorporation of peripheral countries into the emerging world capitalist economy, first through direct colonialization and then, more subtly, through free trade, resulted in gearing the production of these countries towards producing exports for the center. It also structured the social and political systems of the subordinate areas in a way that ensured the gains from this process flowed mainly to the dominant countries. This, coupled with their concentration on primary product exports, prevented these countries from development of an autonomous capacity for growth and change. (O'Brien 1975)

In recent decades, and with a new transformation in the center, a new form of dependency came into existence. With the emergence of multinational corporations which sought new markets and cheaper production sites for their growing technological manufacturing process, the dependency of the periphery acquired a new character. In this phase, the drainage of surplus from periphery to the center

division of the world between industrial, advanced or "central" countries, and underdeveloped, backward or "peripheral" countries...(cited in Valenzuela (1979))

While the dependency perspective views the center as having a dynamic development responsive to its internal needs, it believes that the economy of the periphery is shaped by and responsive to the requirement or the expansion of the center. (Ibid. and Stevenson 1980) When the center of the system needed to acquire raw materials and sell finished goods, the periphery responded as both supplier and market. The prime mover of this process was capital seeking profits. The capitalists accumulated capital where this could be done cheaply, and invested it where the return to investment was highest, and this led to the surplus drainage from some parts of the world to others. The precise mechanism of dependency, of course, will vary and it is associated with the different periods in the expansion of the world capitalist economy. The dependency theorists generally distinguish three identifiable periods in the process of the world capitalist expansion: colonial, competitive capitalism and monopoly capitalism.
continues, though it now takes such forms as repatriation of profits, royalties, other commissions, interest and transfer pricing. (O'Brien 1975) At this stage a new international division of labor has arisen in which periphery acquires capital goods, technology, and raw materials from the center and exports its traditional raw materials and a few manufacturing items produced by multinational subsidiaries. (Valenzuela 1976) Although in some countries in the periphery a kind of 'dependent industrialization' is taking place, the social and economic costs of this are high and do not eliminate the dependency of these societies. (O'Brien 1975)

Viewing, therefore, the link with the core countries as the source of underdevelopment of the periphery, some authors in the dependency school tradition suggest breaking the chain with the center and initiating an independent industrialization. However, some demand more, and argue that development requires profound alteration of the political social and economic system of peripheral countries including, in particular, change of the market system and mobilization of the domestic population in nationally oriented efforts.

In the second chapter of this dissertation I will attempt to demonstrate that the dependency school's proponents employ the

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8 Based on the dependency approach, while previously the outside control was mainly applied to the underdeveloped countries' exports, at the present stage outside control is exercised over their imports. Moreover, the multinational corporations tend to centralize research, planning and deployment of natural, human, capital resources, and development of science and technology as well as decision making in the developed countries while they concentrate the assembly and routine production of goods in the periphery. (Sunkel (1972) and Sunkel (1973))
same type of methodology, in their investigation of the economic links between DCs and LDC's and in their analysis of the economic relations between DC's and socialist countries. Consequently, they recognize and concentrate on only the ill-effects of these economic relations. The ill-effects which range from socialist countries' complete dependency on the import of Western technology to their import of capitalism itself: "the countries of Eastern Europe and Soviet Union will (are) importing not only Western technology...(but) will be and are already importing capitalism." (Frank 1977)

Furthermore, the dependency school asserts that the manner in which socialist countries insert themselves into the international division of labor is similar to that of the intermediate countries, i.e. Brazil and Mexico. In other words, socialist countries import manufactured goods from DCs and export primary goods to them; at the same time socialist countries import primary goods from Third World countries and export manufactured goods to them. I will attempt to empirically verify this claim in the fifth chapter of the dissertation.

The Eastern European approach,\textsuperscript{9} in contrast to the dependency school, but like the neo-classical school, tends to focus on the positive aspects of the economic relations between East and West. In particular, the imports of Western technology are highly praised

\textsuperscript{9} I have chosen this particular view of East European economists, since it has chiefly emerged in the economic relations, and it almost dissipated with the gradual decline of such relations at the end of the 1970s.
and considered to be crucial for further development of Eastern European countries. It in large treats technology as a neutral and impartial element which can be easily selected off the shelf in the shopping-centers of Western countries and then be installed with no foreseeable problems in the Eastern European enterprises. In contrast to the dependency school, the Eastern European economists' analysis is devoid of any consideration for any existing or potential conflict between two different economic systems. Therefore, although Eastern European economists do not employ the neo-classical school's tools, their method of analysis leads them to almost the same conclusion.

The Eastern European economists, however, like the dependency school, assert that Eastern Europe and the Soviet Union occupy intermediate positions in the international division of labor. In other words, they import Western technology while in return they export raw materials and fuels. They argue that such a pattern of trade, however, does not make Eastern Europe and the Soviet Union dependent on the West. Moreover, in most cases the governments of these countries are able to mitigate the ill-effects of economic ties with the West.

The following table summarizes the methodology adopted by the dependency and neo-classical schools as well as the Eastern European approach. It also indicates some of the consequences of adopting these methodologies and the relevant points for empirical investigation.
I Dependency School

<table>
<thead>
<tr>
<th>Method of Analysis</th>
<th>Consequences</th>
<th>Conclusions and Relevant Points for &quot;Empirical&quot; Verification</th>
</tr>
</thead>
<tbody>
<tr>
<td>a-Frank: Extends his method of analysis of the DCs' and LDCs' economic relations to those of the capitalist and socialist-economic systems.</td>
<td>The economic relations between the East and the West have resulted in the conversion of Socialist countries into the functioning part of the capitalist system.</td>
<td>International investment intensifies the dependency of the socialist countries on the world's market. Therefore, it can only produce harmful effects for the socialist countries.</td>
</tr>
<tr>
<td>b-Wallerstein: Since there exists only one world embracing mode of production, the capitalist mode, there is no need for devising a theory of socialism.</td>
<td>The mere existence of the world capitalist system implies the impossibility of the presence of any other economic system.</td>
<td>Socialist countries occupy an intermediate position in the international division of labor, a position similar to those of &quot;semi-peripheral&quot; capitalist countries.</td>
</tr>
</tbody>
</table>

II Neo-classical School

a-Non theoretical approaches

| i - Case Studies |
| ii - General Description |
| iii - Informed Specialization |
| iv - Taxonomical Studies |

In some cases useful information is produced. In other cases either contradictory statements are produced or illegitimate conclusions are drawn based on limited information.
Method of Analysis

b-Theoretical Approach

Ignores the differences in the socio-economic systems of capitalist and socialist countries, and/or believes such differences are irrelevant and play an insignificant role (as far as assumptions of economic theory are concerned) in the investigation of economic relations of the East and the West.

Consequences

Consumers and firms in the socialist countries are maximizing their utilities and profits, respectively.

Socialist countries conduct their trade according to the principle of comparative advantage.

Socialist countries in their economic relations with the West, in particular in their establishment of joint ventures with Western firms, are "profit maximizers."

III Eastern European Approach

Acknowledges the existence of two different economic systems in the world, but suggests that some form of coexistence between them is possible.

East-West economic relations help to solve a number of common problems. Movements are in the direction of mutually advantageous trade and co-operative foster forces of peace and socialism in the world.

In general, their analyses are void of any consideration for the potential conflicts of interest between Eastern Europe and the Western firms.

Although the socialist countries occupy an intermediate position in the international division of labor, they are not dependent on the Western countries.
CHAPTER II

The Dependency School

In exploring how the dependency school has viewed the economic relations of the industrialized capitalist countries and the socialist nations, one from the outset faces difficulty. The difficulty arises because the proponents of this approach were and are mainly concerned with studying and investigating the relations between the advanced capitalist countries of the world and the less developed countries, in particular those in Latin America, and inquiring into the cause of underdevelopment of the periphery. The difficulty is further compounded when one considers that in recent years the dependency school has dominated the research in the social sciences including development economics which makes it literally impossible to discuss the overwhelming mass of writing by its advocates. Added to these difficulties are the complex roots of the dependency analyses which draw inspiration from a variety of intellectual traditions ranging from Marxism to the post-1948 ECLA critique of the neo-classical theory of international trade and economic development.¹

¹ These difficulties plus several more have been recognized by Gabriel Palma. (1978) His superb survey of dependency literature appeared in World Development. ECLA is the United Nations Economic Commission for Latin America, which aimed to show that the prevalent international division of labor in contrast to the conventional wisdom was of much greater benefit to the center than to the periphery. There were two
The existence of such difficulties makes the process of generalization and classification inevitable for almost any study of this school, especially if one wants to analyze the dependency school view of the relations between advanced capitalist countries and socialist nations. Due to the deficiency of explicit references of the dependency school's adherents to the relations between capitalist and socialist countries, one should mainly rely on the process of deduction. By the process of deduction I mean, with the help of this school's extensive writing on the subject of the relations of advanced capitalist countries and less developed countries, one tries to infer how it might view the relations among advanced capitalist countries and socialist ones. In other words one attempts to explore the underlying methodology and reach by reasoning the conclusion at which they themselves would have arrived, if they had chosen to investigate the relations of advanced capitalist countries and socialist nations. This logical conclusion can then be supported by reference to their scattered writings on the subject of my study.

Palma (1978) has distinguished three major approaches and categories in the dependency analyses. The first is that begun by

reasons for this: First, the factor and commodity markets were oligopolistic in the center, which lead to a long-term decline in the terms of trade for the periphery; and the center's income elasticity of demand for the periphery's imports from the center was increasing. While the periphery's income elasticity of demand for the imports from the center was increasing, the result was a chronic balance of payments problem. Second, there were a number of benefits associated with concentration in industrial production, such as increase in productivity, which lead to the higher wages and other factor prices in the center. Palma (1978) and O'Brien (1975)

It should be mentioned that Palma uses this classification in regards to the dependency writers who are concerned with Latin America; but since the
Frank, and its essential characteristic is its efforts to build a theory of underdevelopment. The second approach is found in the works of Sunkel and Furtado and is distinguished by its attempts to "reformulate the ECLA analyses of Latin American development from the perspective of a critique of the obstacles to 'national development'." (Palma 1978, P. 898) The third approach does not attempt to construct a theory of dependency; rather, it concentrates on studying the "concrete forms in which dependent relationships develop" and examines the distinct and unique forms in which the economics and politics of each country in the periphery are articulated with those of the advanced capitalist countries.³ (Palma 1978, p. 898)

In my study I will use the Palma's classification, with concentration on the first and second approaches, and for the reasons which will be stated later, in particular on the first one. I will not deal with the third category of authors in the dependency tradition.

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³ I do not wish to imply that the third approach is atheoretical; rather, as Palma has stated it "deliberately attempts not to develop a mechanico-formal theory of Latin America underdevelopment based on its dependent character." (Ibid., P. 898) In brief, the third approach argues that: 1) Latin American societies are part of the world capitalist system, as a result "a basic element for the understanding of these societies is given by the general determinants of the world capitalist system." (Ibid., P. 909) 2) Latin American countries exhibit "social asymmetries" which is in part due to their internal conditions. Consequently, understanding their "internal determinants" is extremely important. 3) Finally, it is only through a study of "how the general and specific determinants interact in particular and concrete situations" that one can get an accurate picture of the Latin American economic development. (Ibid., P. 910)
The reason is not that I believe they are unimportant or their contribution is insignificant, but rather that they have concentrated their study on the concrete situation of underdevelopment, and hence it is impossible to deduce what would have been their conclusions if instead they had analyzed concretely the relations of each Eastern European country with the advanced capitalist nations.

From the first categories, I will discuss the work of A.G. Frank, and J. Wallerstein, and from the second category the work of O. Sunkel. This selection is not arbitrary. I have chosen Frank, since he is one of the founders of the dependency schools and his works are widely known among and cited by the development economists. And the discussion of dependency school is so closely associated with Frank's name and his work that some consider him the creator of a new paradigm. Wallerstein was chosen since I agree with Gulap, Haldun (1981) who argues that Wallerstein's world system approach has cleared up some of the inconsistencies which exist in Frank's arguments, especially the inconsistency in regards to the transfer of surplus from the periphery to the center and the attribution of underdevelopment of the periphery to such transfer. Wallerstein's

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4 Some even call Frank the founder of the dependency school. (Gulap, Haldun). (1981) Whether he or Baran is the founder of this school is not a point of my concern; however, it should be mentioned that Frank has acknowledged profusely his debt to Paul Baran's *The Political Economy of Growth*. (Baran 1957)

5 Fosten-Carter (1976) by using the Kuhnian Concept of scientific revolution, argues that Frank's writing represents a new paradigm which is increasingly challenging the predominant paradigm exemplified by the works of Rostow. If one agrees with Carter, then the study of Frank's writings becomes a must.
framework of analysis, however, is different from Frank's, but since he has similarly attempted to develop a theory of underdevelopment, I believe exploring his world system under the same category as Frank's is appropriate. In the following sections of this chapter, I will first discuss the underlying points of argument of each one of the previously mentioned dependency analysts in regards to the relations between the "center" and the "periphery." This is going to be a painstaking and rather lengthy process, but it has to be done in order to take the second step. Second, in light of their methodology and with the help of their writings (if any) on the trade and investments of advanced capitalist countries with the socialist countries, I will try to distinguish how they would observe such economic relations. Finally, I will review the major critical points of their arguments.

6 In the following section, it will become clear to the readers that Frank and Wallerstein each employ a different framework of analysis.

7 This action contrasts with some views which maintain that the world system approach is not another variation of the dependency "theory," since "the question of exogenous effects on development is no longer phrased in terms of the strength or weakness of links between the center and a given peripheral country. Rather, the issue is phrased in terms of the consequences of occupying a given structural position within the world system as a whole." (Evans 1979)

8 My purpose is not to critically evaluate these authors. They have been criticized elsewhere. I am merely exploring their ideas. In the process, I will attempt to show that their methodology leads them to reach the same conclusion in both cases of LDCs-DCs economic relations and East-West economic relations.
Part One: Dependency as the "Theory" of Underdevelopment:

2.1. Frank.

Frank has declared his task as participation in constructing a theory of capitalist development and underdevelopment.9 "My general purpose is to contribute to the building of a more adequate general theory of capitalist economic development and particularly underdevelopment." (Frank 1969, P. 13) In doing so in his analysis of underdevelopment of Chile, he attributes this underdevelopment to the four centuries of capitalist development in Chile. In order to show that underdevelopment is a result of capitalism, Frank starts with the proposition that the Chilean economy (and for that matter all of Latin America) has been capitalist since its insertion into the world economy: "Capitalism began to penetrate, to form, indeed fully

9 Whether constructing such a theory is possible has been questioned. For example Henry Bernstein (1979) using Hirst's (1976) definition of theory as "a logical structure of concepts which designates an object to be explained and which provides a mechanism of explanation for that object" argues that a theory of underdevelopment is impossible to construct, since underdevelopment does not "constitute a coherent object of explanation." Arguing against a diffusionist model of development, he states "the dualism established by the conceptual couple, modernity-tradition embodies a circularity which cannot produce any theoretical advance, any explanation other than that already given by definition of the terms." He then argues the same is also true for underdevelopment theory. Based on this theory development is associated with a 'normal' capitalist development of the center which cannot occur since the capitalist development of the center requires the underdevelopment of the periphery. "This is an effect of the lack of an adequate theorization and problematization of the concept of capitalism." The underdevelopment theorists' statement that no country in the Third World can become another United States in fact is "a negative theology: stating what cannot occur provides no means of investigating what does occur." (Bernstein, 1979)
characterize Latin America as early as the Sixteenth Century conquest." (Frank 1969, P. xii)

2.1.1. Contradictions of Capitalism and Underdevelopment:

One may then ask what it is in capitalism which has generated underdevelopment in these economies. To answer this question, Frank enumerates three contradictions of capitalism to which the causes of underdevelopment should be traced. These contradictions are "the expropriation of economic surplus from many and its appropriation by few, the polarization of capitalist system into metropolitan centers and peripheral satellites, and the continuity of the fundamental structure of capitalist system throughout its history of expansion." (Frank 1969, P. 3) To explain the first contradiction "the expropriation/appropriation of economic surplus" he employs the definition of economic surplus as has been used by Paul Baran. (1975) Baran makes a distinction between "actual" and "potential" economic surplus. The "actual" is the part of current production which is invested, and "potential" is part of economic surplus which has not been made available to the society because the monopoly structure of the economy has either prevented its production or has wasted it in luxury consumption. "Therefore, the nonrealization and unavailability for investment of 'potential' economic surplus is due essentially to the monopoly structure of capitalism." (Baran 1975, P. 7) He then goes on to argue that the external monopoly describes the manner in which Chile has been integrated into the world economy. And since then "the external monopoly has always resulted in the
expropriation (and consequently unavailability to Chile) of a significant part of the economic surplus produced in Chile and its appropriation by another part of the world." (Baran 1975, P. 7) Such an "exploitative relation" in a chain-like manner spread the capitalist link from the capitalist world to the remotest regions of the periphery. The extraction of surplus or this "exploitative relation" takes place not only between regions but also between individuals due to the exertion of the monopoly power by one region over another or by an individual over another individual. The implication is then that a merchant is a capitalist who due to his (her) monopoly power exploits a small peasant by expropriating his/her surplus. And at the same time the capitalists at various levels may be both exploiting and exploited. (Gulap, Haldun 1981, P. 172) The expropriation and appropriation of the periphery's surplus by the center is one of the major causes if not the cause of underdevelopment of the periphery. "The satellites remain underdeveloped for lack of access to their own surplus." (Frank 1969, P. 9)

The second contradiction of capitalism which Frank regards as a cause of underdevelopment is that "the capitalism takes the form of polarization10 into metropolitan centers and peripheral satellites." (Frank 1969, P. 8) The same historical process which has created development in the center simultaneously generated

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10 Why does such a polarization take place? Frank's answer is due to the "imminent centralization of capitalist system." (Frank 1969, P. 8)
underdevelopment in the periphery. "The metropolis expropriates economic surplus from its satellite and appropriates it for its economic development." (Frank 1969, P. 9) It should be understood, therefore, that it is the inevitable consequence of the world capitalist system that the development of the center takes place at the expense of the periphery. Frank also argues this process of polarization extends to the internal structure of the underdeveloped country itself. "Once a country or a people is converted into the satellite of an external capitalist metropolis the contradictions of capitalism are created on the domestic level and come to generate tendencies toward development in the national metropolis and toward underdevelopment in its domestic satellites..." (Frank 1969, P. 10) From the above analysis Frank reaches one of his major conclusions or solutions for the 'problem' of underdevelopment. He presents a "subsidiary thesis" which is "If it is satellite status which generates underdevelopment, then a weaker or lesser degree of metropolis-satellite relations may generate less deep structural underdevelopment and/or allow for more possibility of local development." (Frank 1969, P. 11) Then he goes on to argue that at any period of capitalist development during which the link between center and periphery momentarily weakened, such as during periods of world wars and global depressions, there were temporary outbursts of development in the periphery. Frank's delinking thesis is both one of the weakest and at the same time the most important point of his argument. It is one of the weakest, since it is probably
the most critized aspect of his argument. It has been constantly attacked by the Marxist critics; and it is one of the most important points of his argument, because although Frank takes advantage of every opportunity to assert that the simple process of delinking from the world is not sufficient for the development of the periphery and it has to be accompanied by the radical changes in both economic and political systems of these countries. Nevertheless the simple delinking process has haunted his work and, as it will be discussed later, its ghost has even appeared in his discussion of economic relations between socialist countries and the world market economy.

The final major contradiction of the capitalist system based on Frank is the "contradiction of continuity in change." By this he means "the continuity and ubiquity of the structural essentials of economic development and underdevelopment of the capitalist system at all times and places." (Frank 1969, P. 12) This is a rather simple thesis which states that, regardless of any transformation that capitalism has undergone, it has maintained its essential characteristics and generated the same fundamental contradictions. Applying this feature to the periphery means "emphasis on the continuity of capitalist structure and its generation of underdevelopment..." (Frank 1969, P. 13) This "continuity in change" clearly is not one of the contradictions of the capitalist system. It however allows Frank to concentrate his emphasis on the two previously mentioned contradictions.

11 I will discuss the points raised by Frank’s critics later in this chapter.
12 However, I will argue later that Frank believes that such delinking is a necessary condition for the development of periphery.
Based on what has been mentioned so far it can be seen that Frank's theoretical scheme involves three major assertions. The first is that Latin America and other areas of periphery have been integrated into the capitalist world economy since the early period of colonial conquest. The second is that this incorporation has transformed these societies immediately into capitalist economies and finally the dependent nature of such insertion into the capitalist world market, which has been accompanied by an endless metropolis-satellite chain through which the surplus is successively drawn off toward the center, is the cause of underdevelopment of the periphery. (Palma (1978) & Laclau (1971))

If one agrees with Frank's theoretical assertions and then tries to expand them to the economic relations between socialist countries and the capitalist world economy, then the following conclusions should be expected. Since it is the integration in the capitalist world economy which is the determinant in defining a country's economics system, then those socialist countries which are incorporated into the capitalist world market are not socialist at all.

Frank, himself, does not deal extensively with the question of socialist countries until he starts to analyze the recent crisis of the capitalist world economy and emergence of a new international division of labor. To understand the connection one must first step back and delineate the theoretical content of his treatment of the international division of labor in general, and the new international division of labor in particular.
2.1.2. Stages of Capitalist Development and the International Division of Labor:
Frank distinguishes three main stages in the world embracing process of capitalist development: mercantilist (1500-1770), industrial capitalist (1770-1870), and imperialist (1870-1930), with each stage demonstrating a particular pattern of international division of labor. As will be discussed later, Frank in fact considers the period of 1930 up to the present time as the neoimperialist period. Whether he considers this period as a new stage in the process of world capitalist development is not clear in his writings. The first stage was dominated by the marked increase of European commercial activities and growth of colonial production for export. (Frank 1979, P. 13) In this period the world division of labor and the pattern of trade can be "divided into two major triangles, the Asian or Oriental and the Atlantic." (Frank 1979, P. 13) The Oriental triangle involved fundamentally the export of spices and textiles to Europe, and "their payment in bullion of European origin." In the Sixteenth Century with the incorporation of parts of Africa and the New World into the mercantile capitalist system, part of the exports from Asia were re-exported by Europe to America and Asia; "and an increasingly part of the Oriental goods was paid for by Europe with American slaves." (Frank 1979, P.13) In the Atlantic triangle the African slaves were purchased by British (and Asian) manufacturers; transported to the plantations, they produced sugar, cotton, and other raw materials which were then shipped back to Europe. To this major triangle, Frank argues, others must be added such as the Spanish American gold and silver trade, which fed the Asian trade.
In short, the stage of mercantile capitalism is marked by the European search for foreign products. (Frank 1979, PP. 14-16)

According to Frank, the second stage of the world capitalist development included a wide expansion of world trade as well as significant changes in the international division of labor. During this stage, which began with the Industrial Revolution in Europe, the search for foreign products was shifted to exploring for outlets for European manufacturers. Europe commenced to export manufactured goods, in particular textiles, in exchange for raw materials from the colonies. This fundamental change in the international division of labor had far reaching effects on the economies of the colonial countries. Frank believes, however, that these changes did not take place simultaneously everywhere. For example, at the end of the Eighteenth Century, when in Latin America the growth of raw materials export coupled with the increase in imports of manufacturing goods led to the destruction of local manufacturing, India was still exporting large quantities of textiles to Europe. The process of deindustrialization of India did not happen until the first half of the Nineteenth Century when the country became an importer of manufactured goods and exporter of raw materials. (Frank 1979, PP. 76-78)  

Frank concludes that in the second stage of world capitalist development the changes in the international division of labor were strongly to the detriment of the present underdeveloped countries. During this period while Britain and later on the other European

13 For more information on deindustrialization of India, see Amiya Bagchi (1976).
countries and the United States were industrializing, the rest of the world became specialized in the production of food and raw materials to feed the workers and industry of these countries. (Frank 1979, P. 131)

Frank's discussion of changes in the international division of labor in the third stage of world capitalist development seems closely linked with his analysis of such changes in the neoimperialist period, which according to him started in the 1930s and extended to the present time. (Frank 1972) In his discussion of these changes one can notice once more, the importance of the concept of "delinking" from the capitalist world market and the central role which the concept plays in his general argument. He continuously tries to show how such "delinking" brought about the development of the productive forces of the underdeveloped countries and this, in turn, helped them to gain a new and improved position in the international division of labor.

2.1.3. The Imperialist Stage and the Semi-Periphery:
The imperialist stage is characterized by the domination of monopoly capital in the metropole. During this period, Frank argues the high demand for raw materials and the lure of the profits in producing and exporting them encouraged investment in the infrastructure in the satellites. The metropolis invaded the agricultural sector of the underdeveloped countries and if they did not get the land they obtained its products, since they "monopolized the merchandising of agricultural -and most other- products." (Frank 1972, P. 69) To get these products out of the periphery, the metropolis stimulated
construction of ports and railroads and public utilities to service all these activities. The conversion of most of the LDCs to a primary monoproduct export economy was implemented in the colonial epoch and consolidated by the imperialist policies.

The first World War caused a temporary cessation of foreign trade and investment penetration in the satellite which led to some industrial development there. Immediately after the War, however, the metropolis expanded its grip to include precisely those sectors of industry, i.e. consumer goods, which had been recently initiated by the local capital and turned out to be profitable. Frank then goes on to discuss another important period of isolation of the LDCs from the world market. The 1929 crash brought another respite from foreign trade and investment which was continued by World War II and lasted up to the early 1950s. Such weakening of the economic ties with the metropole created a condition for implementing the policy of import substitution in some of the satellite countries. These countries began to produce consumer goods which they had previously imported. To continue the process of import-substitution these countries were obliged to import industrial equipment from abroad. "That is, they simply substituted one type of import for another, which renewed their dependence on the metropolis and ultimately led to a renewal of foreign investments." (Frank 1972, P. 85)

As a result of the adoption of an import-substitution policy the nature of imports of some peripheral countries changed and led to a significant degree of substitution of nationally produced consumer goods for imports. The national industry, however, began to import a
greater volume of raw materials and capital goods as inputs for the manufacturing sector. As a result of choosing the import substitution policy the external vulnerability of these countries did not diminish. Indeed, these countries became more vulnerable and more dependent, because of the strategic nature of their imports. (Frank 1972, P. 86) Moreover, they had to pay for such capital goods imported through their exports. In order to pay for these imports they borrowed and eventually invited the multinational corporations to set up operations in their country in the hope that they would bring the capital and capital equipment into the country.

Nevertheless, according to Frank some of these countries underwent a certain kind of industrial development and have become to a certain extent, "economies that could be classified as intermediate, or semiperipheral." These countries participated in the international division of labor in a different way; they exported not so much raw materials and simple manufactured goods but industrial goods produced by the heavy industrial sector and especially the armaments industry. (Frank 1979, P. 55) Therefore, a process of differentiation has been happening among the countries of the periphery, a process which has intensified with the emergence of a new international division of labor.

2.1.4. The New International Division of Labor and the Semi-Periphery:

In Frank's account another "fundamental" development has been occurring in the international division of labor since the mid 1960s. And it is in his discussion of these "fundamental" changes that Frank
links the process of world capitalist development to the socialist countries. Therefore, a more detailed analysis of his discussion of these recent developments is essential for continuing our discussion. Frank's explanation of the recent changes in the international division of labor is rooted in his analysis of world economic crisis. "The periods of crisis in the process of capital accumulation have in the past brought with them important qualitative changes in the international division of labor." (Frank 1981, P. 25) And there is no exception in the present crisis which started in the mid-1960s. The crisis itself means that the process of capital accumulation, in other words growth, "no longer functions as it did in the past." (Frank 1981, P. 25) Frank's explanation of the causes of the present crisis centers around the increase in capital-labor ratio, and the increase in the cost of production and in particular the wages. "Since the mid 1960s in the industrial economies the increase in the capital-labor ratio, as well as the associated increase in workers bargaining power and militancy have led to a decline in the rate of profit" and consequently in the rate of growth. (Frank 1981, P. 114)

In order to repeat a long boom, such as that of the post war period, the rate of profit has to increase and new technology must be developed. For this to happen, Frank argues the old industries have to be replaced by new ones, "the capital needs to take investment

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14 Frank's discussion at this point creates some confusion. It is not clear whether each stage of capitalist development brings a particular pattern of international division of labor, or whether the economic crises do so. It is also possible he means that it is in the third stage of capitalist development that with any economic crisis one can see a new international division of labor. For criticism of his theory of crisis see (Bernstein and Nicholas, 1983)
out of textiles and automobile and put it into new technology." (Frank 1981, P. 51) Moreover, there has to be a significant modification in the international division of labor, a process which has already started.

Among the manifestations of this new transformation in the international division of labor is the role played by the intermediate or subimperialist economies. These countries are able to take advantage of the new situation and try to find a new place in the international division of labor. And they are becoming increasingly the producers and exporters of machinery and capital goods. (Frank 1981, P. 21 & 47) These changes imply further capitalist development for these countries. From the point of view of industrialized countries, moving labor intensive and some very capital intensive industries, such as steel, shipbuilding, and automobiles to the Third World is advantageous, since it releases capital from the industries which are deeply in trouble and makes it available for investment in development of technology needed for creation and expansion of new leading sectors. (Frank 1981, P. 112 & 129) The development of new sources of energy, exploitation of the oceans and ocean floors for minerals, and advances in the field of biochemistry and genetics are among the possible list of leading sectors. (Frank 1981, P. 18 & 19)

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15 Mansred Bienfeld and Martin Godfray (1982) argue that the newly industrialized countries were able to take advantage of very unique world conditions in the late 1960s.
16 Because of problems in demand and high cost of production. (Frank 1977, P. 112)
Another major change in the international division of labor according to Frank is the resettlement of labor-intensive industries from developed countries to some of the underdeveloped economies. The transferred industries have included textiles, clothing, and footwear, as well as manufacturing processes such as the fabrication of electronic components. (Frank 1977, P. 112) These are industries which have become relatively labor intensive, labor intensive with high cost, and they are displaced to low-wage areas. From the point of view of the Third World, this move represents a policy of export promotion. In these countries, foreign capital has mainly set up manufacturing facilities to produce solely for export, rather than for domestic markets. South Korea, Taiwan, Hong Kong and Singapore were among the first Third World countries to adopt the export promotion policy. These economies offer cheap labor and compete with each other in providing any forms of tax relief to attract foreign capital.

The export promotion policy has led to some internal consequences which are significantly different from those of import substitution. In the period of import substitution, maintenance and expansion of the internal market for selling locally produced goods aimed at the local market were essential, and import substitution policy in turn required more or less an equal distribution of income. The new industrial production is now to a great extent geared to exports. The workers are not the consumers anymore, and as a result it is not in the interest of capital that the workers have an income sufficiently great to provide an effective demand. The natural consequences will be the intensification of misery and intolerable
living conditions for the majority of the population of these countries. (Frank 1981, P. 49)

It is important to notice that it seems for Frank the role of less developed countries in response to the crisis of capital accumulation in the center is primarily as suppliers 17 of cheap labor. This kind of argument does not distinguish between the role of less developed countries in the period of crisis and their role during the periods of boom in the world capitalist economy. What is demanded of them now is essentially the same as always. (Bernstein and Nicholas 1983, P. 11) Frank himself has expressed the same idea: "new dependent export-led growth of manufacturing and agribusiness production for the world market are in no way significantly different from the old raw materials export-led growth which underdeveloped the Third World in the first place." (cited in Bernstein and Nicholas 1983, PP. 11-12)

2.1.5. The New International Division of Labor and Socialist Countries:

According to Frank, among the most important elements of the new international division of labor is the "reintegration of the socialist economies into the world market." He argues that the socialist countries were only temporarily relatively isolated" from the world market. This isolation was only partly due to their choice,

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17 As was mentioned earlier, Frank believes that LDC's are also recipients of some capital-intensive industries, but their role is primarily the suppliers of cheap labor.
it was mainly forced upon them by the capitalist world in reaction to the socialist countries' internal policy of transformation of property rights. The adoption of isolation policy (delinking policy) is one of the major reasons that these countries now can participate in the world capitalist economy on a basis which is "remotely equal" to that of the industrialized capitalist countries.

Only some 'socialist' economies can now knock on the door of or challenge the capitalist inner sanctum, because they were temporarily relatively isolated from the capitalist international division of labor. (Frank 1981, P.138)

There were two reasons for the reintegration of the socialist countries into the world market. One is the pull of the West which is in crisis; the other is the push of economic and political crisis in the East. (Frank 1981, P. 113) As was mentioned earlier in Frank's account, to restore the period of growth, the developed capitalist countries have to transfer some of the "sick" industries and some of the labor intensive ones to the other parts of the world. The other parts of the world include some of the Third World countries as well as socialist economies. In the socialist countries as well as these Third World countries the wages are lower and the labor discipline is higher than in the advanced capitalist economies.

The most politically sensitive mass-production are moved out and in this way capital can control labor in the imperialist countries, while it can produce in the Soviet Union not only at low wage but also with disciplined labor and no strike. (Frank 1981, P.37)
For this reason the automobile and steel industries are moving their facilities to Brazil, South Korea, and the Soviet Union. Some internal reasons have also led to the reinsertion of the socialist economies into the capitalist international division of labor. The most significant of these is the economic fluctuations in investment and income which seem to assume a pattern of cycles of about eight years' duration. Frank argues that an entirely satisfactory answer for the cause of these cycles is not available. There is some suggestion that ambitious plans lead to upswings in investment. These in turn cause supply bottlenecks, lags of wages behind productivity, shortage of consumer goods, which will all eventually lead to political pressure with the result of lowering the pace of investment. (Frank 1977, PP. 109-110)

In the down phase of their economic fluctuations the socialist countries are under great pressure to import from abroad. Such imports supplement the supply of goods, and in particular help to maintain investment in machinery and equipment. The contact with the capitalist world and the importation western technology are therefore partly due to the "inability of the socialist countries to continue satisfactory industrial development without becoming far more integrated into the imperialist economy." (Frank 1981, P. 34)

As a result of these reinforcing elements the socialist countries are reintegrating into the world capitalist economy. The manner in which socialist economies insert themselves into the international division of labor is similar to that of the intermediate or subimperialist countries. According to Frank, then, one witnesses
the emergence of a kind of "social subimperialism of the Soviet Union and a subsocial imperialism of the East European countries." (Frank 1981, P. 34)

In other words, the socialist countries occupy an intermediate position in the international division of labor which means these countries and in particular the Soviet Union import the most advanced technology 18 possible from the center. They use this technology to develop their own industries and to produce goods for both the domestic market and for export particularly to the Third World. Despite the socialist countries' payment with raw materials and light manufacturing to the advanced capitalist economies, the socialist economies are increasingly showing unfavorable balances of payments with respect to the advanced capitalist countries. To overcome this problem they are expanding their exports to the poorer countries, whose production forces are not developed enough to participate at the same level in the international division of labor. Since the socialist countries are increasingly running a favorable balance of payments with the poor countries they can redress their deficit with the imperialist countries through the foreign exchange earned from LDCs. (Frank 1981, P. 35)

The socialist countries occupy an intermediate position in the international division of labor, in this regard not unlike the most developed 'sub-imperialist' underdeveloped countries like Brazil. "They import advanced technology manufactures from the

18 According to Frank these countries cannot get access to most advanced technology; "but they import what we might call second-level technology." (Frank 1981)
industrially developed capitalist, paying for them with raw materials and incurring growing trade deficit. And they export less sophisticated manufactures to the underdeveloped countries, with whom the socialist countries run up a trade surplus, part of which they use to reduce their trade deficit with the imperialist countries, also not unlike the sub-imperialist capitalist countries. (Frank 1977, P. 101)

2.1.6. Economic Relations Between Socialist Countries and LDCs:

Frank presents in some detail the economic relations and in particular pattern of trade between the socialist economies and the less developed countries. In doing so he tries to show how these relations have adversely affected the underdeveloped economies, and how similar are these relations to those of advanced capitalist economies and the less developed countries. Frank argues that socialist exports to the underdeveloped countries consist of industrial commodities, while their imports from the underdeveloped countries are raw materials. This pattern of trade is similar to the trade between the advanced capitalist countries and the underdeveloped ones. The socialist countries also have a "growing balance of payment surplus" with the underdeveloped countries. And since the less developed countries run a balance of payment deficit with both the imperialist countries and the socialist countries, the growing

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19 Trade is the most important aspect of economic relations between East-West and East-LDC's, I will come back to this point later in chapter four.
trade relations with socialist countries only aggravate their balance of payment problem. (Frank 1981, P. 11)

The economic and political advantages that East-South economic relations confer on the underdeveloped countries are not significantly different from the 'advantages' of imperialist and neo-colonialist economic relations between the capitalist underdeveloped and the capitalist developed countries. (Frank 1977, P. 118)

These relations tend to reinforce the existing position of underdeveloped countries in the international division of labor, and may even propel them further toward the new direction which is required by the present process of world capitalist accumulation. The economic relations between the socialist economies and less developed ones therefore do not further the liberation of the latter from the grip of economic dependence. Indeed, in too many cases by lending support to the most reactionary regimes, (for example, Bolivia after Banzer's military coup and Suharto regime in Indonesia) such relations even hinder the achievement of political and economic independence of these countries. And in as much as these relations strengthen the states which are at the service of the private capital, the socialist countries are "giving support and protection to capital and capitalism in the 'Third World' and in the world as a whole." (Frank 1977, P. 118)

In summary, Frank does not see any significant difference between the exploiting relationship which exists between advanced capitalist countries and the less developed ones, and the exploitive relations which exist between the socialist countries and the less developed ones. He in fact argues that the socialist countries extract
surplus value from the Third World. For instance, in his discussion of "conversion deals" between the Soviet Union and India, Frank contends that, since in these deals the Soviet Union purchased cotton from Sudan and then shipped it to Indian textile mills in return for textiles the Soviet Union was extracting "the surplus value of Indian labor." (Frank 1977, P. 118)

In Frank's account the countries in the international division of labor occupy different levels, but the intermediate countries are in a peculiar position. On the one hand they are exploiting the countries at the lower levels; on the other hand they are being exploited themselves by the advanced capitalist countries which hold the upper rungs. The pattern of trade of the intermediate countries is an indicator of such hierarchical exploitive relationships. While these countries export manufacturing goods to the underdeveloped countries and import raw materials from them, the intermediate countries export raw materials, in particular fuel, to the imperialist countries and import industrial products from them. Frank, who considers socialist countries as intermediate countries, believes the above criteria are applicable to their case.

2.1.7. The Ill-Effects of Economic Relations with DCs:

Turning to the socialist countries' economic relations with the advanced capitalist countries. Frank argues that the western exports to the eastern countries in the recent decade have mainly included machinery, equipment and whole plants embodying advanced technology. The exports of East to West have been raw materials, fuels and food exports as well as manufacturers produced in part
with the imported equipment employing cheap labor through thousands of "bipartite and tripartite" production agreements with the western firms and the underdeveloped countries. (Frank 1981, PP. 136 & 20) As trading partners, therefore, "the socialist countries are to the developed capitalist ones as the capitalist underdeveloped ones are to them or vice versa!" (Frank 1977, P. 99)

In their trading relations with the West the socialist countries show growing balance of payment deficit which are covered by the official and supplier credits, by Soviet sales of gold and increasingly by borrowings from Euro-currency market. As was mentioned before, Frank argues that the socialist countries partially redress their deficit with the West through their trade surplus with the underdeveloped countries. (Frank 1977, P. 98) The mounting debt is not, according to Frank the only harmful effects of growing participation of the socialist countries in the international division of labor. Such participation has far reaching implications for the domestic policies of these countries and more importantly for the structure of socialist societies.

For instance, the socialist countries are more and more importing inflation from the West. Admitting that the state absorbs price increases through increasing subsidies on the consumer goods in order to keep their prices stable, Frank believes that continuation of this policy in the face of price hikes in the west has proven to be impossible and has led to increases in the consumer goods prices in some of the socialist countries. (Frank 1977, P. 122) Moreover, the socialist countries cannot escape the effects of the current economic
crisis in the West and its impact is being felt throughout these countries.

The increasing dependence of socialist countries on trade with the advanced capitalist countries has made them vulnerable to any recession in the West. This dependence can easily block the path of industrial development and increase in the living standards in the East. And, in as much as the domestic production has been more and more diverted into the production exports in order to pay for the imports and to repay the mounting debt and credits, the socialist countries are becoming more and more "dependent on the West and on the economic and political stability in the West." (Frank 1977, P. 127)

The ill-effects of economic fluctuations and inflation of the West on the East and the dependence of the latter on the former seem to be minor, if one considers the major effects of socialist countries' reintegration into the world market, that is importing the capitalism itself. Frank believes "the countries of Eastern Europe and the Soviet Union will be importing not only western factories, technology, and products, but the capitalist relations embedded in them, including speed-up of production, capitalist organization and criteria of decision-making and capitalist wage structure and income differentials...and capitalist class structure. In short, the 'socialist' countries of Eastern Europe will be and are already importing capitalism." (Frank 1977, P. 127)

Indeed, Frank argues that the economic integration of the socialist countries into the world international division of labor, and the related political compromises "call into question the extent to
which the socialist world is any way separate or different from the capitalist world." (Frank 1977, P. 93) And the more the practices of these countries are examined "under the plain light of day, the more undistinguishable" their policies become from those of national-development" practiced by the capitalist countries. (Frank 1981, PP. 137-138)  

It seems to Frank, then, the practical difference between the socialist countries, and 'progressive' capitalist less developed countries is only matter of degree. "Attempts by the latter to de-link are nipped in the bud sooner, and re-integration with the world economy imposed on them more easily." (Bernstein and Nicholas 1983, P. 18) 

It is the peculiar definition of socialism used by Frank which enables him to arrive at such conclusions. For him socialism appears to involve two major steps: one is de-linking from the world economy, and the other is the redistribution of the political power coupled with popular participation. "A break with capitalism and the transition to socialism requires a revolutionary process, an internal transfer of power and popular participation, and the achievement of  

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20 It should be mentioned that here and there Frank tries to upgrade the importance of the internal factors in the socialist countries which have distracted these countries from the "true path" of socialism, as the following quotation indicates. However, he does not in any way demonstrate what these internal factors are and what is so peculiar about the socialism which generates these destructive factors. "Of course, the international relations between the socialist and capitalist worlds are by no means the only or even the most important factor in this question. On the contrary, the international relations, real and desired, are only the reflection of internal relations of production and other factors in the socialist world, which themselves raise questions about degree of shift over time toward or away from 'socialism' in that part of the world that goes by that name." (Frank 1977, P. 93)
a greater degree of external independence." (Frank 1983, P. 342) Without any of these socialism is not possible. These steps have been only taken for a short period of time in some of the countries which "we today call socialists." The recent process of rapid integration or "re-linking" by these countries into the capitalist international division of labor indicates that if the capitalist relations have not yet dominated the entire structure of these economies, they are certainly important factors in leading them into the path of transition to capitalism. A process which according to Frank has already started in the Eastern European countries. Originally, socialism was understood to be a process of transition to communism. It seems extremely difficult if not impossible today to sustain the thesis that the 'really existing socialist societies' in Eastern Europe are in any transition to anything today; they are more likely to be in transition to capitalism. (Frank 1983a, P. 345)

2.1.8. Frank and the Critics:

Frank's model, his methodology, and his conclusions have been criticized by Marxists and non-Marxists alike. Here, I will only emphasize his Marxist critics; although I am well aware that Frank in fact emphatically claims that he is not a Marxist. I do believe, however, that Marxists both have a valid point and have most effectively criticized him. As Bernstein and Nicholas (Bernstein and Nicholas 1983) argue, Frank enters into the realm of Marxism by proposing a theory of the history of capitalist development and
maintaining that socialism is the only avenue open for the development of less developed countries. Frank also uses Marxist terms in a completely different conceptual framework, which gives Marxists another legitimate right to try to clarify any confusion which may arise from Frank's action. Since there is almost no single issue raised by Frank which has escaped Marxist criticism, I will have to confine my review to those issues which I consider to be essential and most relevant to the study on hand. Those issues, I believe, are Frank's definition of capitalism, socialism and his concept of new 'international' division of labor.

For Frank capitalism is synonymous with a system of exchange relations and in particular international exchange. It is a system of production for market, in which the motive of production is profit appropriated by non-producer agents. (Laclau 1971, P. 24) Capitalism is therefore an exploitive system. However, Frank does not specify the exploitive relations peculiar to capitalism; rather he defines these relations as extraction of surplus. Such a broad definition permits him to define the capitalist exploitive relationship as applicable to both the economic agents within a single nation and

21 Marxist critics of Frank are numerous; however, the most severe blow to Frank's model was struck first by Laclau (1971) who pointed out that the concept of capitalism used by Frank is erroneous from a Marxist point of view. Brenner (1977) also demonstrated that the Frankian model by concentrating on the market forces, sets aside the central role which class struggle plays in economic development and underdevelopment. Gulap (1981) has summarized some of the important Marxist terms which are used by Frank in completely different conceptual frameworks. Bernstein and Nicholas (1983) have criticized Frank's concept of crisis as well as his definition of socialism. My review in this part mainly relies on these important studies. There are other Marxist critics who do not primarily deal with Frank, but with the dependency school in general. The examples include Colin Leys (1970).
to relations among countries on the international level. The lack of specificity is due to his disregarding capitalism as a mode of production. By doing so he ignores the fundamental economic relations peculiar to capitalism: the existence of free labor divorced from ownership of means of production, and forced to sell their labor power in the market. His neglect of capitalist particularities allows him to include different exploitive relations (such as slavery, and relations between peasants and merchants) in capitalism.

This loose definition of capitalism adopted by Frank permits him to conclude that the Latin American countries have been capitalist from their inception, since they were fully incorporated into the world market in the colonial period. His proof relies on the examples of participation of even the remotest region of Latin America in the process of commodity exchange.

As Frank has chosen to replace the capitalist exploitation with the process of surplus expropriation, he can emerge with the conclusion that at the international level the relation between countries are capitalist exploitation. It is the continuous drain of surplus from the bottom to the top of the hierarchy of the "metropolis-satellite" relationship which causes underdevelopment in the satellite and development of the metropolis. Therefore it is the capitalist exploitation of the periphery by the center which is the cause of underdevelopment.

Brenner (1977) argues that the origin of capitalism does not lie in the rise of trade, and market expansion, but in the class structure that resulted from class struggles which emerged from the contradiction in the pre-capitalist economic structure (mode of
production). In some cases when these struggles weakened the pre-capitalist class structure conditions became ripe for the rise of capitalism. In contrast, in instances, such as what we observed in some of the Third World countries, these contradictions and class struggles induce the heightening of the pre-capitalist exploitation, which prevents the extended reproduction of capital and retards the development of capitalism. Surplus drain could be a symptom, rather than a cause of underdevelopment. A useful model is the one which deals with the essence and not the phenomenon. Frank's theory does not provide any means to study the essence, to investigate the specificity of class struggles in any given social formation. His model observes a particular phenomenon which appears at the level of social formation and then generalizes these particular events into the law of motion of capitalism.

Conceptual dualism such as metropole/satellite, center/periphery with the fundamental continuity over five centuries denies any specificity and predicts a condemned destiny for the less developed countries. All of these countries are ultimately trapped in the blind alley of underdevelopment and dependency. (Herold, Burbak, Kozlov 1983) and (Berstein and Nicholas 1983)

The implications of his theory for the socialist countries are even more telling. If it is exchange relations which determine the nature of a country's economic system, the definition of socialism therefore becomes synonymous with autarky. And the socialist countries which have established economic relations with the capitalist countries became capitalist themselves. His assessment of
socialism is limited by his inability to take into the account the importance of class struggle and contradictions. Frank's obsession with the delinking from the world system has led him to ignore that socialism is a complex transitory process with specific "contradiction both 'external' and internal', antagonistic (class contradictions) and non-antagonistic (contradictions among the people)." (Bernstein and Nicholas 1983, P.19)

With de-linking as the major test of socialism, Frank reaches a point where he rejects all socialist countries, and considers them as failures either on the "voluntarist or determinist grounds." Determinist grounds of failure are exemplified by cases of countries which have failed in the face of hopeless odds and the overwhelming power of imperialism; e.g., the case of Nicaragua. Voluntarist failure of socialism includes cases such as Angola, Mozambique and Guinea-Bissau which "have renounced any substantial delinking of their economies from the world capitalist system." (Frank 1983a, P. 341)

The voluntaristic examples cited by Frank suggest his disappointments with the leaders of these countries and his lack of awareness about the severe contradictions facing these countries in the process of construction of socialism. His concept of the deterministic version of failures also represents his inability to grasp

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22 Frank's ignorance of the importance of class struggle is not explicit, at least not in his recent works. (See for example (Frank 1979) & (Frank 1972)) Yet when he incorporates such analysis of his study, he continues to treat classes as a phenomenon of market and profit maximization. "The relations of production and the class structure developed in response to the predatory needs of the overseas and the Latin American metropolis." (Frank 1972, P. 22 cited in Brenner 1977) For more detail discussion of this point see (Frank 1972).
the importance of class struggle and contradictions in these countries. (Bernstein and Nicholas 1983, PP. 20-21)

Frank's concept of a new international division of labor has also been criticized by his opponents. It is by the use of this concept that Frank is able to explain the economic integration of socialist countries, in particular the Soviet Union and Eastern Europe, into world capitalism. Frank, who, like most Marxists, attributes the changes in the international division of labor to the qualitative changes in the capitalist development, is not able to show that the occurrence of such qualitative changes has led to the new international division of labor. Instead, he ascribes its rise to the economic crisis. Frank's critics believe that in fact such changes have occurred in capitalism in the recent years. And, ever since World War II, the expansion of capital beyond the national boundaries on the global scale has been shaped by the internationalization of productive capital in the stage of state monopoly capitalism. "The runaway shops and the export industries that have sprung up must be viewed as an integral part of the process of capital accumulation on a world scale that emerged in the past war era. What is occurring is simply a deepening of the international division of labor that has existed since then." (Herold, Burbuck and Kozlov 1981, P. 9)

Frank's categorization of countries as periphery, semi-periphery and center based on the composition of their trade is another symptom of his lack of emphasis on the social relations of production. He lumps all countries together, makes an undistinguishable pile out of them, with only the composition of exports and imports as the major device for distinguishing one
country from another. He regards the composition of a country's exports as the factor determining the position that country obtains in the hierarchy of centers-periphery. The larger the amount of raw materials the more indication that the country is dependent or has a peripheral situation. And according to him the arrangement of socialist countries' exports causes them to occupy an intermediate position in the international division of labor. Clearly, here as in other major points of his discussion, Frank dismisses the analysis of social relations as determining factors in the distinction of different economic systems. His argument hence is a 'naturalistic' one: he emphasizes the use value not the exchange value or the social relations of production.

Frank's utopian concept of socialism, everything or nothing at all, is rooted in his search for an ideal state of affairs. Such a utopian conception contains the seeds of its own disappointment, to a point where he sees no alternative in abolishing the dependent conditions of the less developed countries.

The Achilles' heel of these conceptions of dependence has always been the implicit, and sometimes explicit, notion of some sort of independent alternative for the Third World. This theoretical alternative never existed, in fact, certainly not on the noncapitalist path and now apparently not even through so-called socialist revolution. (Frank 1981, P. 127)
2.2. Wallerstein:

Wallerstein, in contrast to Frank, has extensively dealt with the questions of the economic relations between socialist countries and the capitalist nations. Yet, in order to have a comprehensive grasp of his analysis, one must start with the discussion of his general framework of study, since his propositions about the economic relations of East and West are closely linked to and are part and parcel of his premises of "the world system" approach.

Wallerstein's aims are to establish the origins of capitalist development and underdevelopment and locate the genesis of their subsequent evolution. Just as Frank has sought to discover the sources of underdevelopment of the satellite and the role which the center has played in creation of such underdevelopment, Wallerstein has endeavored to find out the roots of development of the center and its relationship to the periphery. (Brenner 1977, P. 31)

2.2.1. Social Systems:

Wallerstein's focus is the concept of "social system." A societal unit qualifies as a social system if it contains within itself a "single division of labor" in that the essential needs of the economic actors within the social system are fulfilled by production within the boundaries of this social system. We take the defining characteristic of a social system to be the existence within it of a division of labor,
such that various sectors or areas within are dependent upon economic exchange with others for the smooth and continuous provisioning of the needs of the area. The regions outside of such a system exchange only goods which are considered luxuries with it. (Wallerstein 1974, P. 390) In Wallerstein's scheme there are three types of such systems: one "mini system" and two types of "world systems."

A "mini system" is an entity that has within it a complete division of labor, and a single cultural framework. Such systems are found only in very simple agricultural or hunting and gathering societies. (Wallerstein 1974, P. 390) A "world system" is a unit with a single division of labor and with multiple cultural units. Of the two varieties of the world system one is characterized by a single political system. Wallerstein calls it world empire and it is exemplified by the Persian empires, Chinese empires, etc. The second type of world system designated by him as the world economy contains several political units which may be city states, nation states, areas, etc. The capitalist world economy which began in Western Europe in the Sixteenth Century is one example of this type of social system.

What is common to all the social systems is that each contains only one kind of 'mode of production' and not a combination of different modes of production. A mode of production is defined by Wallerstein as "the way in which decisions are made about dividing up productive tasks, about the quantities of goods to be produced and labor time to be invested, about quantities of goods to be consumed or accumulated, about the distribution of the goods
produced." (Wallerstein 1979d, P. 155) The mini-systems embody a mode of production which was based on limited and elementary specialization of tasks called the reciprocal lineage mode.

Although world empires had many variations in regards to their political superstructure, (i.e. Persian empire's and Chinese empire's political administrations were different) the mode of production was universal among them. It was a mode of production which produced enough agricultural surplus to not only support the artisans who produced non-agricultural goods, but also an overarching bureaucracy. The major difference between this mode and the reciprocal lineage mode was that in the former a class which did not produce any goods was supported. In this mode, while the producers of artisanal and agricultural goods "in some sense exchanged goods, either reciprocally or in local markets" goods transferred from the direct producers to the "administrators" were appropriated forcefully. (Wallerstein 1979d, P. 156) Despite these differences between the "pre-modern" modes of production, there was a principal similarity between them: neither of them made possible maximum production.

Wallerstein indeed argues that the world empires prevented economic development. The prevention occurred mainly through the effects of the encompassing bureaucracies of world empires which appropriated the economic surplus and hindered its accumulation in the form of productive investments. Wallerstein claims that the essential condition for economic development was the collapse of the world empires. (Brenner 1977, P. 29) This had happened by the Sixteenth Century and the onset of the world economy. Wallerstein
attributes the collapse of the world empires to the "conjunctural crisis" of cyclical, secular and climatological factors. The cyclical crisis was grounded in the fact that when expansion reaches its optimal point within a given technology, stagnation is bound to happen. The secular crisis was produced by the "diminishing return on the land," and this factor limited the capacity of the system to "achieve the requisite level of surplus appropriation required by its population." The third element according to Wallerstein was the changes in climate which took place during the Fourteenth and Fifteenth Centuries in Europe. In his view this "conjunctural crisis" therefore created a condition which necessitated European expansions. (Arnowitz 1981) It was the expansion of trade in the Sixteenth Century which led to the establishment of world economy with capitalism as the only mode of production. Wallerstein argues that the world empires "bred clusters of merchants who engaged in economic exchange, but such clusters were a minor part of total economy and not fundamentally determinative of its fate." (Wallerstein 1974, P. 391)

2.2.2. World Economy:

It was only with the emergence of the world economy in the Sixteenth Century that full development and the predominance of market trade could be observed. The development of trade induced international division of labor through the establishment of a world "structure of unequally powerful nation states" led to development in certain regions and backwardness in others. (Brenner 1977, P. 30)
Wallerstein, by pointing to the rise of trade as the major stimulus in the creation of capitalism, enters into an ongoing debate concerning the transition from feudalism. The debate centers around the question of whether the rise of capitalism can be attributed to causes external to the feudalist economic system, such as expansion of world trade, or whether the emergence of capitalism primarily depended on the internal contradictions of the feudalist economic system, in particular the struggle over appropriation of social surplus between lords and serfs. Wallerstein follows the former argument, in which the capitalist system embarked out of a series of autonomous factors which were purely extrinsic to the feudal social relations. For him, therefore, the emergence of capitalist economics in Western Europe on the center of world capitalism was due to technical and natural factors exterior and mainly not peculiar to feudalism. As we shall see later, he follows the same line of argument and takes it a step further by maintaining that whatever happens in a country is explained by the contradictions that appear in the system as a whole; in other words it is forces external to a country which determine what takes place within that country.

The new world system is a "world economy" since the basic linkage between different parts of the system are economies, meaning exchange and trade. This is in contrast to the world empire where the basic linkage between different parts of system was political, that is over-arching tax-collecting bureaucracy. (Arnowitz 1981, P. 53) The mode of production which is dominant in the world economy today is capitalist. This mode "took definitive shape as European world economy in the Sixteenth Century and came to
include the world geographically in the Nineteenth Century." (Wallerstein 1979b, P. 66) 5

Wallerstein's conviction about the worldwide ascendancy of the capitalist mode of production is one of the major analytical tools he uses in investigating the position of the socialist countries in the world economy, as well as in their relations with the capitalist countries. 23 He is indeed emphatic in his claim regarding the existence of only one encompassing worldwide mode of production, that is the capitalist mode of production in the modern time: "the only system in the modern world that can be said to have a mode of production is the world-system, and that...is capitalist mode" (Wallerstein 1979b, P. 74); the "so-called reciprocal nexus we identify with feudalism, the exchange of protection for labor services...is contained within a capitalist world economy, its autonomous reality disappears. It becomes rather one of the many forms of bourgeois employment of proletarian labor to be founded in a capitalist mode of production." (Wallerstein 1976, P. 278)

Wallerstein believes that expansion of trade brought in chain like linear fashion accumulation and economic growth. The expansion of trade introduced the profit motive and the profit motive led to the development of the division of labor which through increasing productivity induced innovation, accumulation and economic growth. And this is capitalism. Capitalism is a mode of production in "which production is for exchange, that is, it is

23 Because most of Wallerstein's conclusion about socialist countries are derived from his conviction about existence of only one mode of production throughout the world, I will repeatedly refer to this point.
determined by its profitability on a market, a market in which each buyer wishes to buy cheap...but each seller wishes to sell dear." (Wallerstein 1979d, P. 15a) 24

Wallerstein's concept of capitalism relies heavily on the proposition that self-interested individuals motivated by profits are connected and interdependent through the exchange relations, or the existence of a single division of labor. He defines what exactly he means by a single division of labor: "We can regard a division of labor as a grid which is substantially interdependent. Economic actors operate on some assumption that totality of their essential needs—of sustenance, protection, and pleasure—will be met over a reasonable time-span by a combination of their own productive activities and exchange in some form." 25

It is therefore logical for Wallerstein to conclude that any regions which are part of this interdependent system of division of labor, regardless of its form of 'labor control' is capitalist. "(...I)n the era of agricultural capitalism, wage labor is only one of the forms of

24 "If capitalism is a mode of production, production for profit in a market, then we ought, I should have thought, to look to whether or not such production was or was not occurring. (In sixteenth century Europe) It turns out in fact that it was, and in very substantial form. Most of this production, however, was not industrial production. Through Europe there grew up a world-economy with a single division of labor within which there was a world market, for which men produced largely agricultural products for sales and profit. To call this agricultural capitalism." (Wallerstein 1974, P. 399)

25 Wallerstein's concept of grid of exchange assumes a distinction between essential exchanges and luxury exchanges. "This distinction is crucial if we are not to fall into the trap of identifying every exchange activity as evidence of a system. Members of a system can be linked in limited exchanges with elements located outside the system. That is, each can export to the other what is in its system socially defined as worth little in return for import of what in its system is defined as worth much." (Wallerstein 1974, P. 398)
organizing production or the modes in which labor is recruited, slavery, coerced cash-crop production...share cropping, and tenancy are all alternative modes." (Wallerstein 1974, P. 401)

Once embedded within the world economy, all areas of the world are conceived of as a single ongoing division of labor in which fundamental commodities, not luxury goods, are exchanged. Each area of the world becomes part of a world economy when its material livelihood is affected by interaction with the larger network. This world economy has no overarching political system. The surplus product can only be redistributed through the markets; hence the mode of production according to Wallerstein is capitalism. "Capitalism as a system of production for sale in market for profit...has only existed in, and can be said to require, a world system in which the political units are not coextensive with the boundaries of market economy." (Wallerstein 1979b, P. 66)

2.2.3. The Capitalist System's Basic Dichotomies:

According to Wallerstein the operation of the capitalist system revolves around two basic dichotomies. One is the dichotomy of bourgeois versus proletarian; the second is the dichotomy between core and periphery. (Wallerstein 1979d, P. 162)

The first basic dichotomy is a division between classes in which the ruling groups operate 'primarily through lineage rights...not through weapons of force...through access to decisions about the nature and quantity of the production of goods (via property rights, accumulated capital, control over technology, etc.).' (Wallerstein 1979d, P. 162) This control is not necessarily exerted only on the
free laborers who have lost the ownership of the means of production, and have no choice except to sell their labor power; rather it may take different forms. Wallerstein conceptualizes classes as existing within the world system as a whole, so there exists a world proletariat which includes wage laborers as well as other categories such as small commodity producers. The world bourgeoisie, the controllers of the major means of production, is a class rife with interclass conflicts. In the conflict, the power of the state, militarily or politically is used to modify and further the economic position of various fractions of the bourgeoisie. (Chase Dunn 1982)

The other basic dichotomy is the "spatial hierarchy of economic specialization" between different regions of the world, in particular differences between the core and the periphery. The core of the world economy is composed of societies in which are concentrated high-profit, high technology and high wage diversified production. The periphery is characterized by low-profit, low-technology, low wage, and less diversified production. (Wallerstein 1979c, P. 97) The levels of productivity and wages are therefore, the two important factors in analyzing the core and the periphery.

According to Wallerstein in both the Sixteenth Century and the present time "the core and periphery of the world economy were not two separate 'economies' with two separate 'laws' but one capitalist economic system with different sectors performing different functions." (Wallerstein 1979b, P. 68) However, the performance of different functions has led the core and periphery each to exhibit "different internal socio-economic profiles and hence distinctive
politics." But to understand these differences one must first start by situating them in the world economy. This conclusion is reached based on Wallerstein's premises that the national states are not societies that have "separate and parallel histories, but they are parts of a whole reflecting that whole." (Wallerstein 1979a, P. 53) The similarities of Wallerstein's argument with Frank's on this point is obvious; the only difference is that the former has replaced the terms metropolis and satellite by the terms core and periphery.  

According to Wallerstein, regardless of differences in the mode of labor control in the core and periphery, both are part of the world-economy and thus are capitalist economies. "Free labor is the form of labor control used for skilled work in the core countries, whereas coerced labor is used for less skilled work in the peripheral

26 According to Wallerstein the international division of labor was due to different responses of each country to the European commercial expansion of the sixteenth century. Some countries like England responded by creating an industrial base, while some others like Eastern Europe responded by developing "coerced cash-cropping." These responses were not arbitrary ones, and were determined by profit maximization considerations as well as the existing technical conditions of each country. These technical conditions include: "land/labour ratio, the extent of internal market, the geographical location of the country, etc." in each area. (Gulap 1981, P. 176) Given their objective conditions, Western European landowners chose to turn their land to pasture or lease it and invest the money in trade and industry; landlords in the Eastern European countries on the other hand given their conditions responded in a way which maximized their profit and that was by intensifying the production of staples and increasing the investment in trade. Given objective conditions of each country the choice of product which maximized the profit of the ruling elite determined the pattern of the labor control in these countries: "Northwest Europe was better suited in the sixteenth century to diversify to agricultural specialization and add to it certain industries. Northwest Europe emerged as the core area of this world economy, specializing in agricultural production of higher skill levels, which favored tenancy and wage-labor as the modes of labor control. Eastern Europe became peripheral areas specializing in export of grains..which favored the use of slavery and coerced cash-crop labor as the mode of labor control." (Wallerstein 1974, P. 401)
areas." (Wallerstein 1974, P. 127) "Western Europe, at least England from the late Seventeenth Century on had primarily landless wage-earning laborers. In Latin America, then and to some extent still now, laborers were not proletarians, but slaves or 'serfs'...but is England, or Mexico, or the West Indies a unit of analysis? Does each have a separate 'mode of production'?' And his answer is no, since England, Mexico and the West Indies are all part of the world economy and, therefore, their mode of production is the capitalist mode of production. (Wallerstein 1974, P. 394)

In Wallerstein's accounts, it is the position of countries in the international division of labor which determines the class structure of each country. "In the Sixteenth Century, some monarchs achieved great strength, others failed. This is closely related...to the role of the area in the division of labor within the world economy. The different roles led to different class structures which led to different politics." (Wallerstein 1974, P. 157) Therefore, in Western Europe we witness the rise of the bourgeoisie, since that region was specialized in the production of industrial goods. In the case of Eastern Europe the expansion of the wheat-exporting economy "meant also the rise of the political strength of the nobility." (Wallerstein 1974, P. 304) Whatever happens in a country thus essentially depends on the contradictions that appear in the system as a whole. Consequently, the forces external to a country determine what happens within that country. Wallerstein grants some autonomy to the internal forces, but in the "exterior-interior relationship, the former are determinant over the latter." In other words, the articulation of the countries
within the world system is the "primary determinant" of what happens within a given country. (Navarro 1982)

The development of core and periphery has occurred in the context of unequally powerful nation-states. According to Wallerstein, in the core areas the interest of various local groups converged and led to the creation of strong states, while in the periphery the interest of the local groups diverged and caused the development of very weak states. (Wallerstein 1974, P. 401) In the core countries the bourgeoisie got stronger and the landlords became weaker and the former dominated the state; in the periphery the opposite happened. (Wallerstein 1974, P. 302) "While the Sixteenth Century was a period of rise of state power in Western Europe, it was an era of decline for state power in Eastern Europe...As the landed aristocracy of Poland grew stronger...and the indigenous bourgeoisie grew weak, the tax base of the state frittered away which meant that the king could not afford to maintain an adequate army." (Wallerstein 1974, P. 309) Thus, in the West a strong state arose which was capable of pursuing an aggressive expansionary policy. ²⁷

²⁷ As Amowitz (1981) argues: "At times, Wallerstein seems to argue for a position that ascribes these differences to the existence of a strong bureaucracy (especially in China) whose tenure of power depended on its ability to retard development, and was content to keep the state weak and unresponsive to economic expansion; at other times he tries to show that shortage of hard currency in the West spurred the drive for exploration of precious metal beyond national border. A third factor was the inflation of the Sixteenth Century that, in several centuries, amounted to a redistribution of income and a source of primitive capital accumulation, while in other trading centers, strong workers' organizations managed to prevent accumulation by keeping wages abreast of prices...His model relies heavily on factors determining the configuration of trade relation for explaining both the transition from feudalism to capitalism and the configuration of the world system."
Once the system of unequally powerful states is established, "we get the operation of 'unequal exchange' which is enforced by strong states on weak ones." (Wallerstein 1974, P. 401) The mechanism of 'unequal exchange' implies the transfer of "surplus from the producers of low-wage (but high supervision), low profit, low capital intensive goods" to the "producers of high wage (but low supervision), high profit, high capital intensive goods." (Wallerstein 1979d, P. 162) In other words, the workers in the periphery must work many hours, at a given level of productivity, to purchase a good produced by a worker in the core in one hour. (Wallerstein 1979b, P. 71) Capitalism then not only involves "appropriation of surplus value by an owner from a laborer, but an appropriation of surplus of whole world economy by core areas." (Wallerstein 1974, P. 401) This is the final step in Wallerstein's gradual conceptualization of development of capitalism. Capitalism, as Wallerstein sees it, is a system of production for market in order to make profit; it is an economic system which embraces various forms of production. It includes commodity producers employing wage labor in the core areas and coerced labor in the periphery. The periphery is not viewed as pre-capitalist, rather as "integrated, exploited, and essential parts of" the world economy. It is precisely the articulation of these different forms of production which constitutes capitalism. Without them Wallerstein's capitalism is non-existent. This articulation is accomplished not only by the world market exchange of commodities, but also by the political coercion exercised by the states in the core countries. This political coercion can take such forms as colonialism, neo-colonialism, etc. The system of competing
unequally powerful states is therefore essential for the operation of relations of production. (Chase Dunn 1982)

The above exposition makes clear that for Wallerstein, just as for Frank, capitalism is the "hierarchical structure of monopolistic powers to extract surplus." (Gulap 1981, P. 180) It is hierarchical since the exchange which occurs within the division of labor is based on "differential appropriation of surplus produced." (Evans 1979) The only difference is that while for Wallerstein only countries compose the "layers" of this hierarchical structure, for Frank the individual economic actors also fit into this hierarchical structure. Similarly both authors view capitalism as a universal system that is responsible for both development and underdevelopment; and since the possibilities open to a given country for capital accumulation and as a result development are constrained by its structural position within the division of labor, the peripheral countries which occupy the lower ranks in the hierarchy are deprived of capital accumulation and consequently development. (Evans 1979) and (Bernstein 1979)

Yet, according to Wallerstein the position of no country in the international division of labor is permanent, and capitalist competition creates the rise and fall of different areas within the system. Hegemonic core powers, such as Britain, have lost their relative domination to more efficient producers. As the core countries exhibit a form of "circulation of elites" in which hegemonic powers rise and fall so do the peripheral countries; these countries especially during the periods of economic stagnation and conflict
within the core find the possibility of moving up in the hierarchical division of labor.

2.2.4. Semi-Periphery:

Wallerstein recognizes as does Frank, a third category of countries that occupy the middle layers in the hierarchy of international division of labor. It is indeed part of the normal operation of the world-systems to have a "three-layered structure." (Wallerstein 1974, P. 404) The semi-peripheral countries are this third category in the modern world-system. If the core production is predominantly capital intensive and utilizes high wage skilled workers and the peripheral production is labor intensive relying on low wage unskilled workers, in the semiperipheral areas there is a balance of both core and peripheral types of production. Although the products which are produced and exchanged at each zone maintain the above criteria, they do not remain the same, and are a function of world technology. "If in the Sixteenth Century, peripheral Poland traded its wheat, in the mid Twentieth Century, peripheral countries are often textile producers whereas core countries export wheat as well as electronic equipment. The point is that we should not identify any particular product with a structural sector of the world economy but rather observe the wage patterns and margins of profit of particular products at particular moments of time to understand who does what in the system." (Wallerstein 1979b, P. 71)

In a system of unequal exchange, the semiperipheral countries stand in between in regard to the kinds of product they export and
in terms of wage levels and profit margins. (Wallerstein 1979b, P. 72) 28 They also act as a peripheral zone for the core countries and "in part they act as a core country for some peripheral areas." (Wallerstein 1979c, P. 97) The semi-periphery thus exploits and appropriates part of the surplus of the periphery, and in turn is exploited and its surplus is transferred to the core countries. Again, at this point Wallerstein resembles Frank by asserting the surplus transfer as a main element in conceptualization of the notion of capitalism. To view capitalism as a hierarchical division of labor between core, peripheral and semi-peripheral zones led them to understand imperialism "as a basic dimension of capitalism rather than as a stage or force that merely transforms precapitalist areas into capitalist ones." (Chase Dunn 1982)

The semi-peripheral countries are essential for the operation of the world-economy both economically and politically. Their role is economically essential since:

"For individual capitalists the ability to shift capital, from a declining leading sector to a rising sector is the only way to survive the effects of cyclical shifts in the loci of the leading sectors. For this there must be sectors able to profit from the wage-productivity squeeze of the leading sector. Such areas are what we are calling semi-peripheral areas." (cited in Evans, Wallerstein, 1973, P. 3)

28 Wallerstein is vague in defining precisely what he means by semi-periphery, and as Peter Evans (1979) argues this lack of preciseness is part of his general framework of study: "Indeed, the possibility of using the world systems approach to provide an interpretative frame for almost any conceivable historical sequence might be considered one of its weaknesses. Even the concepts most central to the approach are hard to pin down with precision. The idea of the 'semi-periphery' provides a good example of both suggestiveness and the frustrating lack of definition that characterize Wallerstein's key concepts." (Ibid.)
More importantly is, however, the political role played by these countries; by performing this role they help the system to run more smoothly. Because of the unequal distribution of surplus, in the world economy the majority of those who are exploited may overthrow the minority who "draw disproportionate benefits." The use of three mechanisms enables the world system "to retain relative political stability." "One obviously is the concentration of military strength in the hands of the dominant forces. (The) second is the degree to which the staff or cadres of the system feel that their own well-being is wrapped up in the survival of the system." The third mechanism is the existence of the semi-periphery.

"One might make a good case that the world-economy would function every bit as well without a semi-periphery. But it would be far less politically stable, for it would mean a polarized world system. The existence of the third category means that the upper stratum is not faced with the unified opposition of all others" because the middle sector is both exploiter and exploited. However, it primarily views itself as better off than the lower sectors rather than as worse off than the upper sectors. (Wallerstein 1974, PP. 404-405)

2.2.5. Socialist Countries:

Semi-peripheral countries in Wallerstein's account comprise such countries as the Soviet Union, and Eastern Europe; therefore, the semi-periphery includes two "very different varieties of states," the capitalist states and the 'socialist states,' that is "those with governments ruled by Marxist-Leninist party, which has nationalized the basic means of production." (Wallerstein 1979c, P. 100) In his
scheme, however, there is no need to differentiate between these two varieties of countries, and to analyze their economic relations separately. In his world-system perspective, there is only a single universal mode of production, that is the capitalist mode of production. Under this mode different juridical forms of ownership and kinds of class relations and forms of production (labor control) are articulated by the system of exchange and unequal and competing states. In the different zones of this world-wide system, the relations between the immediate producers and their direct controller differs, but this is not important in the sense that the internal relations and in particular the class relations in any part of the world "can only be understood by taking into account the relations that exist at the level of the world system." So, in the same manner that slavery and serfdom, as forms of labor control, were integral parts of the earlier period of the capitalist world economy, so are the Soviet Union's "juridically collective forms of property and centrally determined investment decisions and income distribution" integral parts of the capitalist system at the present epoch of the capitalist world economy. (Chase Dunn 1982, P. 34-35) "There are today no socialist systems in the world-economy any more than there are feudal systems because there is only one world-system and it is by definition capitalist..." (Wallerstein 1974, P. 415)

29 One of the major factors which distinguishes capitalism from feudalism in Wallerstein's scheme is capitalism's ability to integrate the disparate levels or elements that constitute it but may be antagonistic to it. This is in contrast to feudalism which generally was unable to integrate the systems potentially antagonistic to it. (Arnowitz 1981)
Once the world-system is accepted to be capitalism what appears as different forms of production are in fact capitalist in essence. As long as the market exchange between the production units in the system continues, the relations of production and distribution as well as the division of labor and rewards to labor will be influenced and determined by the larger market. (Chase Dunn 1982, P. 27)

To emphasize that the nationalization or socialization of all productive enterprises within the bounds of a nation-state is not and theoretically cannot be a sufficient defining condition of a socialist system...as long as these nations remain part of a capitalist world-economy, they continue to produce for this world market on the basis of the same principles as any other producer. (Wallerstein 1979, P. 73)

Such nationalization or socialization "does not make the participation of these enterprises in the world-economy one that does not conform to the mode of operation of a capitalist market system." Wallerstein uses a hypothetical example of U.S. Steel suddenly becoming "a worker's collective in which all employees without exception received an identical share of the profits and all stockholders were expropriated without compensation." This action would not stop U.S. Steel from acting as a capitalist enterprise operating in a capitalist world-economy. (Wallerstein 1974, P. 413) The internal egalitarian distribution of the firm's profit, wages and salaries eventually would cause managers and skilled workers who could

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30 The conformity to the operation of the capitalist market system implies: "seeking increased efficiency of production in order to realize a maximum price on sales, thus achieving a more favorable allocation of surplus of the world economy." (Wallerstein 1974, P. 413)
obtain higher income in other firms to leave U.S. Steel. Productivity which at first due to workers' enthusiasm would go up in the long run would decline, due to both the loss of skilled workers and the dampening of the early enthusiasm. The decline in productivity coupled with the higher wages at U.S. Steel would give competing firms a cost advantage. The cost of production and thus the price of U.S. Steel's products would go up relative to the other firm's products. U.S. Steel would then either go bankrupt or return to the current standard of capitalist strictness with respect to its internal division of rewards. (Chase Dunn 1982, P. 29)

The position of a socialist country in the world system is more or less similar to this hypothetical example. A revolutionary society sooner or later will face a situation which forces it to recognize the distribution of rewards along lines more compatible with the capitalist labor market, since in these countries the attempted equalization of income distribution creates a wage structure which does not correspond to the large labor market of the capitalist world-economy. And eventually the possessors of valuable skills seek employment in the parts of the world where they can receive the greatest reward. Such techniques as moral incentives and legal restrictions are only partially effective in preventing the labor

31 Chase Dunn (1982) uses Cliff's (1974) discussion that, during the stalinist period, production in the Soviet Union is best understood as centralized administrative production on a national scale equivalent in its main features to that which is organized within a single capitalist firm, except that most products were produced for allocation and consumption within the 'firm.' The production was for 'use' not for commodity exchange on the world market, but the existence of the capitalist world-economy and its aggressive interstate system determined in important ways the nature of the 'use,' the social needs, of the production. (Chase Dunn 1982, P. 37)
migration, and their associated costs are heavy. All together "these factors, create a tendency to restratify the distribution of rewards along lines more comparable with the world labor market." (Chase Dunn 1982, P. 37)

Wallerstein's world-system definition implies that the components of the system are related and connected by the relations of exchange, and indeed the world-system is the world market with the predominance of the exchange relations. In the cases of the socialist countries the market involvement is not the only way to be integrated in the world economy; their participation can result from interaction with other states. For example the participation of the Soviet Union in the interstate system, at first as defensive victim, "later as ally in the balance of power and still later as superpower has been its most determinant dimension of interaction with the capitalist world-economy." (Chase Dunn 1982, P. 40)

The existence of the capitalist world-economy and its aggressive interstate system determines in important ways what product should be produced even for internal use.32 Therefore, in addition to devoting a substantial amount of the economical, political and social resources to the expenditure necessary for prevention of capital and labor migration, the Soviet Union was forced to put a considerable effort into producing goods which were necessary for

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32 For Wallerstein, the production for use and not for profit is one of the basic aspects of any socialist system. (Wallerstein 1979b, P. 91)

33 According to Chase-Dunn, the most important developments in the recent period "which support the thesis that there was never a separate socialist world-system, are the recent return of the socialist states to commodity production for the world market and their extensive dealings with the capitalist multinational corporations." (Chase Dunn 1982, P. 42)
military survival. The autarky cannot prevent the stranglehold of the capitalist world-economy. "Everywhere, that reality has been that fact that a movement proclaims the unlinking of a state's productive processes from the integrated world-economy has never in fact accomplished the unlinking. It may have accomplished temporary withdrawal which, by strengthening internal production and political structures, enabled the state to improve its relative position in the world-economy." (Wallerstein 1984, P. 107)

Wallerstein believes within the global system a social revolution within a country can only contribute to the faster development of productive forces of that country and make possible the movement of that country toward a higher level in the international division of labor. The Russian Revolution, in Wallerstein's account occurred in "a semi-peripheral country whose internal balance of forces had been such that as of the late Nineteenth Century it began on a decline towards a peripheral status. This was the result of the marked penetration of foreign capital into industrial sector which was on its way to eliminating all indigenous capitalist forces, the resistance to the mechanization of the agricultural sector, the decline of relative military power. the Revolution brought to power a group of state-managers who reversed each one of these trends by using the classic techniques of mercantilist semi-withdrawal from the world economy... At the end of the second World War, Russia was reinstated as a very strong member of the semi-periphery and could begin to seek full core status." (Wallerstein 1974a, P. 41)

For the U.S.S.R. as for any other semi-peripheral state, there exists the possibility of promotion within the hierarchy of the world system. Wallerstein on occasion seems to suggest that such upward mobility has been achieved by the Soviet Union: "Cannot the deteriorating relationship of the U.S.S.R. with the 'revolutionary' forces, particularly in semi-peripheral regions, be the same as the
simple consequence of the promotion of U.S.S.R. from semi-periphery to core and hence a change in its interest within the framework of capitalist world economy?" (Wallerstein 1979b, P. 90) Following Frank, Wallerstein argues that the role played by the socialist semi-peripheral countries is essentially similar to that of the capitalist semi-peripheral countries. Its manifestation in the present period is the transfer of some "older industrial hardware" from the core countries with the "high wage bill" to the semi-peripheral countries including the socialist ones with the lower wage bill. (Wallerstein 1984, P. 64)

Within the global system, no country can become socialist, it can only move from the periphery to semi-peripheral status. The fact that the means of production in the socialist countries are not privately owned and belong to the public is irrelevant. The capitalist system is composed of owners who sell for profit. The fact that an owner is a group of individuals rather than a single person makes no essential difference. Unless the entire world-system changes

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34 This transition from periphery to semi-periphery status is not going to happen immediately, since "some of the less industrialized socialist states are still playing essentially peripheral roles in the world-economy and must still heavily depend, in terms of annual national income, on exports of basic commodities." (Wallerstein 1979, P. 116)

35 This has long been recognized for joint-stock companies. It must also be recognized for sovereign states. A state which collectively owns all the means of production is merely a collective capitalist firm as long as it remains - as all such states are, in fact, presently compelled to remain - a participant in the market of the capitalist world economy. (Wallerstein 1977b, P. 68) Chase Dunn (1982) a close associate of Wallerstein and an advocate of the world-system approach argues that the socialist countries are "state capitalist." States have always been, according to him, important in capital accumulation, and they have recently become much more important. The Soviet Union has been able to develop an industrial base and military machine comparable to that of core countries. This industrialization "was organized and mobilized by an authoritarian state that consciously directed investment, trade and labor." If however
completely no country can achieve socialism. "The question is whether we shall arrive at a socialist world order by cumulating a series of revolutionary victories state by state until somehow a majority of post-revolutionary states...tips us over some global balance. I simply do not believe this to be the case..." (Wallerstein 1984, P. 144)

Therefore, unless the working class of the world, conscious of its revolutionary tasks, makes a global revolution, it is not possible for the working class of any single nation, or combination of some nations, to transform capitalism to socialism. (Wallerstein 1977)

In Wallerstein's scheme the revolutionary movements and the socialist countries have produced two contradictory effects. On one hand they have weakened the world bourgeoisie because they have constrained its freedom of action, 36 (Wallerstein 1977) and have

"socialism is equated with state mobilized" development, one can observe a similar pattern of development in the countries such as Japan and Germany, which are not referred to as socialist countries. (Ibid., PP. 34 and 87)

Mainly by limiting the mobility of capital and placing constraints on it. (Chase Dunn 1982, P. 48)

Zeev Gorin (1985) suggests that Wallerstein's position that the socialist countries contribute to the survivability of the world capitalist system stems from Wallerstein's "Parsonian-Type Functionalist Analysis." Parts of the system (subsystems) enhance the survivability of the total system. Changes consist in changes of the subsystems and the system as a whole in direction of a higher level of survivability of the total system." (Ibid. P. 336) Moreover Gorin argues Wallerstein's view that the socialist countries undermine the capitalist countries is rooted in the theoretical framework developed by Wallerstein. In this framework the "system is conceived as a contradictory one, which by its 'normal' operation gives birth to and constantly reproduces anti-systematic forces." (Ibid. P. 337) Furthermore, Gorin contends that although Wallerstein on different occasions emphasizes one of the above positions, at other times dialectically combines these two. For example, when Wallerstein declares:

A struggle like that of Vietnam, or Algeria, or Angola on the one hand, these colonial wars fundamentally weakened the internal
"undermined the ideological justification in world capitalism, both by showing the political vulnerability of capitalist entrepreneurs and by showing that private ownership is irrelevant to the rapid expansion of industrial productivity." (Wallerstein 1974a, P. 414) On the other hand, the socialist countries, similar to the earlier forms of worker opposition (such as labor unions), come to existence "as weapons of resistance to the logic of capitalism and they force capitalism to expand and reorganize itself. But eventually they become functional parts of capitalist system rather than forces of its transformation." (Chase Dunn 1982, P. 48) "(A)s their rise has resulted in coopting the proletarian leaders into the political operation of the world system" they have strengthened the world bourgeoisie. (Wallerstein 1977) And also they became a fundamental element in the survival of the world-system to the extent that they have prevented the polarization of the world by moving to the middle strata in the international hierarchy, and by doing so have raised the ability of

supports of the regimes of the U.S.A., one can ask if the net result has not been to further integrate these countries, even their regimes, into the capitalist world economy. It did both of course. (cited in Ibid., p.340)

I do agree with Gorin that in places Wallerstein only stresses one of the above indicated positions. I, however, think that Wallerstein's writing in general is more inclined toward the dialectical combination of these two positions
the semi-peripheral areas to enjoy a larger portion of the world surplus. (Wallerstein 1974a, P. 414)37

Because Wallerstein defines socialism as a mode of production based on production for use, it cannot exist in any single country or combination of countries as long as the capitalist world-economy exists. The socialist mode of production "involves some kind of collective decision-making about social production to which we may give the shorthand label of 'planning.' As long as planning is at the level of individual states, it's ultimately planning for a firm and not for an 'economy' and cannot eradicate the law of value. The clear implication is that planning must be at a world level, the only kind of production for use that can eliminate unequal exchange."

37 Zeev Gorin (1985) suggests that Wallerstein's position that the socialist countries contribute to the survivability of the world capitalist system stems from Wallerstein's "Parsonian-Type Functionalist Analysis." Parts of the system (subsystems) enhance the survivability of the total system. Changes consists in changes of the subsystems and the system as a whole in direction of a higher level of survivability of the total system." (Ibid. P. 336) Moreover Gorin argues Wallerstein's view that the socialist countries undermine the capitalist countries is rooted in the theoretical framework developed by Wallerstein. In this framework the "system is conceived as a contradictory one, which by its 'normal' operation gives birth to and constantly reproduces anti-systematic forces." (Ibid. P. 337) Furthermore, Gorin contends that although Wallerstein on different occasions emphasizes one of the above positions, at other times dialectically combines these two. For example, when Wallerstein declares:

A struggle like that of Vietnam, or Algeria, or Angola on the one hand, these colonial wars fundamentally weakened the internal supports of the regimes of the U.S.A., one can ask if the net result has not been to further integrate these countries, even their regimes, into the capitalist world economy. It did both of course. (cited in Ibid., p.340)

I do agree with Gorin that in places Wallerstein only stresses one of the above indicated positions. I, however, think that Wallerstein's writing in general is more inclined toward the dialectical combination of these two positions.
Such a system has not been established yet; however, there are tendencies in the capitalist world-economy that move the whole system towards socialism. The outcome is not definite and depends on the result of interaction of these tendencies with the other factors, in operation, but the existence of these tendencies is undeniable.\(^3\)

Wallerstein's assessment of prospects for socialism is therefore quite different from Frank's. Frank, who sees that the locally controlled capitalist development in the poor countries is no longer a possibility, seeks the only alternative in rupturing all ties with the world capitalist system and establishing a socialist country which is taken as synonymous with autarky. For Frank, therefore, the escape

\(^3\) There is an organizational imperative in which, the full development of capitalist relations of production with its emphasis on "the increase surplus-value and the maximum efficiency (free flow) of factors of production" moves the system towards "a fully planned single productive organizational network." Also the appropriation of world surplus in the hands of few results in the spread of "antisystematic movements" and therefore the dispersion of socialist ideas among the direct producers. The existence of the socialist movements in the individual countries which seek to construct socialism creates "additional institutional pressures on the world-system to move in the direction of socialism" despite the fact that their location in the world interstate system constrains "the kinds of transformation they can effectuate within their boundaries of a given state." (Wallerstein 1984, PP. 24-25)

There are also counter-tendencies which impede the achievement of socialism. Among them is the "logic of domination" by the ruling strata, world bourgeoisie, which leads this group to seek survival by adoption of new social roles and new ideologies. They are willing "to change everything in order to have everything remain the same," and perpetuate themselves in a new system. In the process of seeking to secure their position, the world bourgeoisie may adopt policies which result in nuclear war. This could bring the cessation of the present system, but the destruction of most of the world's productive forces makes the establishment of a "socialist world order far less structurally feasible." (Ibid., P. 25)

According to Wallerstein, "(i)t is clear that the capitalist world-economy cannot survive, and that it is in the process of being superseded as a historical social system." What will be the end result is not clear and depends on "how conjuncture of forces at play will constrain the direction of change." (Ibid., P. 26)
from the international hierarchy of division of labor which is only useful to the core countries is possible, though not easily achievable. For Wallerstein, on the other hand, the international hierarchy of division of labor with unequally powerful states is not only assumed to be structurally necessary for the continued existence of the capitalist system but also to be contagious.\(^{39}\) So no break from the system is possible, and since the relinquishment of one country’s structural position implies adopting a new role in the international division of labor, there is no evasion possible. Even if such evasion takes the form of autarky, the country continues to remain part of the capitalist world-economy. Because, the capitalist world-economy through different channels pressures it to do so. "Other states will not let any individual state be totally autonomous and will intrude directly and indirectly, politically and militarily if necessary." (Wallerstein 1984, P. 84) The only alternative is the establishment of a socialist world system.

### 2.2.6. Wallerstein and His Critics

\(^{39}\) The role of states is particularly important. "The state power is used to extract labor-power (more directly in the periphery than in the core), but the competitive nature of the interstate system prevents any single state from maintaining a statewide monopoly and subjects producers to the necessity of increasing productivity in order to maintain or increase their shares of the world surplus value. Thus, the interstate system reinforces the capital-wage labor relationship in the core, and coerced labor extraction in the periphery, and constitutes the basis of production relations for the capitalist system." (Chase Dunn 1982)

And "the extraction of surplus value is based on two modes of appropriation: 1) the ability to use political power for the appropriation of surplus value, 2) the ability to produce efficiency for the competitive world market." (Chase Dunn 1982)
Wallerstein tries to theoretically explain the emergence and development of capitalism since the Sixteenth Century, and in this process he hopes to demonstrate the hierarchical and exploitive nature of such development. He also proposes that the capitalist world-economy is universal and has penetrated every nook and corner of the world, including the socialist countries. The only way to eradicate this exploitive system is by a world-wide revolution and establishment of a socialist world economy.

Wallerstein, therefore, in accordance with Frank in trying to explain the development of capitalism and contemplating socialism as the only alternative to end the misery of the exploited classes, enters into the domain of Marxism. In critically evaluating Wallerstein's scheme, then, it seems logical to concentrate on his Marxist critics.

Methodologically, Wallerstein's starting point is a concept of totality. He claims that one either has to start "with the economy seen from the point of view of the producing units, which is where Adam Smith starts, or with the social economy as a totality, which is where Marx starts." (Wallerstein 1977) He in fact cites with approval Luckacs' comment that, "the decisive difference between Marxism and bourgeois thought (is) the point of view on totality." (cited in Gerstein 1977) And for Wallerstein a unit qualifies as totality if within the unit there exists one single division of labor in the sense that the "totality of essential needs of the overwhelming majority" of economic actors are satisfied by the production within that unit. It is in his context that he then introduces his concepts of the world empire and world systems.
His methodology in contrast to his claim is not a Marxist's methodology. Marx in the Grundrisse explains his concept of scientific method: While thought "appropriates" reality in all its complexity one should construct out of this complexity the essential abstract concepts, and then reconstruct based on these relatively simple abstract concepts, the complex concepts which parallel the complex reality. Marx's Capital is structured in this way from a simple abstract (i.e. commodity) to an increasingly complex abstract concept (i.e. capital). Wallerstein, on the other hand, does the opposite: He starts with the complex concept of the "world-system" and gradually reduces the degree of complexity of concepts which he uses. Arnowitz (1981, P.508) argues also that the meaning of Wallerstein's "systems" is not consistent with the Marxist notion of "totality" in which "the elements of a system are understood within a matrix of mutual determinations." In Wallerstein's scheme the system "is a structured totality consisting of relatively autonomous elements whose interaction constitutes the whole." 40

40 One aspect of the point raised by Arnowitz can be viewed in Wallerstein's discussion of the emergence of capitalism. To comprehend how and why capitalism began is one of Wallerstein's stated goals. His theory, however, does not put him in a good position to explain the transition from feudalism to capitalism in Europe. The most obvious difficulty is his lack of any theoretical conception of the dynamics of feudalism. (Skocpol 1977, P1078) Wallerstein traces the origins of the capitalist world-economy to the expansion of trade in Western Europe, prompted by a series of geographic, climatic, economic conditions whose conjunction gave rise to the international division of labor. This is however "construction of a theoretical edifice using materials randomly drawn from what is at hand." According to Arnowitz, employing such categories as climate and cycles which are historically specific in explaining the genesis of capitalism, leaves an impression that there is no principle involved in Wallerstein's analysis, since he implies that changes are not a function of internal contradiction "but of sure contingency." (Arnowitz, P. 508) Arnowitz (Ibid., P. 508) further argues that Wallerstein "in the first place in his analysis of crisis of feudalism swallows whole the premises of
Wallerstein's major interest is to construct a theory of capitalist development as a system of exchange relations which is shaped by its world-wide characteristic rather than by a mixture of national features. Then, logically when he cojoins secular and cyclical crises, the decline of feudalism could only lead to the world-economy. And it becomes reasonable for his theory to find the origin of capitalism in the expansion of the world trade and in the history of explorations. (Arnowitz 1981, P. 509)

Critics point out that Wallerstein is a reductionist; his model is based on a reduction of complete socio-economic structures. In his view, such structures are determined solely by world market opportunities and market exchange. He considers exchange as the mainspring of the organic whole, and to prove the legitimacy of his explanation he resorts to Marx's writings in order to "enlist him in his interpretation of importance of circulating capital in determining the organic whole." (Navarro 1982, P. 87) What he quotes, however, is not an accurate representation of Marx. In contrast to Wallerstein,

classical political economy that owes its origin to A Smith and Thomas Malthas - the law of diminishing returns within a given technology - the more dubious notion of cyclical theory...and finally the remarkable uncritically adopted idea that climatic conditions may be an independent variable in the transformation of social structure, unmediated by the structure itself. In all of these ideas there is no dynamic of internal relations into which the variables may be placed. That is, Wallerstein has no theory of social change as an outgrowth of the crisis of the social relations that structure a social system."

Cyclical crisis implies that the expansion reaches optimal points given the level of technology. Secular crisis implies diminishing return on land which limits the capacity of surplus appropriation of the system. The emphasis on expansion as an imperative for feudalism makes Wallerstein's theory ahistorical. He generalized Marxists' argument that capitalism requires expansion because of the logic of accumulation and applies it to any society, and argues the expansion is a property of all social systems or they must die. (Arnowitz 1981)
Marx emphasizes the importance of production in determining a mode of production, though mentioning that within "the same mode of production exchange can also determine the type of production." (Navarro 1982, P. 88) In fact, Marx referred to capitalism as capitalist mode of production. This is not because he was a reductionist, but because he believed "the relations of production were the ones that determine how different moments (levels) of production, distribution, exchange, and consumption are articulated within the mode of production or organic whole." (Navarro 1982, P. 88)

42 This is the complete quotation from Marx as (has been) translated by Vincente Navarro: (Navarro 1982, P. 87-88) "The conclusion we reach is not that production, distribution, exchange and consumption are identical, but that they all are the elements of a totality, different components within a unity. From production, the whole process starts and is reproduced...There is no doubt that exchange and consumption cannot be determinant. The same applies to distribution and distribution of products...As a consequence, each production determines a definite consumption, distribution and exchange as well as a definite relation between those different moments. Also production, within its specific form, is determined by other moments. For example, when the market, i.e., the sphere of exchange, grows, the volume of production also increases and appears a more profound division of production...There exists a reciprocal relation among the different elements. This is the case with every organic whole." (Grundrisse)

43 Wallerstein brings another quote from Marx to defend his position, but here also Marx indicates that exchange contributes to the expansion of the already existing capitalist mode of production. "I am no more 'circulationist' than Marx was when he argued that 'competition' on the world market (is) the basis and vital element of capitalist production." (Marx Capital III. Ch.VI P. 110)." And when in the Sixteenth, and partially still in the Seventeenth, Century the sudden expansion of commerce and emergence of a new world-market overwhelmingly contributed to the fall of the old mode of production. This was accomplished conversely in the basis of the already existing capitalist mode of production." (Marx Capital III, Ch. XX, P. 333 Italics) (Wallerstein 1977)
One consequence of Wallerstein's emphasis on market exchange is his limited attention to class struggle whose roots are in the relations of production and not in the relations of exchange; the external relations of the world market influence class struggle within each society but do not determine them. (Navarro 1982 and Skocpol 1977) As Brenner (1977) puts it, Wallerstein disregards the fact that once a class structure as an outcome of class struggle is established in a society, it determines the direction of change and the courses of economic development or underdevelopment. Brenner in the same line argues that Wallerstein's model assumes that the dominant class is more or less free to adopt any method of labor control or form of production, which is best suited to its interest given the exigencies imposed by its position in the international division of labor. He reduces therefore the class struggle to the responses of the ruling class to the market and ignores the power of direct producers to set limits on such responses. Brenner's idea that "the solidarity of the local peasant communities may play a role in development as important as the pattern of international exchange" might appear devastating to the world system approach. (Evans 1979)44

Wallerstein's definition of capitalist mode of production has also been criticized by Marxists. For Marxists the capitalist relations of production are the ones in which labor has been freed from

44 According to Brenner, the international division of labor that emerged in Europe should be explained only by interpreting the nature of peasant communities' resistance to the ruling class strategies in different areas. Even when Wallerstein acknowledges the class struggles between serf and lords the importance of a discontented class of capitalist entrepreneurs in the towns of feudal Europe, he still does not credit either of these with the vanquishment of feudalism by capitalism. (Arnowitz 1981)
obligation to land and is not the owner of the means of production. Wallerstein, on the other hand, focuses on capitalism as a "specific system of labor rationalization and unequal exchange." This categorization has led him to displace the question of exploitation, and substitute instead the inequality derived from occupying different positions in the hierarchy of international division of labor. (Evans 1979) It is for this reason that he argues the core regions exploit peripheral regions through the mechanism of unequal exchange. (Petras & Trachte 1979)

Emphasis on circulation, and defining capitalism as a system of exchange relations has also led him to have a vague notion about sources of profit. On the one hand, profit is defined as "appropriation of a surplus which was based on more efficient and expanded productivity (first in agriculture and later in industry.)" (cited in Gerstein 1977, P. 11) Here profit is a surplus created in the system as a whole. On the other hand, profit is defined as the result of an unequal exchange, and essentially expropriation by one part of the world from another.45

Wallerstein's technical treatment of division of labor has also been criticized by Marxists. He explains the division of labor simply as so many different types of concrete activities. This explanation is exemplified by his attempt to show that the hierarchy of variation of tasks constitutes the international division of labor Marxists believe

45 "Because he conceives of capitalism from the point of view of circulation, he is unable to identify the roots of class struggle. This point is epitomized by his uncertainty over the origin and nature of profit, for the mode of appropriation of the surplus, based upon the relations of production, is the constitutive element of the mode of production and of the structural definition of classes and the class struggle." (Ibid., P. 11)
a purely technical definition of labor is inadequate since it is neutral and "excludes any specification of the social division of labor." The social division of labor forms the structure of society and the basis for the technical separations among different occupations which Wallerstein speaks of. His failure to make this distinction is another major factor for his substitution of class structure with "geographical distribution" of different types of labor. Since core regions are specialized in production of capital goods, they exploit the periphery which is specialized in production of less technical goods. 46

(Arnowitz 1981, & Gerstein 1977)

Because Wallerstein loses sight of the class struggles and the process of class formation which begets change, because of his belief that the relations of exchange determine the mode of production, and moreover, because he is also convinced that the capitalist relations of exchange are dominant ones in today's world, he concludes that capitalism is the only mode of production in the present era. Such credence leads him to consider socialist countries as capitalist ones.

46 Gerstein (1971) uses an example to show how Wallerstein's treatment of division of labor has ignored the fact that each mode of production defines its own division of labor. Gerstein says: "The concept of luxury production as opposed to the production of essentials is very important in Wallerstein's scheme because it defines the regions that, while part of the division of labor of a system, lies outside of it. However what is a luxury? The answer cannot be given outside of a concept of mode of production in the first place.

Arnowitz also argues that such a line of reasoning has led Wallerstein to conclude that the workers in the core are under a less severe coercive system of labor control. They are in 'relative advantage' compared to the workers in the periphery who are working under a harsh system of labor control, a system of share cropping. In doing so Wallerstein's scheme succeeds in blurring the distinction between workers and capitalists in the core, and leaves entirely aside the source of opposition that might arise in these regions. (Arnowitz 1981)
In addition, since the whole world is capitalist, he explains specific events within the world system in terms of the demand of the system as a whole. Actors are reacting, not for "their immediate concrete interests, but because the system dictates that they act." (Petras and Tachte 1979) Liberation movements thus are seen "as arising out of the structural contradictions of the capitalist world economy." (Wallerstein 1975, P. 26) Within his framework, then, he is not able to answer, why in a given conjuncture there are revolutionary movements in some parts of the world and there are none in other parts.47

The critics point out that: Even if one accepts Wallerstein's contention that the world capitalist system incorporates different modes of labor control, the distinction between the motives and forces behind their emergence in the 'world capitalist system' is important. Portes for instance argues: "The blueprint with which the Bolshevik party took power in Russia was quite different from that of the Japanese imperial bureaucracy...It involved not a search for hegemony within the existing world order, but its destruction." It is, therefore, quite difficult to believe that "the ultimate outcome of the Soviet experience is simply to promote Russia into 'core status' within the capitalist world-economy." (Portes, P. 518) In response to Wallerstein's claim that the socialist countries, similar to other countries, are functioning parts of the world capitalist system, Szymanski argues that: "While it is true that the establishment of

47 The Russian Revolution in Wallerstein's eyes arose due to international war which led to the collapse of the Czarist regime which in turn caused a spontaneous explosion of the populace and finally seizure of power by a minority group, the Bolsheviks. (Navarro 1982)
socialist productive relations in the U.S.S.R. and China was very much a product of the expansion of Western Europe capitalism into these countries," their establishments were however "reactions against capitalist relations of production." According to Szymanski, however, when one considers the revival of slavery or serfdom in the colonies as a result of the expansion of capitalism, one witnesses an entirely different situation: "...the revival of slavery and serfdom were integral and ongoing aspects of capitalist profit-making. The sugar and cotton produced in the Caribbean with slave labor was essential for the growing capitalist economies of Western Europe and North America...Nothing like this has been the case for social relations in the U.S.S.R. or China, which consequently cannot be considered to be a product of economic demand in the West." (Szymanski 1981, P. 525)

It is obvious for the critics that all societies participate in the world capitalist system. Nevertheless, what they consider to be important and decisive in differentiating societies from one another must be searched for "in their class relationship and struggles: the external articulation (between the class structure/world market) of these internal changes influences and shapes, but in no decisive sense develops and initiates the basic changes that mark the scope of the transformation to new forms of capitalist domination or socialism and the direction of transition." 48 (Petras 1981, P. 152, cited in Gorin 1985)

48 For a critical survey of Wallerstein's views on the socialist countries and world-system, see Zeev Gorin. (Portes 1981)
Some critics argue socialism is not a mode of production, it is a social formation in transition from capitalism to communism. This transition may take centuries, as did that from feudalism to capitalism. The direction of that transition depends primarily on the struggle within the given social formation rather than on the position of that formation in the world-system. Analysis of the socialist countries reveals varieties of "transitional problems and processes within and among peoples with diverse experiences, resources, and institutions as these societies attempt to chart the passage from capitalism, semi-peripheral, or various colonial" formations. Socialist transitions are occurring within the orbit of the capitalist world, and simultaneously are transforming and being transformed by it.

Appraising the significance of these internal and international changes, however, requires abandoning utopian expectations, since "the subsequent of cherished dreams in each case turned some of the most ardent proponents of these revolutions into bitterly disillusioned critics as incapable of perceiving the genuine advances in each case as they had been of recognizing previous shortcomings." (Selen 1982)
PART TWO: DEPENDENCY AS E.C.L.A.'S CRITICISM OF TRADE THEORY

2.3. Sunkel:

The nucleus of the United Nations Economic Commission for Latin America's (henceforth E.C.L.A.) analysis was the critique of the conventional theory of international trade as expressed in the Hecksher-Ohlin-Samuelson model of international trade.

E.C.L.A.'s prescription for achieving accelerated and sustained economic growth was development of the industrial sector. Realizing that this process of industrialization would be inhibited by both a pattern of international division of labor and a series of internal obstacles, E.C.L.A. suggested a series of measures. These included state intervention in the economy as both a direct producer and as a formulator of economic policies. The formulation of economic policies includes attracting foreign investment into the industrial sector and emphasizing import substitution policies. (Palma 1978)

In the 1960s, however, it seemed that E.C.L.A.'s prescriptions did not produce the desired results. The process of import-substitution seemed to aggravate balance of payment problems, instead of alleviating them; foreign investment was in part responsible for that. In several countries income distribution was worsening and the rate of unemployment was increasing. This bleak picture subsequently led to some of E.C.L.A.'s members' pessimism about the possibility of capitalist development in Latin America. The disenchanted members of E.C.L.A. at tempted to reformulate its thought and tried to discover why some of the expected
consequences of industrialization were not happening in Latin America. Some of them produced different versions of stagnation theories. Others, including Sunkel, however later abandoned the stagnation theories and produced "movement towards a more structural-historical analysis of Latin America." (Palma 1978, P. 908)

Sunkel criticized both the modernization and Marxist approaches in studying underdevelopment. He argues the former mistakenly considers countries as self-contained economic units which are on a par in their international relations. In the same manner this school conceives of underdevelopment as a moment in the evolution of society which has been economically, politically and culturally autonomous and isolated.

Sunkel also feels that Marxists are also wrong since they have restricted themselves to analyzing the international monopolies' penetration of underdeveloped countries for the purpose of appropriating their economic surplus, and as a result they have neglected the 'spread' and 'backwash' effects of such penetrations. (Sunkel 1973)

Sunkel (1973), however, praises Myrdal (1957), Prebisch (1950), and Singer (1970), who originally initiated the study of 'spread' and 'backwash' effects, and have suggested that in the interaction of industrial economies with primary products producing countries, the former tend to benefit more than the latter. According to him, their study introduces "a most important perspective since it

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49 According to Palma, (1978) the most sophisticated perhaps being Furtado. (1966)
focuses attention on the interaction between the external agents and the domestic economic, social, and political structures.”

Nevertheless, their study is partial and requires further generalization. It is partial because in analyzing the effects of interaction between developed and underdeveloped economies, it has concentrated exclusively on the primary product producing sector of the latter. As a result of this biased analysis they came to the conclusion that the underdeveloped countries must industrialize because the industrialization would result in "a cumulative process of self-reinforcing 'spread' effects." They prescribed that in order to achieve industrialization these countries should adopt the policy of import substitution. (Sunkel 1973, P. 5)

In reality, the policy of import substitution, according to Sunkel, failed to achieve the aims of freeing the underdeveloped countries from heavy reliance on primary exports and foreign capital and technology. This policy, in the initial period, stimulated rather significant manufacturing industries and a national entrepreneurial class. But in the later period most of the industrial sector was taken over by foreign firms, with the result that much of the benefit associated with the industrialization has flowed abroad. This process of de-nationalization of the economy subsequently led to erosion of the national entrepreneurial class. It also accentuated the process of uneven development: "On the one hand, a partial process of modernization and expansion of capital intensive activities; on the other, a process of disruption, contraction and disorganization of traditional labor-intensive activities." (Sunkel 1972, P. 518)
The recognition of the fact that industrialization has aggravated the problem of economic dependence reveals the necessity of analyzing the problem of underdevelopment not in isolation but as a "part of the development of the international capitalist system, whose dynamic has a determining influence on local processes." One, then, in Sunkel's account must look at foreign factors "not as external but as internal to the system, contributing significantly to shape the nature and functioning of the economy, society and policy." (Sunkel 1973, P. 6) In other words, the capitalist system must be viewed as a whole, "as a global international system, within which national economies-nation-states-constitute sub-systems."

Under this approach the development process is not simply considered "as a race which started somewhere before the Industrial Revolution and in which some countries reached advanced stages while others stagnated or moved slower." (Sunkel 1972, P. 519-520) It must be realized that capitalism from its outset has created an international system, which has "brought the whole world economy under the influence of a few countries." Development and underdevelopment must be viewed as a "simultaneous process; the two faces of the historical evolution of the capitalist system." (Sunkel 1973, P. 7)

During the colonial period, for example, the Europeans interfered in Latin America and in order to extract the precious metals and obtain tropical products introduced slavery and other forms of forced labor. The establishment of overseas empires in this period played an important role in European economic development and created the basic conditions for underdevelopment in most
territories conquered and colonized. The Industrial Revolution led to specialization of first Britain and later some other countries in production of manufactured goods, while the rest of the world became specialized in production of staples and raw materials. "This was a further step in the process of creation of conditions for development in the metropolitan area and for underdevelopment in the periphery." (Sunkel 1973, P. 9)

The age of imperialism ushered in a system of rivalry among the industrial powers and led to the eventual rise of the United States as the dominant power. During World War II and immediately thereafter, while Europe was ravaged by war and economic crises, "the U.S. economy experienced important changes in its internal structure. Government intervention expanded considerably within the United States, accelerating growth, reducing fluctuations and contributing to a fantastic development of science and technology;" all of which helped to create large business conglomerates. (Sunkel 1972, P. 501) According to Sunkel, in the present era, "the capitalist system is in the process of being reorganized into a new international industrial system whose main institutional agents are the multinational corporations, increasingly backed by the governments of the developed countries." (Sunkel 1972 P. 15) The multinational corporations tend to concentrate the planning and development of science and technology as well as entrepreneurial decision-making in the developed countries, and the underdeveloped countries are assigned to routine production or assembly of goods designed by the former. The import-substitution policies of underdeveloped
countries were used by the multinational corporations to penetrate into these countries and establish their subsidiaries.

According to Sunkel, the massive expansion of multinational corporations in the less developed countries has intensified the dependent nature of economic development of these countries. He argues further that such intensification has taken place through different channels. In the first place, there is a tendency on the part of subsidiaries of multinational corporations not to integrate with local suppliers or to share their technology. Secondly, subsidiaries within one country tend to integrate horizontally among themselves, and gain control over finance, credit and markets. More important is the fact that while at the beginning the foreign firms may make a contribution in capital, skilled personnel, technology and management, overtime the cash outflow becomes larger than the inflow. These are only a few of the 'backwash' effects of the foreign investments in the less developed countries. (Sunkel 1972 and Sunkel 1973)

To reverse the above mentioned trends, Sunkel suggests that in the first place one must take away the control of the state from the social groups which are closely associated with any benefit from the dependent structure of the less developed countries. After taking over the control of the state three major steps must be taken in order to correct "the main malformation inherited from the historical process of interaction with the international system." In the second place, there is a need for agrarian reform, since the present structure of the agricultural sector is "the fundamental root of inequality, marginalization and stagnation." In the third place, because the
primary export sector is the most important source of capital accumulation, through control over this sector capital must be channeled towards expansion of heavy and consumer industries. Finally, the industrial sector must be reorganized, by reorienting production from conspicuous consumption to basic consumer goods necessary for satisfying the needs of the majority. (Sunkel 1972, P. 530)

In this process of structural reforms the foreign interests will be affected, either through nationalization of their interest or through renegotiation with them. The less developed countries have the right to control their most essential resources, and the policies of foreign firms do not necessarily coincide with the interest of these countries. Realization of this fact, according to Sunkel, has led to the end of the era of "creating favorable business conditions for direct foreign investment" and the opening up of a new era of hard bargaining, negotiations and "assertion of national interest of our countries in their international economic relations." (Sunkel 1972, P. 531)

Sunkel, like Frank and Wallerstein, sees underdevelopment and development as two sides of the same coin. He believes development is a global structural process of change; and underdeveloped countries have been deprived of autonomous capacity for change and growth, and are dependent for these on the industrial developed countries. (O'Brien 1975) While historically the dependency itself has remained unchanged, its mechanism has undergone changes. For example, according to Sunkel, in the past it was the interconnections of four essential elements- "the stagnation of traditional agriculture,
the mono-export of primary product, the type of industrialization policies, and the functions of state"-which had created the implacable necessity to obtain foreign finance, and that became the key mechanism of dependency. (Sunkel 1973 and Sunkel 1969) However, in the modern era it is the penetration of the less developed countries by the multinational corporation which is counted as the essential feature of dependency. Sunkel's prescription, however, differs from Frank's and Wallerstein's and in contrast to them he does not seek demolition of the capitalist system. Rather he is in search of more nationalistic and reformist solutions. He admires the case of Peru in which the nationalist elements took over the power of state and in opposition to the dependent nature of development of their country attempted to take necessary steps. (Sunkel 1972)

The aim, then, must be accomplishing "greater autonomy, in order to achieve development without 'dependencia.'" (Sunkel 1972 P. 531) This does not imply autarky; rather the possibility of cooperation with foreign firms "is by no means excluded, even though there will certainly be little place for wholly-owned foreign subsidiaries or private foreign investment of traditional kind." (Sunkel 1973, P. 24)

Sunkel is not concerned with and has not attempted to analyze the relations between the socialist and capitalist industrialized countries. One may, however, anticipate that Sunkel in the light of his general methodology would probably consider those socialist countries which followed his prescriptions capable of achieving autonomous development. In fact he uses the example of 'socialist'
Chile and its relations with the multinational corporations as a guiding light which must be followed by the less developed countries in their relations with these corporations. (Sunkel 1973 and Sunkel 1972)

Sunkel's analysis, like others in the dependency tradition, has been criticized both on empirical and theoretical grounds. Bill Warren, (1973) for example, employs four criteria suggested by B. Sutcliff (1972) as the conditions of independent industrialization and argues that empirical observation confirms the strong trends toward lessening dependence development of less developed countries. In regards to dependence on the foreign technology, Warren argues the importation of these technologies represents a net gain for the Third World, and these technologies "are increasingly assimilated in the industrial process, and thereby contribute to the development of indigenous technical culture and capacity." (Bernstein 1982, P. 226) Yet according to Warren, the very concept of "independent industrialization" is highly ambiguous and Sutcliff's criteria have not always been necessary or sufficient conditions of independent capitalist industrialization.

In Sunkel's analysis the results of what may be the very effects of capitalist industrialization—such as massive unemployment, immiseratio—are assimilated to symptoms of the dependent nature of economies of the Third World countries. Similarly, his arguments

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50 These four criteria are: 1) The development of a domestic market for the products of national-industry. 2) A diversified industrial sector with numerous internal linkages including capital goods industry. 3) National control over the investment of capital and the accumulation process. 4) An indigenous capacity for the development of technologies appropriate to a given country's industrial strategy.
embody a "conceptual delusion" that there exists a "genuine" and "national" development process which "delivers the goods of increased social welfare, more egalitarian income distribution, full employment, a process which benefits the majority. This definition virtually excludes the basic characteristic of capitalism which is "exploitation through the appropriation of surplus value, and creating the conditions of such exploitation." (Bernstein 1982, P. 227) Even in the developed countries where supposedly this 'genuine' process is at operation, one can observe inequalities, unemployment, poverty, as well as disparities among various geographic areas, between urban and rural areas, within cities themselves.

In summary, Sunkel's analysis only provides description and condemnation of the symptoms and effects of capitalist development, rather than explaining them "in terms of intrinsically contradictory nature of the process itself." (Bernstein 1982, P. 229)
Summary of First Chapter:

The dependency school, represented here by Frank and Wallerstein, maintains that socialist and capitalist countries do not possess qualitatively different economic systems. In other words, Eastern Europe and the Soviet Union cannot be considered socialist countries. Frank and Wallerstein each present different reasons for such a conclusion. Frank asserts that integration into the world economy defies a country's economic system, and since the socialist countries are integrated into the world international division of labor, they can not in any way be differentiated from the capitalist countries.

Wallerstein, on the other hand, believes in prevalence of only one mode of production throughout the world, and that is the capitalist mode of production. According to him, in capitalist mode of production, self-interested individuals are connected and interdependent through the exchange relations, or one single division of labor. Through this single division of labor, the totality of economic actors' needs are met by a combination of their own production and in some forms of exchange. Consequently, since all regions of the world, regardless of their internal forms of labor
control, take part in this single division of labor, they are all capitalist countries.51

According to the dependency school, the manner in which socialist countries insert themselves into the international division of labor is similar to that of intermediate capitalist countries: i.e. Brazil, Mexico, etc. In other words, they exploit the countries at the lower levels while simultaneously they are exploited by the advanced capitalist countries. The pattern of trade of the intermediate countries is an indicator of such hierarchical exploitive relationships. While these countries export manufactured goods to the underdeveloped countries and import raw materials from them, the intermediate countries export raw materials to the developed countries and import industrial products from them. It is the investigation of such a claim that will be the focus of my study in the fifth chapter of this dissertation.

51 Although at first glance Frank's and Wallerstein's schemes seem to be identical, in reality they are not. In Frank's version a breakout from the capitalist system is possible, while in Wallerstein's scheme it is not.
CHAPTER III

The Neo-Classical School

In the previous chapter, I tried to establish that the dependency school, represented by Frank, argues that Eastern European countries, by establishing economic relations with the West, have become a functioning part of the capitalist system. The world system approach, represented by Wallerstein, maintains that since capitalism is the only world-wide embracing mode of production, the nature of Eastern European countries' economic system is not qualitatively different from those of other countries. It is the purpose of this chapter to investigate how the neo-classical economists address East-West economic relations. I will argue that as far as the basic assumptions of orthodox economists are concerned, the differences in the socio-economic systems of capitalist and socialist countries are not important.

The orthodox economists have established their theory at a highly general and abstract level. Their starting point is abstract individuals endowed with a certain set of psychological characteristics which drive them towards maximization of their satisfactions. It is also assumed that each of these atomized individuals has at his/her disposal a commodity and an exclusive and unlimited right to it. The individuals are completely free in deciding whether to sell their commodities or to retain them. An individual worker is thus free in choosing to sell his/her services to an
entrepreneur or refrain from it, and may instead choose the "leisure" of not working. All commodity exchanges are transacted only when the price ratios are equated with the ratio of "subjective preferences at the margin." Since the focus of theoretical analysis of orthodox economists is the process of exchange, there is nothing to differentiate and discriminate exchange of apples for oranges, from a worker's sale of his/her labor power in the market. The attention is only on the equality of the marginal rate of substitution of apples for oranges and their price ratio in the case of the former transaction, and on the equality of the marginal rate of substitution of work for leisure with the wage rate in the case of the latter transaction.

The critics of neo-classical economics argue that emphasis on exchange and individuals (in contrast to production and institutions) has led the orthodox theorists to ignore the most peculiar aspect of the capitalist mode of production. Workers have been denied the ownership of the means of production and have been forced to sell their labor powers in the market. On occasion workers may be more or less free to sell their labor powers to whomever they choose, but they are not free to not sell them at all. If one loses sight of this aspect of capitalist relations of production, one is likely to reach some of the essential conclusions of orthodox economists' theorizing ideas of freedom, equality and optimality. According to these economists, economic agents are free to sell or not to sell their commodities and are free to leave or enter the markets; the individuals confront each other as equals having access to equal resources and information, exchanging equal commodities; and naturally only those exchanges
take place that cause at least one of the agents to be better off and neither worse off. (Mohun 1979) & (Godelier 1972)

The neo-classical economists' assumption of rational, egotistical, and maximizing human beings have been established at a high level of abstraction that is institutional free. According to them, all human efforts can be reduced to the exchange of land, labor and capital in all societies, places, and times. Under any institutional framework, the atomized individuals are maximizing their exogenous preference structure (in the case of consumers) or a form of profit function (in the case of producers). Moreover, such concepts as wages, rent and interest are considered to be universal categories and are applicable to both the present day economies and the economies of the past with completely different institutional persuasions. (Hunt 1979) The categories of wage, rent and interest, then are hedonistically 'natural' categories of such taxonomic force that their elemental lines of cleavage ran through the facts of any given economic situation...even where the situation does not permit these lines of cleavage to be seen by men...; so that, e.g., a gang of Aleutian Islanders slushing about in the wrack and surf with rakes and magical incantations for the capture of shell-fish are held, in point of taxonomic reality, to be engaged in a feat of hedonistic equilibration in rent, wages, and interest. And that is all there is to it. Indeed, for economic theory of this kind, that is all there is to any economic situation. (Veblan 1961, cited in Hunt 1979, P. 304)
In the orthodox economists' view the capitalist economy differs from all the other societies only in the sense that in the former the universal human behavior, universal human activities and "the universal modes by which these activities were rewarded lead to the ideal situation of equilibrium and pareto-optimality.\(^1\)

The following statements from Solow (Solow 1963), one of the major exponents of neo-classical economists, will clarify the institutional-free nature of analysis of this school.

Workers get paid for working; what do capitalist get paid for? For 'waiting' while roundabout processes of production percolate, or for 'abstaining' from some current consumption in favour of replacing or augmenting the stock of capital and maintaining or increasing future consumption. Since so much of the 'waiting' gets done in expensive automobiles and luxurious resorts, while the 'abstinence' excites little sympathy in an even slightly cynical observer, the whole apparatus begins to look like a transparent verbal trick...But even so, there is no excuse for economists to lose the concept in their resentment at the language. One of the elegant showpiece of economics is its analysis of the resource-allocation implications of a system of prices or shadow prices. We have learned to free this analysis of ethical overtones. All that is necessary in capital theory is to draw a conceptual distinction between the imputed return to capital and the income of capitalists. Here, as elsewhere in economics, but with rather more irony here, the best

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\(^1\) Assuming free competition and ignoring such "disturbances" as monopoly.
way of understanding the economics of capitalism may be to think about a socialist economy. (cited in Mohun 1979)

As far as the orthodox economists' theory is applicable to any society with diverse institutions, the same tools and instruments which are used to analyze a capitalist economy can be used to analyze other economic systems. Under the same logic, there is no need therefore to utilize different concepts and methods for analyzing East-West economic relations. And as these economists hold that the international trade and investments are equally advantageous for all parties involved, it must not make any difference if one of the parties is a socialist country. It is the purpose of this chapter to investigate the methodology adopted by the orthodox economists in their study of the economic relations between advanced capitalist countries and socialist ones and to show the authenticity of the above statements, i.e. universal applicability of their theory. Furthermore, throughout this chapter, I will attempt to pinpoint the problems associated with the neo-classical school's methodology in investigating East-West economic relations. To achieve such a goal an extensive survey of literature is necessary. Such a task at first may seem to be difficult, since the number of books and articles published by mainstream economists on the subject is extensive. A more detailed examination, however, reveals that there are two distinctive groups in this school which have dealt with the question of East-West relations. The first group in its analysis does not try to maintain any explicit theoretical perspectives and mainly relies on case studies. The second group comprises those
orthodox writers who take their theoretical approaches more seriously and try to apply the neo-classicist's concepts and methods in inquiring into their topic of study. Consequently, this chapter is divided into two major parts. In part one, I will review the methodologies adopted by 'non-theoretical' orthodox economists; in part two, I will focus on theoretical works of these economists.

**PART ONE: NON-THEORETICAL ORTHODOX ECONOMISTS:**

Most orthodox economists who have sought to investigate East-West economic relations have produced works which steer clear of maintaining an explicit, coherent theoretical reasoning. Instead they have relied on case studies, informed speculation, taxonomical exercise,² or general description. The lack of theoretical analysis on the part of these orthodox authors has been interpreted by M. Herold and N. Kozlov (1983) as their realization of the inadequacy of neo-classical theoretical apparatus in dealing with the question of East and West economic relations. "Lacking a concept of mode of production, it is of course difficult to conceptualize relations between different forms of social organizations." (Herold and Kozlov 1983, P. 17) It is not the purpose of my study to find out whether these

² I am using the categories employed by M. Herold and N. Kozlov (1983). I realize that such categorization is somehow arbitrary, as in many cases there is significant overlap between, for example, those authors who rely on case studies and those who have devoted considerable attention to taxonomy.
orthodox authors abstain from theoretical investigation because of their "intuitive grasp of this difficulty" or their lack of belief in the universal applicability of the already produced neo-classical theory of international trade and investment or perhaps some other reasons. This study will try however to show that omission of theoretical analysis has produced various consequences. On occasion, some of these authors, by relying extensively on the case studies, have drawn illegitimate generalizations based on limited information. On the other hand, the work of some authors can be illuminating and at times useful. As it is impossible to cite the works of all of the mainstream economists who have employed the "non-theoretical" approach in studying East-West economic relations, I will only bring some examples under each different category. I will try to illustrate only the works of those economists who are at least relatively well-known in their field of study.3

Part one of this chapter is subsequently divided into four major sections. 1- case studies; 2- general description; 3- informed speculation; 4- taxonomical exercises. I would like to state from the beginning that since my goal is to highlight the methodology adopted by the orthodox economists and show the consequences of their adopted methodology, I will not divide the following sections (3.1.-3.4.) based on the subject (i.e., trade, investment, etc.).

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3 My emphasis will be on the recent studies. For a thorough survey of literature prior to 1974 see Holzman. (1974)
3.1. CASE STUDIES:

Most authors in the neo-classical tradition who have relied on case studies for analyzing the East-West economic relations have emphasized only one aspect of such relations. Others have either concentrated on operation of one particular company (or industry) in Eastern Europe or have focused on the experiences of individuals. Among the best examples of the first group is McMillan (McMillan 1981) who describes the "institutional forms" and financial arrangements which characterize industrial cooperation agreements (henceforth I.C.A.) between East and West.

McMillan considers I.C.A.s as "new microeconomic relationships" which link Western firms to the Eastern state agencies in a broad range of activities such as research, investment and marketing. He believes assimilation of Western technology is an important incentive for Eastern Europeans to conclude I.C.A.s. In particular, for more trade-dependent Eastern countries, the export-generating function of acquired technology is a major additional consideration.

The hard currency payments faced by Eastern countries is another consideration which has made them interested in the "self-financing" character of I.C.A.s. Under an I.C.A., in many cases purchases of Western plants and technology are partially offset by return from Westward flows of jointly produced outputs.

McMillan also pays considerable attention to taxonomy, and he seeks a definition of I.C.A.s, which he thinks is important for any
rigorous and fundamental analysis of East-West economic relations especially of quantitative nature. He then adopts the definition for an I.C.A. which "incorporates purchases of technology and/or equipment (including complete plants) on a compensation basis, as well as more unambiguous forms of production cooperation - and extends to joint East-West companies, established for a wide variety of purposes." (McMillan 1981, P. 56) Based on this definition he then tries to establish the trend of I.C.A. development through the end of the 1970s. This task is admittedly a difficult and important one, mainly due to lack of any detailed and regular official, national statistics on the number or size of the I.C.A.s. Nevertheless he tries to assemble data mainly based on the secondary sources which are "susceptible to variations in coverage by the specialized press." (McMillan 1981, P. 60)

The tremendous growth of East-West trade in the first half of the 1970s was matched with an equally explosive development of I.C.A.s. McMillan argues that in the second half of the mid 1970s, after the initial period of dynamic growth, one might have expected I.C.A.s to grow more slowly due to a combination of the following reasons. The more obvious opportunities for cooperation would have been exploited in the first phase. Moreover, the recession of 1974-75 which created excess capacities in the West, therefore reduced the incentive of Western firms to add new productive capacity in the East. Furthermore, the Western companies became more interested in new important partners for industrial cooperation, the OPEC countries. Finally, renewed tensions between East and West could be
seen as an impedement to further growth of I.C.A.s. McMillan's studies, however, show there was no evidence of an overall slowdown in the number of new I.C.A.s after 1976, despite the unfavorable economic and political climate. He also tries to present the breakdown of I.C.A.s by industry in 1975 and 1980, to mark the trend of their industrial structural changes.

In discussing the outlook for I.C.A.s in the 1980s, McMillan believes several important and potentially constraining factors must be considered. He argues I.C.A.s are inherently dependent upon favorable political conditions. For example, as a channel for the transfer of Western technology they are vulnerable to embargoes of technology. In the absence of the propitious political climate he predicts there will be "concentration on smaller, short-term projects in less politically sensitive sectors." Moreover, due to increasing Western concern about the impact of compensatory goods on Western markets, the compensation deals may be difficult to implement. However, the compensation deals are very important for Eastern countries, due to their chronic hard-currency deficits and mounting debts. He also mentions the differences in the socio-economic system as a constraint on the growth of I.C.A.s. Here, in contrast to Frank and Wallerstein who consider the economic relations with the West as a determining factor in changing the economic structure of socialist countries, McMillan argues the I.C.A. has proven not to be a substitute for economic reform; it is in fact a type of reform of Eastern foreign trade mechanism. To be successful, it must be accompanied by
complementary changes in other aspects of both external and domestic planning and management. If such accommodation is lacking, (I.C.A.) arrangements are like alien bodies grafted onto a system which ultimately rejects them." (McMillan 1981, P. 64.)

In the absence of economic reform in those countries he concludes that "the quantitative growth of (I.C.A.) is unlikely to be matched by its qualitative development. (I.C.A.) would then remain stunted in its evolution, a euphemism for the simpler forms of subcontracting and more complex forms of barter." (McMillan 1981, P. 65)

Paul Marer and Joseph Miller (1972) also are interested in investigating the I.C.A. aspect of economic relations between East and West, in particular the U.S.'s participation in East-West industrial cooperation agreements. They attribute Eastern countries' interests in I.C.A. to their acute shortage of hard currency as well as the importance of narrowing the East-West technological gap. On the U.S. side their study, based on a survey of over one thousand U.S. corporations engaged in I.C.A.s, indicates the most important motive is the market penetration.

Among the interesting results of their survey are: the majority of U.S. corporations involved in I.C.A.s were among the Fortune 500, almost all were multinational corporations, and nearly half have some type of involvement in more than one country. They also conclude that in both the Soviet Union and Eastern Europe projects in chemical and machinery industries dominate. Moreover, they argue that the Soviet Union exhibits a strong preference for turnkey agreements,
whereas Eastern European countries are more interested in applied industrial technology and know-how. In general their study is not as comprehensive and thorough as McMillan's.

Barclay (1979) provides a comprehensive analysis of the role of compensation agreements in Soviet trade with the West. He attributes the impetus behind the rapid expansion of Soviet trade with the West in the 1970s to the Soviet Union's desire to acquire capital, technology and equipment in order to explore and exploit Siberia's natural resources and to expand the product in certain industrial sectors, such as chemical and petro chemicals. In their trade relations with the West the Soviets have emphasized the compensation agreements, which according to Barclay offer several advantages to them. One important advantage is the reduction of risk, because under the compensation agreements the Soviets are guaranteed long-term export markets, which provide protection against Western recession that would otherwise reduce Soviet export earnings. Another advantage is the creation of export industry in the Soviet Union specialized in producing for export.

However, Barclay believes that in the second half of the 1970s as Soviet interest in the compensation deals had intensified, the number of new deals concluded had decreased considerably. He envisages both the Soviets' internal problems and Western disenchantment as the main reasons for such a decline. On the Soviet side he considers the following factors to be responsible for slow proliferation of compensation deals. First of all, the Soviet foreign trade bureaucracy is ill-equipped to handle compensation
agreements. Moreover, while successful conclusion of such deals requires continuing Western presence, ownership, or control over production, the Soviet doctrine clearly does not permit Western equity participation and/or management control. Furthermore, even if such difficulties can be surpassed, "the primitive level of Siberian infrastructure and the difficulties involved in taking on several large development projects simultaneously" make it difficult to negotiate and conclude a large number of compensation agreements. (Barclay 1979, PP. 470-471)

On the Western side he argues that first of all the Western firms are reluctant to accept many Soviet products. In addition, many agreements signed in the first half of 1970s reflected the Western firms' eagerness to insure access to raw materials; however, the recession of mid 1970s hit industries that produce the products that Soviets would like to export. Moreover, in most cases the Soviet Union requests harsh financial demands including long-run credits to finance the development of infrastructure as well as production facilities; deferred payments on installments until the end of plant construction. Such financial demands make the conclusion of compensation deals for the Western firms less attractive. Furthermore, some firms are reluctant to enter into such deals because they do not want "to sponsor additional competition." (Barclay 1979, P. 472)

Barclay believes the prospect of increasing the number of compensation agreements to a large degree depends on the resolutions of the above problems. In particular the Soviet Union
must overcome "bureaucratic inertia, cut negotiation times (possibly by abandoning the past hard line on price, guarantees, credits, and other contract terms), and soften restrictions on the Western presence in the domestic economy." (Barclay 1979, P. 473) Barclay's argument is, therefore, different from those of Frank and Wallerstein, who see the economic relations with the West as a determining factor in shaping the economic structure of socialist countries. Barclay seems to say the opposite. He argues that it is only through changes in both internal factors and external factors that East-West economic relations can be intensified.

Jozef Wilczynski (1977) is interested in analysing the licenzing aspect of West-East-West transfer technology. Starting with a brief history of technological embargo during the Cold War era, he argues that apart from the political considerations the support for embargo extended to the large corporations which were anxious to retain their world-wide leadership in the export of industrial products. They were concerned about rapid industrial development in the socialist countries and did not want to facilitate the emergence of dangerous competitors. However, according to him the result of embargo was "to push smaller socialist countries into the arms of U.S.S.R. as she had the largest range of technology as an alternative supplier." (Wilczynski 1977, P. 122)

A good part of his paper is devoted to the historical survey of the total number of licenses sold by the Western countries to the East, as well as to exhibiting examples of some of the best known licenses provided by Western firms to the socialist countries. He enumerates
the reasons for the change of attitude of Western firms in regards to the sales of licenses to the East. First, the direct exports of some goods in particular consumer products, to the socialist countries are often complicated and not favored by officials in these countries. The selling of licenses in these cases is a sensible alternative to direct exports. Second, the socialist countries are increasingly inclined to purchase licenses on the understanding that payment will be linked to the quantity of output sold, which may end up producing a quite substantial amount of money. Third, the sales of licenses in the majority of cases will lead to exports of other products. Finally, the Western firms are not too much concerned anymore about the loss of their technological lead, since in many cases they sell only dated technology. Furthermore, the inability of socialist countries to apply the acquired licenses in production is another reason for the Western firms' lack of concern for loss of their technological lead.

Wilczynski also mentions the socialist countries' sales of licenses to the West. According to him, in recent years, by the increase in sophistication and magnitude of the invention made by the advanced socialist countries, their sales of licenses have also increased. Most of the buyers of socialist licenses are small or medium Western firms, and not multinational corporations. Such sales are important for the East, particularly in order "to dispel the conviction in the West that the the socialist countries are technologically backward," and also "to demonstrate that socialism is not only a superior social system but also has the capacity to catch up and surpass capitalism technologically." (Wilczynski 1977, P. 132 & 134)
In discussing the prospects for future development of license trade, he believes two sets of opposite forces will be operating, one with restrictive effects, and the other with expansionary consequences. Among the restrictive factors he counts the socialist countries' realization that such "horizontal" transfer of technology - as contrasted with a 'vertical' flow from domestically-sustained effort - is likely to perpetuate the traditional East-West technological gap." (Wilczynski 1977, P. 135)

Among the expansionary factors he believes is the realization of the well-known fact that additions to advanced technology required tremendous costs in both expenses in R and D and investment in human capital. And he concludes that "these modern facts of technological life make the international division of labor imperative...It will be increasingly sensible for the East as well as the West to specialize in certain lines of technology according to comparative advantage, and the resources so economized can be put to other worthy uses." (Wilczynski 1977, P. 135) This conclusion is, however, in contradiction to his arguments in regards to one-sided benefits which Western firms obtain in their sales of licenses to the Eastern countries. Socialist countries are well aware of this point and according to Wilczynski himself, are taking some measures in order to ensure they are not handed over technology that is dated or of little economic consequences.

Hubert A. Janiszewski (1982) has concentrated his study on imports of technology by Poland. He considers it as an important task because the "conclusion drawn from its experience may be of
interest not only to other countries which are importers of technology but also to suppliers." (Janiszewski 1982, P. 165) The paper is covered by axiomatic claims and statements with no attempts on behalf of the author to substantiate them. Such neglect can be partly attributed to the length of the paper, which is rather short given the importance of the topic.

He starts his study by examining different channels through which technology is imported to Poland, and continues by trying to analyze the impact of imported technology on the Polish economy. In doing so he shows that between 1971-1978 on the average, the outflows related to technological acquisitions accounted for by payment of fees, royalties, purchase of equipment, etc. were more than twice of the inflows represented by export earnings. Janiszewski also mentions the widespread delays in implementing technology which almost exclusively are due "to the lack of resources for the continuation of the individual investments and imposed restriction on imports of spare parts, raw materials, etc." (Janiszewski 1982, P. 169) This is an example of unsubstantiated statements which Janiszewski does not make any effort to validate.

Janiszewski concludes his paper by noting that Poland's attempts to modernize rapidly by means of imports of technology have, in general, been fruitful. However, its objective of massive export increases by the use of acquired technology has been unsuccessful. The reason, according to him, should be sought in both the internal and external conditions. Externally the world recession affected Polish exports as well as Polish investment capacities.
Internally he believes the heavy emphasis on central planning "combined with national investment programs, led to poor planning of technology imports leading into huge delays in project implementation." (Janiszewski 1982, P. 170) Therefore, he concludes his paper with another axiomatic statement which he feels no obligation to back up.

John Holt (1977) takes up the study of eight U.S. agricultural and construction equipment companies' activities in Eastern Europe. He tries to show how U.S. companies profit by sharing their technology and know-how with Eastern European countries. He believes, in order to maintain or extend their markets in Eastern Europe, these companies have turned increasingly to industrial cooperation agreements. According to his study these companies consider the direct sale of their products more profitable than sale of technology and know-how. However, due to mounting competition in their field, the U.S. agricultural and construction equipment companies are yielding to Eastern Europeans' pressure to share their technology, to accept payments in product, and to provide a market for these countries' products. Other factors which in Holt's account will enhance the competitive positions of these companies include the uniqueness and scarcity of a company's products, its reputation for quality, its performance, and its good faith.

Holt's survey of eight U.S. agricultural and construction equipment companies indicates that not all of them are concerned about potential competition from the product of the transferred technology. The companies have frequently chosen to protect their
markets and technology through contractual agreement limiting the territorial use and transferability of their technology. Some companies have also withheld their latest technology. However, the ability of companies to withhold is limited by their degree of dependence upon the Eastern country's production resulting from the acquired technology, as well as the companies' responsibility for marketing of the Eastern products outside these countries.

There are other authors who emphasize the legal aspects of foreign investment legislation in Eastern Europe. John G. Scriven (1980), for example, studies the joint venture regulations in Poland, and in doing so tends to generalize based on limited information. He starts his discussion with the claim that the unfavorable trade balances and acute shortage of hard currencies faced by the Eastern European countries have led to new directions and developments in the East-West trade. Among the new developments, one is the growth of 'counter-trade' under which all purchases of Western products must be balanced by a sale of products from the purchasing country. The other new development is the "revival of interest in direct foreign investment by Western corporations in equity joint ventures." (Scriven 1980, P. 425) And then he turns to a detailed study of Poland's 1976 regulations on foreign investments as well as Polish investment law of 1979. Finally, he concludes that Poland, by allowing considerable freedom to Western partners in making their arrangements on management issues and by imposing no limitation on profit levels and royalty rates, has gone a long way in satisfying the likely demands of the Western firms. Poland's foreign
investments' regulations according to Scriven, avoid the extremist position of some of the developing nations in regards to flow of foreign investments in their country, and prove "the socialist countries recognize their need for technology from the Western democracies and wish to follow a non-dogmatic approach in negotiating such arrangements." (Scriven 1980, P. 437)

Scriven (1979) in another article takes up the issue of Yugoslavia's foreign investment law. Here, he also draws a detailed picture of the law and tries to attribute its legislation to the 1974 political changes in Yugoslavia and resultant new constitution there. His analysis leads him to conclude "Yugoslavia's new foreign investment law is in line with the current UNCTAD 4 theories of protection of 'Third-World' countries against multinational exploitation." (Scriven 1979, P. 107) However, if one tries - as Scriven does - to generalize the Eastern European countries' approach toward multinational corporations and direct foreign investment based on attitude of only one country one may reach opposite conclusions, as is obviously clear in regards to Scriven's studies. In the case of Poland he speaks about the non'dogmatic and lenient approach of Eastern European countries toward Western firms; in the case of Yugoslavia he complains about their hard-line attitudes.

The contradiction is not only limited to Scriven's conclusions; rather he also makes contradictory statements in the course of his study. At one point, for example, in discussing the provision which deals with regulating the minimum amount of capital contribution of

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4 United Nations Commission on Transnational Corporations.
foreign partners, he states "this provision could put an end to token investments by foreign suppliers in joint ventures which are really disguised sales." (Scriven 1979, P. 100) At another point, talking about the same law he argues "the new law will be attractive only for these companies interested in disguised sales of equipment and technology." 5 (Scriven 1979, P. 106)

Summary Section 3.1.
In this section I have attempted to demonstrate only a few examples of those neo-classical school economists who have adopted the 'case study' method of analysis. The following table summarizes the major points of their arguments and provides some information about the consequences of their adopted methodology.

3.2. GENERAL DESCRIPTION:

A significant amount of literature published on East-West economic relations by the mainstream economists has been devoted to general description and background information about such relations. Some have exclusively concentrated on studying historical developments and upswings and downswings which these relations have gone through. However, many have chosen this method to prove or

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5 There are others such as William Diebold, Jr. (1979) who is interested in analyzing the Soviet Union participation in multilateral cooperation arrangements. He believes increase in Soviet foreign economic activities has not been matched by its interest in multilateral cooperation arrangements. He tries to shed some light on the reasons for such lack of interest and investigate the factors which might influence future Soviet involvement in these matters.
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<td>Stephen Garrett (1987)</td>
<td>He provides a brief history of evolution of East-West economic relations, and describes how the U.S. trade relations with Eastern Europe have been mistakenly viewed by American policy makers as an important tool in American diplomacy.</td>
<td>He is more or less successful in demonstrating that there should never be a political consideration in regard to whether trade or not to trade.</td>
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<td>Jiri Dobrovolny (1983)</td>
<td>He believes the inability of Eastern Europe to generate foreign exchange is one of the main considerations behind the decline in the East-West trade.</td>
<td>He provides some data concerning East-West trade relations.</td>
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<td>Richard Porter (1981)</td>
<td>He believes that Eastern European countries in their 'macro-economics' are behaving like the rest of the world. In the 1970s, these countries raised investment without cuts in consumption, while their terms of trade were polling. The result was huge hard currency deficit.</td>
<td>He produces contradictory statements. (For examples see the text.)</td>
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### SUMMARY OF GENERAL DESCRIPTION

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<tr>
<th>Author</th>
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<td>Sankar L. De</td>
<td>1975</td>
<td>He concentrates his study on the activities of American multinational corpo-</td>
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<td>ration in the Soviet Union. He cites the reason behind the Soviet interest in</td>
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<td>economic relations with the West is:</td>
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<td>1- Obtaining Western technology.</td>
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<td>L. Evrawick</td>
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<td>He is interested in investigating the role of MNCs in East-West economic</td>
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<td>relations.</td>
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<td>and weaker corporations over the stronger ones.</td>
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<td>He provides a comprehensive analysis of East-West economic relations.</td>
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disprove a given hypothesis. A good example of such an approach is that of Stephen A. Garrett. (1982) Garrett tries to show how the U.S. trade relations with Eastern Europe have been mistakenly viewed by American policy makers as an important tool in American diplomacy. "During the earlier period, it was seen as a 'stick' with which the United States could pummel and weaken the Eastern European regimes; in more recent times it has been viewed as a 'carrot' that would facilitate a new American relationship with the countries of the region." (Garrett 1982, P. 490)

Garrett argues that immediately after 1948, the countries of Eastern Europe were viewed as hostile to the United States and deserving some response. Given this assumption, normal trade relations with these countries were considered not in the interest of the United States. He believes there were considerations underlying this judgement. Imports by the Eastern European countries would supposedly allow them to shift capital resources to military development, would strengthen the technological base of their system, and most important of all "would save the communist regimes from the consequences of the inherent flaws in their political economic structure." (Garrett 1982, P. 490) An embargo on trade was suggested since it would obstruct their economic and military progress as well as "accentuate a process of internal political instability." Accompanying the embargo was a boycott of Eastern
European exports with the belief that it would also impede the progress of these countries. 6

The change of U.S. policy toward Eastern Europe in the 1960s, and the doubt about the effectiveness of the use of combination of embargo and boycott, eventually led the U.S. government to use trade as a 'carrot' rather than as a 'stick.' Arguments were advanced that increased trade would help to support the position of the relative moderates in the governments of Eastern Europe. In addition, increased trade with the United States would provide these countries another alternative to total economic reliance on the Soviet Union, therefore contributing to loosening the Eastern bloc structure with significant political advantages for the U.S. Finally, Western trade would encourage decentralization of Eastern European economies. As a whole, policy-makers felt there was an 'organic link' between internal economic reform in Eastern Europe and the latter's participation in the 'international division of labor.' (Garrett 1982, P. 493)

Garrett then sets up the goal of measuring the degree of success of each of these policies and reaches the conclusion that the "level of American exchange with Eastern Europe could hardly have any decisive impact on the overall political equation." (Garrett 1982, P. 499-500) The United States has never been a significant factor in

6 For more information on the history of the U.S. government's control on trade with the East see Bayard, Pelzman & Perez Lopez. (1982) These authors also attempt to demonstrate under what conditions it may be feasible for the Western countries to inflict some economic costs to the Soviet Union and Eastern European nations through export control. For some of the recent development on the U.S. government trade policy toward the Soviet Union see Brougher. (1982)
the general trade situation of Eastern Europe. The combination of several factors has created "tangible limits to development of trading relations between the United States and Eastern Europe. Among these limiting factors he considers the relative distance between the United States and Eastern Europe when compared with Western European countries. Moreover, he believes the market in the United States for Eastern European products has been and will likely continue to be small and as a result these countries will "not be able to sustain the inevitable balance of payments that a large expansion of American exports...would entail." (Garrett 1982, P. 498)

Garrett's conclusion is that the use of trade as a 'stick' in the early phase of American policy toward Eastern Europe was politically unsuccessful and led to a large expansion of intra-East European trade. Adoption of this policy also resulted in the Soviet's increased "control over economic and ultimately military capabilities of Eastern Europe;" what the United States has always feared. (Garrett 1982, P. 503) According to Garrett, the use of trade as "carrot" in the belief that expansion of trade with Eastern Europe will gradually mean taking the "economic prize away from the Soviet Union" is not justifiable either. In the economic relations between Eastern European countries and the Soviet Union, the former "came to acquire as many if not more obligations to Eastern Europe in a material sense as rewards from it." (Garrett 1982, P. 506) Therefore, Garrett concludes there should never be a political consideration in regard to whether to trade or not to trade. "This has always been the sort of judgement which essentially could and should be decided on
traditional grounds of comparative economic advantage and maximization of economic opportunity." (Garrett 1982, p.508)

Jiri Dobrovolny (1983) uses data as East-West trade relations in order to demonstrate that the recent deterioration of the "economic and political environment pertaining to East-West trade is not only due to explicit sanctions by the West." (Dobrovolny 1983, P. 337) The essence of his argument is the growing Eastern European trade deficit in the 1970s has led these countries to take some measures in order to reduce the burden of debt. Their endeavors began to bear some fruit in 1980, but the deficit still continues to be large. The only escape out of the foreign exchange squeeze according to Dobrovolny "consists of sharply cutting back imports from the West and promoting imports in non-convertible currencies." He believes the quality and flexibility of East European countries' exports do not come up to the requirements of Western markets, and therefore does not permit them to generate enough hard currencies. The inability of Eastern Europe to generate foreign exchange and the increasing reluctance of Western banks to grant them new credits must be considered when one tries to study the causes of the recent deterioration of East-West economic relations.

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7 L.J. Brainard (1979) also believes the U.S. policy toward the Soviet Union has been unsuccessful. He argues for example that such policy since 1975 has focused on the denial of most favored nation status, "of Eximbank credits and selected Soviet technology purchase. The Soviet Union has been able without much difficulty to deny U.S. any political benefit from the policy and lost sales by U.S. business have imposed economic costs. In turn, we have been unable to deny their access to credit and technology in other countries." (Ibid., p.109)
Richard Portes (1981) also deals with the question of East-West economic relations, concentrating on their development in the 1970s. According to him the Soviet invasion of Czechoslovakia in 1968 marked a change of direction in the Council of Mutual Economic Assistance and its relations with the rest of the world. It not only set limits on how far decentralization of Eastern European economies and their approaches toward the West can go, but it also determined the process of further growth for these countries. Emphasis turned toward rationalization and integration of manufacturing production throughout the bloc. This integration did not exclude industrial cooperation with Western firms, and the purchase of technology was to become a key element in the process.

More or less at the same time the new Polish government which came to power after riots of 1970 was considering that the only way to deal with economic constraints which had led to the discontent was to invest heavily in modern technology for several years without reducing consumption. They decided upon massive purchases of Western plants and equipment on credit. Moreover, the commodity price increase of 1972-1974 put great pressure on the smaller Eastern European countries. These factors, coupled with the flowering of detente atmosphere, led to an acceleration of imports by Eastern Europe, which was mainly financed by Western credits. The accumulation of petrodollar deposits in Western banks and the recession beginning in 1974 which caused both bankers and capital goods exporters to seek customers were important factors in a sharp increase in Eastern hard currency imports. Portes seems to suggest
that the reason for the increase in Eastern European imports in the 1970s should be sought in a combination of several factors, both internal to their system and external to it.

In contrast to "conventional wisdom," Portes believes Eastern Europe's hard currency deficits of the past several years were more a "manifestation of excessive pressure at the macro-economic level (excess real demand) than a policy response to the 'technological gap'." He argues "if there had been a decision to substitute Western for CMEA produced machinery, this could have been accomplished by cutbacks of other imports from the West," and then he tries to show that the composition of East-West trade did not show such a trend. (Portes 1981, P. 331) He emphasizes the evidence indicates that the Eastern European countries in their "macro-economies" are behaving like the rest of the world, in the sense that aggregate excess demand results in an import surplus. In the 1970s, Portes believes the East European countries raised investment without "holding back consumption," while their terms of trade were falling. The result was huge hard-currency deficits.

According to Portes, the acceleration of hard currency deficits has not been the only consequence of importing Western technology; the other consequence is in a good number of cases that very little technology of value has actually been transferred to the East. The Eastern European countries have realized often their Western partners in the I.C.A. were merely "trying to recoup some of the development costs of a product or process which is already on its way out in the West, or possibly seeking access to Eastern markets
with simple commodity exports which can cheaply be given a final stage of processing in the East." (Portes 1981, P. 342)

Portes sees two different alternatives through which the Eastern countries can deal with the problems of trade-deficits and shortage of credit. They can choose either an import restriction or export promotion policy. Import restriction on food and consumer goods, according to him, will have political consequences; restrictions on materials may cause immediate bottleneck effects on production; restrictions on capital goods may cause long-run effects on East European technical progress,\(^8\) competitiveness and growth. Portes also believes that a successful export promotion drive to penetrate Western markets is unlikely. For an export promotion policy to be triumphant "there would have to be institutional changes of a fairly radical nature;... decentralization in decision making in production" and "much greater scope" for I.C.A.s. He finds such institutional changes highly improbable, and in fact he argues increased "East-West trade in the 1970s has been in part a substitute for economic reforms." (Portes 1981, P. 332-333) Immediately, however, in the next paragraph, Portes seems to suggest another point of view. He argues that the logic of Eastern Europe's centralized economy dictates "the increased trade dependence on unstable Western economies will motivate somewhat greater centralization." And he continues by suggesting that perhaps the only internally consistent method of embarking on a successful export promotion policy would be to treat

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\(^8\) One should notice that Portes suggested earlier that "little technology of value has actually been transferred to the East."
this as high priority activity like military production." He is here implying the creation of enterprises which are separated from the rest of the economy and are specialized in production for export. As was mentioned previously, Portes also makes contradictory statements when he discusses the subject of transfer of technology to the East. On the one hand, he states that very little technology of value has actually been transferred to Eastern Europe. However, on the other hand, he argues that any import restrictions by Eastern Europe may have long-term effects on the technical progress of these countries.

Aside from making contradictory suggestions, Portes has also been criticized for not correctly distinguishing the main problem facing Eastern Europe in its efforts to mount a successful export promotion policy. Eidem (1981), for example, believes the main problem "is not to establish production units in the East that can produce to any specification (like spaceships). Instead, the main problem is to find the specification or product that can become successful in the market in the West." For example, to be successful in the West, the Eastern European producers must have scattered repair shops in the West in order to be accessible to consumers. They also must become knowledgeable about such aspects as delivery conditions, competitors' rebates, and brand loyalty and consumers' recognitions. "This means that the traditional attempts to launch products through agents in the West and try a new one each year is doomed to failure." (Eidem 1981, P. 359)
Sankar L. De (1975) has also concentrated on studying the economic relations between East and West and in particular the activities of American multinational corporations in the Soviet Union. After giving a general overview of the volume and dimensions of the U.S. multinationals in the Soviet Union, he tries to explore the factors behind Soviet interest in increased East-West trade. Apart from Soviet interest in obtaining Western technology and know how, he argues the most important factor which explains their interest in economic relations with the West is "an attempt at 'gap-filling'." By 'gap-filling,' he means "an attempt to overcome shortages in supplies by import from abroad, and to pay for the augmented imports by exporting such relative surplus as may be on hand." (De 1975, P. 1096) The duration of the gap may be seen as either short-term or long-term.

In the short-term gap-filling imports mainly consist of primary raw materials and intermediate goods as well as essential consumer goods. Imports connected with the long-term gap-filling consist of capital goods. A gap in supplies, according to De, may be planned, or it may arise in the course of plan fulfillment due to either planning errors or various setbacks in the execution of plans. It may also arise as a result of revision of plans and priorities.9

As the imports are mainly geared to the "gap-filling" purposes, De argues obtaining Western credits gains significant importance.

9 He uses examples of the increased importation of consumer goods immediately after Stalin's death and the sharp increase in the purchase of chemical industry equipment from the West after Khrushef's decision in 1959 to 'chemicalize' the Soviet economy.
The Western credits make it possible for the "gap-filling imports to take place in the short run before resources can be reallocated to yield the counterpart in the exports," and to the benefits from external finance for long-term projects." The same benefits can be flown to the Soviet Union through the product pay-back deals. For, by having the Western partner take its repayment in the form of eventual products, the Soviets "create additional and economical export capacity to finance gap-filling imports in the future." (De 1975, P. 1096)

De (1975) is also interested in investigating the possibility of the Soviet Union and other Eastern European countries becoming gradually and slowly "the willing prey of the new imperial system" as a result of Western capital presence there. He argues that even the most ardent supporter of multinational corporations such as Grossman (1974) "grudgingly" admits that the national sovereignty of the Soviet Union, and Eastern European countries, is strengthened rather than weakened by their relations with multinational corporations. Grossman notes that American collaboration with the Soviet Union has acted as an alternative to economic reforms and reduction in military expenditures.

De, following Gabriel (1972), argues that multinational corporations accept the joint venture agreements from the positions not of strength but of weakness. These corporations "when faced with outright prohibition of full ownership of local enterprise, or when frightened by threats of property seizure of discriminatory regulations" typically respond by "acquiescing - or actively seeking -
The common features of a majority of joint venture agreements signed by the Soviet Union and Eastern European countries with Western multinational corporations are: (i) ownership remains in whole or in controlling part in the host country's hand. (ii) "The duration of foreign company presence is limited." (iii) The terms of agreements are negotiable at specified intervals. Based on these characteristics, De concludes that "the U.S. - U.S.S.R. joint ventures, presage a new chapter in international economic relations marked by domination of a national government and subjugation of foreign monopoly capital." (De 1975, P. 1128)

There are two other important factors, according to De, which help the U.S.S.R. to assume the position of dominance in its relationship with multinational corporations. First, the vested interests, both political and economic, which thrive on multinational corporations' operations, are usually the champions of multinational corporations' operations in their countries. In a politically less cohesive country of the Third World it is easier to find such sympathetic interests than in the Soviet Union. In fact, there are reasons to believe that in the case of East-West trade, this trend has been in the opposite direction. As Grossman (1974) argues "vested interests have grown in the U.S. which will seek to maintain the profitable Soviet trade and resist any change in the arrangements which may jeopardize their credits tied up in the U.S.S.R." (De 1975, P. 1128) Second, "the Soviet Union plays a game of checks and balances" in signing agreements with multinational corporations. The
Soviets usually favor relatively smaller and weaker corporations over the bigger and stronger ones; and they usually do not place all of their contracts in the hands of one giant corporation. Furthermore, De (1975) argues the supreme advantage of the Soviet Union from the point of view of pure economic theory is its monopolistic position and its bargaining power with the multitude of competitive firms.

In the final section of his paper, De is interested in investigating the relations between the Soviet Union and the Third World. He believes, based on current evidence, there is no sign which indicates the Soviet Union intends to be a partner in the imperial system. He cites the example of the Soviets' purchase of natural gas from Iran 10 as the only instance which shows "the rise of sophisticated multinational dealings across East-West boundaries at the expense of Third World nations." (De 1975, P. 1129) De is another example of orthodox economists whose conclusions are diametrically opposed to those reached by the dependency school. Frank and Wallerstein believe that the Soviet Union and Eastern Europe are considered prey of the world capitalist economy, while De believes the opposite. As was discussed above, De argues that in most cases it is the Soviet Union which acts as a predator by playing a game of checks and balances with MNCs and also by using its monopolistic position. Also, in contrast to the dependency school's

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10 The Soviet Union negotiated the purchase of natural gas from Iran in 1966. The Soviets purchase price was 19 cents per thousand cubic feet, while its resale price was nearly twice as much - 37 cents. De (1975) argues this deal was also advantageous to the U.S., which without this arrangement would have had to pay 87 cents per thousand cubic feet to Algeria for such a purchase.
proponents, De believes that the East-West economic relations strengthen the national sovereignty of the Soviet Union.

L. Evrawicki (1979) is also among those authors who is interested in investigating the role of multinational corporations in East-West economic relations. He starts his discussion with the argument that the highest percentage of East-West exchange is realized by multinational corporations (henceforth MNCs). 11 He attributes this phenomenon to the following: 1) The MNCs are able to offer the socialist countries the most advanced technology and research and development. 2) The large output and diversified capacities of MNCs enable them to undertake large and sophisticated contracts. A medium size company or combination of some medium size companies is not able to meet the needs of such large markets as the Soviet Union and Poland. Moreover, the socialist countries prefer to deal with only a few partners as opposed to many. This tendency reflects their interest in greater efficiency and simplicity and "fits better the general framework of socialist planning and management." (Evrawicki 1979, P. 129) 3) As MNCs pursue global operations they are more flexible and have more experience in adapting themselves to different and changing environments. Therefore, it is easier for them to establish closer links with the socialist countries. 12 4) To a

11 One should notice that Evrawicki's claim that the highest percentage of East-West exchange is realized by MNCs, is in contrast to De's (1975) claim discussed earlier.

12 Evrawicki believes that MNCs are more flexible than other companies, but in socialist countries the MNCs flexibility and freedom of operations is more limited than they are in other countries. This limitation is mainly due to "state's control over all economic decisions." As a result, any alteration in
certain extent, in large corporations such as MNC's, planning and management techniques are similar to those which are applied by the socialist governments in their countries. "This phenomenon in turn facilitates the negotiation and realization of long-term contracts." (Evrawicki 1979, P. 129)

Evrawicki then tries to shed some light upon "eventual advantages" which socialist countries obtain from their different economic relations with the West. In this process he attempts to show the important role that MNCs play in socialist countries' acquisition of these benefits. He starts with imports, and argues Eastern importation from MNCs means the possibility of preventing and reducing their balance of payment deficit. Because the activities of MNCs are dispersed geographically, they can export from different subsidiaries representing distinct currency areas. Therefore, the payments for imports may be effectuated in the currency of a country which favors socialist countries' exports. Furthermore, the socialist countries dealing with a particular MNC can purchase their imports at lower prices at the least expensive market supplied by the corporation. Moreover, owing to the scope and variety of their activities, MNCs are more likely to be interested in various kinds of compensation deals. However, almost immediately he expresses the idea that MNCs try to avoid compensation trade commitments as in most cases the Western customers are not attracted to these products. He believes the fact that the MNCs succeed in finding consumers for these products, while it is more difficult for socialist

the previously agreed upon activities have to be reviewed and accepted by the socialist authorities.
countries themselves, may indicate both the quality of these articles and the superiority of the marketing network, skills and know-how of these corporations. (Evrawicki 1979, PP. 132-134)

Turning to the socialist countries' exports and their relation to MNCs, Evrawicki argues that socialist exports alone do not create close links with these corporations, even though these exports are often channeled by specialized agencies owned jointly by socialist and capitalist partners. These mixed capital companies enable the socialist countries to enter Western markets on equal terms with the local competitors. This form of activity according to Evrawicki, has not attracted MNCs mainly due to the following reasons: 1) MNCs are not interested in engaging in activities which will encourage more competitors. 2) The scale of this operation is still small and discourages potential volunteers among MNCs.

After dealing with socialist countries' exports and imports, Evrawicki discusses licensing agreements. The licenses not only permit introduction of "technical organizational experience" relating to the production of specific products while substituting for potential and actual imports, but can also be used as stimuli to expand Eastern countries' exports. In regards to the latter, Evrawicki argues that generally the marketing possibilities for the products manufactured in the East under licensing agreements in the West are not promising because of the heavy emphasis the Western competitors put on product differentiation, trademarks, publicity and sales promotion,
which socialist countries have almost no experience in. Among the disadvantages of licensing agreements, he believes, is the fact that MNCs are aware that their exports of consumer goods will shrink as modern technology develops in the East, and acquisition of licenses only accelerates this process. As a result, these corporations tend to offer licenses to the East which are obsolete, incomplete or too costly; they may even try to keep socialist countries dependent on the continuous supplies of indispensable components.

Evrawicki, after presenting a thorough picture of costs and benefits of licensing agreements, directs his attention to I.C.A.s. In contrast to licensing agreements which are used to a certain degree as a substitute for direct imports, I.C.A.s according to him are an alternative for direct export of final products to the West. He then enumerates the advantages and disadvantages of I.C.A.s. Among the advantages, he believes, are the Western partner's interest in supplying the latest technology, as well as the possibility of socialist countries' entry into highly monopolized capitalist markets. Among the disadvantages of I.C.A.s he counts the following: 1) The Western consumers generally purchase articles bearing the trademark of Western manufacturers, unaware of the identity of socialist producers. In such cases the expansion of socialist exports is limited by the strategy of the Western partner. 2) The socialist countries become dependent upon the business cycles of the Western economies. The risk is increased, he argues, by the fact that the

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13 He believes only sharp price competition and/or the improvement of the original technology or of the product itself might bring results. Even then the risk of being confronted with anti-dumping regulation is high.
highly specialized components manufactured in the East fit only the final product of a particular firm.\textsuperscript{14}

Evrawicki also spends some time studying joint ventures in Eastern Europe. He believes the MNCs are not too eager to establish jointly owned enterprises because joint ventures imply MNCs not only lose the exclusive control over the production, but oblige them to share the profit with the partner. He then takes up the study of joint ventures in different Eastern European countries.

Evrawicki's analysis is comprehensive and covers a variety of economic relations between West and East. He believes there are various motives behind East-West relations. These motives are penetration of mutual markets, the reduction of manufacturing costs, and the transfer of technology. These targets "are due to the circumstances specified in the concrete aims and terms to be bargained for during negotiations." (Evrawicki 1979, P. 131) Thus, he argues the bargaining power of Eastern and Western partners plays a major role in achievements of either party's goals, and needs considerable attention in any analysis of East and West economic relations.

\textbf{Summary of Section 3.2.}: In this section, I have attempted to analyze only a few examples of those neo-classical school's economists who have adopted the 'general description' method of analysis in the study of East-West economic relations. The following

\textsuperscript{14} To minimize the effects of Western business cycles on the local economy, Evrawicki suggests that socialist countries must seek the most stable, reliable, large and diversified partners.
table shows a brief summary of their arguments. Although some of these economists have been successful in producing a relatively comprehensive historical background of East-West relations, a lack of any theoretical reasoning has led others, while concentrating on the same subject, to arrive at different conclusions. For instance, while De (1975) maintains that the Soviet Union prefers smaller corporations over the giant ones, Evrawicki (1979) exerts a great deal of effort to convince the readers that MNCs realize the highest percentage of East-West exchange. Richard Portes (1981) is another example, his reliance on the description of events, without following any theory, has led him to make contradictory statements.

3.3. INFORMED SPECULATION:

Another form of analysis adopted by the 'non-theoretical' mainstream authors is the "on the one hand,...on the other hand" style of informed speculation. This form of analysis usually consists of choosing one position or other and developing arguments in order to show its plausibility. In this process the author sometimes ends up supporting opposite and/or contradictory conclusions at the same time. Raymond Vernon (1979) can be classified among those authors who have embraced this style of investigation. In his discussion of the future possibility of Soviet foreign direct investment, Vernon, who is mainly concerned with analysis of East-West trade, states: Under present conditions "substantial foreign direct investment" by
SUMMARY OF CASE STUDY:

McMillan (1981)

Paul Marer & Joseph Miller (1972)

Barclay (1979)

He describes institutional forms and financial arrangements which characterize ICAs.

Argues EE countries are interested in ICAs for the following reasons: internal factors.
1. Assimilation of Western technology.
2. "Self-financing" character of ICAs.

He describes U.S. participation in East-West ICAs.

Argues E.E. countries are interested in ICAs due to:
- Narrowing East-West technology gap.
- To alleviate the shortage of hard currency.

He analyzes the role of compensation agreements in Soviet trade with the West, which led to reduction of such agreements in the late 1970s.

Sees the resolution of both internal and external problems important in increasing East-West economic relations.

Survey of one thousand U.S. corporations engaged in ICAs about different branches of industry in which ICAs are most frequently used.

Provides excellent data about ICAs. Breakdown of ICAs by industry in 1955-1980 to mark the trend of their industrial changes. Emphasis of the importance of internal factors.

- Emphasis of the importance of external factors (both from Western and Eastern sides) which led to reduction of such agreements in the late 1970s.

- Provides excellent data about ICAs. Breakdown of ICAs by industry in 1955-1980 to mark the trend of their industrial changes.

- Emphasis of the importance of external factors (both from Western and Eastern sides) which led to reduction of such agreements in the late 1970s.
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<tr>
<td>Summary of Case</td>
<td>Jozef Wilczynski (1977)</td>
<td>He is interested in analyzing the licensing aspect of West-East-West transfer of technology. Westerners are interested in licensing agreements due to the fact that selling licenses is a sensible alternative to direct exports, and selling licenses will lead to exports of other products.</td>
<td>Historical information about total numbers of licenses sold by the Western countries to the East.</td>
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<td>Hubert A. Janiszewski (1982)</td>
<td>He deals with the imports of technology by Poland.</td>
<td>The paper is covered by axiomatic claims with no attempts to substantiate them.</td>
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<td>John Holt (1977)</td>
<td>He studies eight U.S. agricultural and construction equipment companies in Eastern Europe.</td>
<td>The nature of an industry can play a role in whether transfer of technology is possible or not.</td>
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<td>G. Scriven (1980)</td>
<td>He studies joint venture legislations in Poland, and concludes that Poland's example proves that &quot;Socialist countries recognize their need for technology and wish to follow a non-dogmatic approach in negotiating such arrangements.&quot;</td>
<td>He derives illegitimate conclusions about Socialist countries' attitudes toward Western countries based on one case study.</td>
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<tr>
<td></td>
<td>G. Scriven (1979)</td>
<td>He studies Yugoslavia's foreign investment laws.</td>
<td>He derives illegitimate conclusions about Socialist countries' attitudes toward Western countries based on one case study.</td>
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the Soviets is unlikely. On the other hand, if their foreign trade expands, "the country will be pushed to set up servicing and assembling facilities in some of its overseas markets." (Vernon 1979, P. 1038) He, again, uses this style when he is inquiring whether the Soviet Union, in its economic relations with the West, is "in a position to exercise its power as sole supplier or sole purchaser...thus, capturing most or all of the gains from trade." His reply is: "As buyers, the Russians are not all that important to the West; and as sellers, they contribute only marginal quantities of any given product to the West. Accordingly, they are seen as price takers." On the other hand, the competition among Western firms along with the institutional structure in the Soviet Union induces strong temptation on behalf of Western firms to cut prices greatly. (Vernon 1979, PP. 1040-1042)

Barkas and Gale's (1981) study of joint ventures in Yugoslavia is another example of the informed speculation type of analysis. They start by stating the fact that importation of capital goods by many less developed countries has exacerbated their balance of payments problem. To reduce the pressure on their foreign exchange reserves, many LDCs are seeking MNCs involvement via equity investment or licensing agreements.

The authors believe that Yugoslavia traditionally has favored licensing over direct foreign investment, since it minimizes the risk of MNCs domination. Moreover, through licensing agreements, "the country is able to produce modern technology without tying up investment funds." However, in recent years a growing proportion of
the country's balance of payment deficit can be attributed to licensing royalty payments. This factor along with other economic factors has forced Yugoslavia to shift toward encouraging direct foreign investment. "Direct foreign investment has the advantage of simultaneously providing Yugoslavia with hard currency and increased production/technology capacity." (Barkas and Gale 1981, P. 31) After counting the benefits which result from establishment of joint ventures, they argue, on the other hand, in the cases where "joint venture is producing high-technology products that require components, ingredients or other materials" which are not produced inside Yugoslavia, the joint ventures produce additional revenue for MNCs. In other words, Yugoslavia's imports of intermediate goods will increase and put further pressure on the balance of payment deficit.

In their discussion of various motives behind MNCs interest in establishing joint venture in Yugoslavia, Barkas and Gale exhibit another instance of informed speculation. They argue that "in addition to providing access to raw materials, a Yugoslav joint venture may enable the MNC to produce needed product at lower cost." This lower cost will mainly be achieved because of Yugoslavia's lower salaries and wages. Nevertheless, "this advantage may be offset by the lower productivity of the Yugoslav worker." Consequently, there exists a trade off between on the one hand lower wages, and on the other hand low productivity. (Barka and Gale 1981, P. 34)
In regards to benefit derived from access to raw materials, they argue in many cases sufficient amounts of raw materials and intermediate goods are available at reasonable prices in Yugoslavia. But on the other hand, it is estimated that "Yugoslav exports currently have a 35 percent import content. Therefore, there may be only limited opportunities for the joint venture to secure lower-cost raw material supplies." (Barka and Gale 1981, P. 34)

Likewise, Philip Hanson (1978) argues, on the one hand, that imports of Western technology act as a marginal stimulus to Soviet economic growth. Therefore, their importance in the general performance of the Soviet economy is insignificant and negligible. In his words: "These imports are a comparatively small input to a large economy" (Hanson 1978, P. 30) and "technology transfer represents only a very small share of Soviet equipment investment." (Hanson 1978, P. 25) On the other hand, it seems he suggests such technological transfer exerts an important effect on the economic performance of the Soviet economy. "The bottom line for all of this is, of course, the size of economic benefits the U.S.S.R. has been deriving from its purchases of Western machinery and know how...it would not be surprising if these effects were shown to be relatively large." (Hanson 1978, P. 28) This statement is followed then by presenting different studies which have shown significant benefits gained by the Soviet Union as a result of its economic relations with the West.
Summary of Section 3.3: In this section, I have studied only a few examples of those neo-classical authors who have adopted the 'informed speculation' method of analysis. These examples, however, give a full support to my original claim that a large number of the orthodox economists who have chosen the non-theoretical method of investigation tend to produce contradictory statements. All the authors cited in this section, regardless of their subject of study, fall into the trap of contradicting themselves. Vernon (1979), for instance, in investigating East-West trade, states that the Soviet Union is a price taker. However, on the other hand, he seems to claim that the Soviet Union can enjoy a bargaining position due to the competition among the western firms. Another example is Philip Hanson (1982), who is interested in the study of the importation of western technology by the East. On the one hand, he argues that imports of western technology acts as a marginal stimulus to the Soviet economic growth. However, on the other hand, he suggests that technological transfers exert an important effect on the economic performance of the Soviet economy.

3.4. TAXONOMICAL STUDIES:

Many "neo-classical" authors devote considerable attention to taxonomy. In fact, one can claim that the tendency toward taxonomy is a characteristic of the majority of the studies discussed previously. It is, therefore, fairly difficult to select only a few authors and classify their studies under 'taxonomical studies.' For example,
Hayden and Nau's (1975) analysis of East-West technology transfer is infused with a combination of taxonomical fervor and excessive reliance on case studies. They divide the East-West transfer of technology into two broad categories, short-term and long-term, with each comprising different economic relationships. In their view, for instance, the long-term transfer of technology incorporates: a-technical assistance, b-technical assistance plus trademark rights, c-technical assistance plus trademark rights plus resultant product purchase. They argue that the Soviet Union is more inclined to experiment with short-term relationships while East European countries prefer the long-term variety mainly because they do not have the wealth of the Soviet Union to afford the payments for Western technology on a "one-shot" basis. They then present one case study under each variety of short and long term relationships. And from these case studies they conclude and generalize about U.S. corporate preferences in regards to different models of technology transfer. "If the firm wants a cheaper manufacturing source, or if it is using the cooperation vehicle as a market entry vehicle, a Model C arrangement is most likely... But if the firm has a propriety technology unavailable from other suppliers, it will more likely insist on a Model A or B arrangement." (Hayden and Nau 1975, P. 79)

Likewise, Edward Hewett's (1975) approach toward investigating imports of Western technology by Eastern European countries can be categorized under 'taxonomical studies.' He starts with distinguishing technology from know how. Technology includes "specific knowledge about physical production, embodied for
example in machines, designs, formula, etc." Know-how is more general and comprises "organizational procedures concerning coordination in production, procurement, marketing, and research and development (R & D)." (Hewett 1975, P. 377) According to Hewett, in the 1960s Eastern European countries mainly sought to import Western technology through the direct purchase of licenses, machinery and equipment and complete plants. In recent years, he argues, in the small East European countries a new and more complex institutional arrangement has come into existence - the Industrial Cooperation Agreements (I.C.A.s). Hewett recognized different specific forms of I.C.A.s. One is "simple purchases of complete plants or licenses in exchange for later payment with resulting products." The second is subcontracting "in which the western partner provides technology and possibly some inputs for producing a certain component and the Eastern European partner repays in a fixed amount of components." The third is "coproduction or comarketing, where the partners specialize in parts of a single production process, assemble the final product in one or both countries, then divide up marketing areas." And finally, Western companies participated with East European in establishing joint ventures either in a third market or in Eastern Europe. (Hewett 1975, P. 378)

Hewett argues that although Eastern European countries have considered I.C.A.s as the most efficient form of importing Western technology, in fact the I.C.A.s by "following the dictates of static comparative advantage...serve to perpetuate some of the major weaknesses of the Eastern enterprise, rather than eliminating them."
He uses the case of Hungary to prove his point. He argues almost all of the I.C.A.s in force in Hungary are small subcontracting or coproduction arrangements. The East European partner usually produces the least capital intensive components employing substantial amounts of imported Western materials, and possibly some imported Western capital. The production mainly takes place by using the Eastern partner's excess capacity, then almost all the products go back to the Western partner to be used as inputs or to be marketed. Therefore, the end result is the Hungarian enterprise is involved only in production, and the Western enterprise is involved in research and development and marketing.

This process tends to reinforce the weakness of Hungarian enterprises in marketing and research and development. Hewett even goes so far as to say that many I.C.A.s are nothing but traditional trade under the name of cooperation. This process is quite profitable for the Western partners, since they shift the less profitable, more labor intensive processes to an area where semiskilled and skilled labor is relatively inexpensive. Moreover, there are other attractive features of these economies which make Western corporations interested in I.C.A.s: A reliable labor force which has been denied the right to strike and the possibility of avoiding tariff and non-tariff barriers.
Summary of Part One:

In Part One of this chapter, I have attempted to review the work of those orthodox economists who have adopted the 'non-theoretical' method of investigation of East-West economic relations. This part was divided into four major sections. Throughout these sections, my goal has been to investigate the consequences of adopting such a method of analysis. My examination reveals that, regardless of the subject of study, the omission of theoretical analysis has produced various consequences. Some of these authors have been successful in producing useful and illuminating studies, but a large number of orthodox economists have either drawn illegitimate generalizations based on limited information, or have made contradictory statements. Moreover, we have seen cases where two authors have chosen an identical subject of study, but lack of any theoretical reasoning has led them to arrive at very different conclusions.15

PART TWO: THEORETICAL STUDIES

The orthodox authors who have taken their theoretical approaches seriously have emphasized either the trade or the investment aspects of East-West economic relations. In this process the majority of them have assumed the same principles which govern the conduct of consumers and producers in the Western countries to be also at work and applicable in investigating the behavior of consumers and

15 See, for instance, examples of De (1975) & Evrawicki (1979)
producers in the Eastern countries. As a result they have employed the same techniques and methods used in analyzing the foreign trades and investments under conditions of perfect competition, in studying the foreign trades and investments of socialist countries. I will start the following sections with a discussion of some of the most important theoretical undertakings of mainstream economists in regards to East-West trade relations and try to demonstrate that trade in general is conceived of as beneficial to all engaged parties. It is, therefore, assumed to be advantageous to both East and West.

3.6. INTERNATIONAL TRADE AND SOCIALIST COUNTRIES:

Holzman (1968) and Brown (1968) are usually cited by the mainstream economists as among the first economists who have attempted to apply the neo-classical tools of international trade theory in analyzing the foreign trade of socialist countries. Holzman and Brown generally view centrally planned economies to be relatively "insensitive to external market developments," except when planners manipulate exports in order to maintain a fixed volume of imports. Their arguments, however, have been

16 Holzman (1974) seems to suggest the same idea: "this literature deals so abstractly with trade problems that it applies generally to all economies, whether free market or centrally planned, and therefore does not elicit research from economists dealing with the latter. Or it builds models that are based on price and market mechanisms, largely irrelevant to C.P.E.'s except insofar as they may occasionally serve as normative models or as the basis for empirical studies to test the rationality of C.P.E. trade practices." (Ibid., P. 1)

criticized for lacking a rigorous theoretical framework. For instance, Holzman's writings (1974), (1976) have been described as an incisive description of socialist foreign trade theory and practice aimed at the general reader." (Rosefield 1977, P. 99) According to his critics, even when he attempts to be more theoretical, such as Holzman (1974), he in fact produces nothing but a repetition of his previous works with no comprehensive methodology. As Rosefield (Rosefield 1977) argues, Holzman in (Holtzman 1974) "did not seize the opportunity...to provide a general and rigorous theoretical framework for evaluating the comparative merit of centrally planned foreign trading systems." (Rosefield 1977, P. 100)

Batra (1976) endeavors to overcome this deficiency and to rigorously apply conventional international trade theory to an analysis of trade between market economies and centrally planned economies. He analyzes two different cases. In the first case, his analysis is conducted under the assumption that the centrally planned economies of a small country possesses no monopoly power in trade; in the second case, however, the country is assumed to be large and has monopoly power in trade. In both cases, it is assumed that the planners are faced with a "social utility function" which he assumes to be the same "as planner's own utility function for the society."

When the country has no monopoly power in trade, the external terms of trade are given and fixed for the country. Under these conditions, the planners, in order to maximize the 'social utility

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function, choose a level of consumption and production at which the marginal rates of substitution and transformation are equal to the given world terms of trade. Batra's solution in this case is similar to the one which would prevail under the free trade in a market economy and would satisfy the "pareto-optimality" conditions. The following diagram represents his solution.

In this figure II' is the transformation curve and the terms of trade is represented by the line PC. Given the 'social indifference curve' of \( U_1 \), the planners will choose production at P and consumption at C. \( PT \) is the amount of \( Y_1 \) exported and \( CT \) is the amount of \( Y_2 \) imported. In a market economy also producers would produce at P and consumers would consume at C.

The complete similarities between the market economies and centrally planned economies end when Batra adds the assumption
that the centrally planned country has monopoly power and the terms of trade are determined by the volume of trade. In other words, in order for the country to sell more it has to charge a lower relative price. Batra's solution, in this case, is that the country must operate like a profit maximizing monopolist/monopsonist which in effect pursues an optimum tariff policy.

Batra's solution can be presented by the use of the following figure.

The offer curve of a market economy is given by OF. Facing this offer curve, the planner in the centrally planned economy optimizes
by selecting the consumption point A, where the 'social indifference curve' $U_1$ is tangent to OF. At this point the amount of $Y_1$ exported is equal to OB and the amount of $Y_2$ imported equals AB. The terms of trade are given by the slope of OA.

Batra then goes on to show that such an optimal solution is parallel to that requiring an optimum tariff in a market economy. He considers the case of trade between two market economies, with offer curves of OF and OH. Under free trade the economy with offer curve of OH will maximize its welfare at point C on the social utility curve of U. This economy, in Batra's view, can increase its welfare and move on to the social utility curve of $U_1$, by imposing an optimum tariff on its imports, so that its offer curve shifts to OH₁. It is in this sense that a centrally planned economy and a monopolist under decentralized conditions operate similarly.

One conclusion can be reached from this line of arguments which is that the Eastern countries in their trade relations with the West enjoy a strong bargaining advantage because the planners can simply choose point A, while a market economy "has to follow the route of tariff to capture the advantage of monopoly power and dissuade its trading partner from benefiting from its own optimum tariff." (Batra 1976, P. 370) Meanwhile, the market economy does not know what the centrally planned economy's offer curve looks like, because like the monopolist's supply curve, it is not well defined. Consequently, the market economy pursuing an optimum tariff policy in trade with a centrally planned economy cannot be certain that with a given increase in its tariff its terms of trade will
improve. Based on this analysis, Batra proceeds to recommend that the market economy should adopt "some kind of non-tariff barriers like production and consumption taxes or subsidies or more significantly the institution of a state trading corporation to deal with the centrally planned economy." (Batra 1976, P. 374)

Batra applies his analysis to the trade relations between socialist countries. In such cases Batra argues the terms of trade are settled by the planners through bilateral bargaining and the party with greater power will be able to get the favorable terms. This can, in part, according to Batra, explain "Russia's economic exploitation in the part of some of Eastern European nations." (Batra 1976, P. 374)

Batra's basic assumption that the socialist countries follow the same pareto optimal marginal rules is so astonishing that it has even aroused the criticism and ridicule from some members of the neo-classical school, not so much because the pareto optimal marginal rules are presumably the necessary conditions for the optimum in the perfectly competitive market economy but because Batra "simply ignores the vast literature on the 'irrationality' of domestic price structure" in the centrally planned economies. (Wolf 1978, P. 988) Furthermore, he has been criticized for suggesting that the hypothetical centrally planned economies of his model resemble those of the real world, and consequently presenting misleading conclusions and making irrelevant policy recommendations. Wolf (1978), for instance, argues that when Batra stresses that the centrally planned economies with the external market power do not

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19 Presumably any kind of barriers which will not affect the terms of trade.
have well defined offer curves, Batra makes "an interesting theoretical point but one of doubtful policy relevance." By implication he is suggesting the market economy's offer curve is well defined theoretically and "it is actually 'known' to the policy makers" in the centrally planned economies. Wolf argues that in the real world to the extent that a country pursues optimum tariff policies, they are implemented through trial-and-error and not through knowing for sure the shape of the offer curve of its counterpart.

Moreover, Wolf believes that Batra's assertion in regards to trade among centrally planned economies, and the resultant exploitation of Eastern European countries by the Soviet Union is mistaken. Indeed, Wolf argues that "it is generally accepted today that for various political and institutional reasons Soviet terms of trade with its CMEA partners deteriorated throughout much of the post war period." Thus, Batra's model also does not explain the development in terms of trade among socialist countries. (Wolf 1982, P. 990)

Elsewhere, Wolf (1982) somewhere else presents a model of foreign trade for the centrally planned economies. In contrast to Batra's model which assumes price-sensitive planners, Wolf's model assumes planners who are price-insensitive in the short-run. This, Wolf believes, is a realistic assumption, since once the plan is adopted the "planners are unlikely to upset (it) on the production side in response to what may be short-lived world-market terms-of-trade changes. Likewise, it is doubtful the allocations of goods for domestic consumption will be made on the basis of short-run
fluctuations in world-market prices per se." 20 (Wolf 1982, P. 39) Wolf's model of a price-insensitive centrally planned economy is therefore based on two assumptions. The first one is the adopted annual production plan is rigid and unresponsive to world market prices. As a result, "while from a purely technical standpoint the (centrally planned economy) might be considered to have continuously differentiable production possibilities frontier," (as shown with dotted line in the following figure), it is assumed that planners limit the economy to a fixed production point. So, if the planners have to decide on the production mix between two goods one importable M and one exportable X, they choose a point like P as the fixed production point. (Wolf 1982, P. 38) Wolf also assumes that the "domestic consumption of these goods...is determined by the planners' preferences rather than the preferences of actual consumers." And the planners are assumed to allocate these goods (X and M) in predetermined proportions. In other words, they "have a fixed coefficient preference function." (Wolf 1982, P. 39) He traces the consumption possibilities of such economy by the income-consumption path of OH (as is presented in the following figure). Assuming the planners are rational they therefore "attempt to maximize their own welfare by attaining the highest possible point on OH."

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20 To support his point Wolf brings some support from Soviet literature. For instance, he argues Shagalov (1973) "attests to the lack of integration, between consumption plans and domestic opportunity costs on the one hand, and foreign-trade prices on the other." (Wolf 1982, P. 39)
Starting with these two basic assumptions, Wolf proceeds to show in contrast to Batra's conclusion, the offer curve of such an economy can be determined, and is well defined, regardless of whether or not it is a large country. To show this he places the origin of the rest of the world's (ROW) offer curve (OCR) at production point P (as is shown in the following figure). Given his assumption the planners will produce at point P and consume at point C. As a result they plan to export PR of the exportable good for CR of importable good, achieving welfare level $W_1$.

Figure (3)
To derive the socialist country's offer curve, Wolf assumes the ROW offer curve to pivot on a fixed point P. As OCR intersects consumption path OH to the right of C, the socialist country must give up larger quantities of its exportable for smaller amounts of importable. As OCR intersects the consumption path to the left of C, the country must give up smaller quantities of its exportable for larger quantities of importable. Looking at the right-hand panel of the above figure, the price-insensitive socialist country's offer curve will fall between OT and VT. At a point like Y (in the right-hand panel of above figure) the planners' marginal propensity to consume the importable good approaches 1.00, giving offer curve VT. At a point like E, as the marginal propensity to consume the importable approaches zero, the offer curve approaches horizontal line OT.

Given all of his assumptions, Wolf argues that the "optimal" foreign trade for a price-insensitive socialist country can be achieved by attaining the "highest feasible point" on its offer curve. And the feasibility is determined by the shape of the rest of the world's offer curve. Observe the following figure; if the ROW's offer curve is elastic (OCR), a socialist country with offer curve OCS can maximize its welfare according to Wolf by trading at point F. At this point the planners are indifferent as to whether or not they have monopoly power, and consequently their trade offer remains the same. 21

21 Wolf also considers another case in which the ROW's offer curve is inelastic at its intersection with OCS. Under this condition the socialist country can impose what he calls "implicit revenue maximizing tariff" which is different from optimum tariff, because based on the tariff theory Wolf argues the "tariff imposing country always operates in the elastic portion of the ROW offer curve." (Ibid. P. 42) Since it is the first case (ROW with
The important point in Wolf's account is that in contrast to the market economy or Batra's price-sensitive centrally planned economies which if they are large, "may decide to impose optimum tariff," a price insensitive planned economy facing an elastic ROW's offer curve has a well defined offer curve, regardless of its size. As a result it appears to be vulnerable, and the ROW "could safely predict the impact on the terms of trade of unilaterally restricting trade, and
it need not fear retaliation" by centrally planned economy. (Wolf 1982, P. 42)

The policy implication is that in the event that a centrally planned economy has market power on the Western market, the planners "may not have the motivation to use their power so as to earn monopoly profits at the expense of Western firms," not because they are irrational, Wolf argues but because "they may have different trading criteria." Consequently, "it would be incorrect to argue that the Soviet Union obtains a disproportionately high share of the gains of trade simply by virtue of its state of monopoly over foreign trade." (Wolf 1982, P. 51) 22

Wolf starts his discussion by criticizing Batra's model primarily for Batra's lack of consideration for differences in institutions implanted in a market and planned economy. However, he ends up by falling into the same trap, essentially, because he addresses his criticism not to the roots of Batra's problems but to the problems which appear at the surface. Like Batra he follows the neo-classicals' marginal rules and extends them to the conditions of a planned economy. He assumes planners, the same as any other human beings, choose rationally among alternatives confronting them. In other words, he perceives a set of indifference curves for planners, which he takes to be identical with those of society in

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22 Wolf in another article argues the same point that "despite the Soviet monopoly of foreign trade, we found little theoretical or empirical support for the claim that the U.S.S.R. is systematically capturing monopoly profits at the expense of the U.S. firms and U.S. consumers. In many respects, the Soviet Union is not significantly different, in its trade with the West, from many other countries with very small shares of world trade." (Wolf 1979, P. 337)
general. It is then the combination of limitations imposed by the country's technology and its natural endowments along with the planners' indifference curves and their maximizing behavior which determines the country's pattern of trade. These conditions are not significantly different from those which, according to the neo-classical tradition, prevail in the market economies. Therefore, even though Wolf tries to take into account the existence of different institutional frameworks in the socialist countries, his methodology forces him to apply the same omnipresent rules to both capitalist and socialist economies.

Another group of economists who have taken the basic assumption of the neo-classical tradition to be applicable to both a capitalist country and a socialist country are Canto and Laffer (1982). In their model, the behavioral assumption governing the conduct of economic actors are posulated to be uniform between Eastern and Western economies: "the people respond to incentives" and "everything's being equal, individuals allocate resources according to after tax yields." Furthermore, the "consumers maximize their well-being and producers maximize profits." (Canto and Laffer 1982, P. 60) Canto and Laffer then produce a theory in which the pattern of investments in both East and West is determined by changes in prices through their effects on wages and the rate of return on capital. The purpose of their analysis is, however, to study "the economic effects of a commodity trade embargo under alternative assumptions regarding technological differences across countries as well as different degrees of factor mobility." (Canto and Laffer 1982,
In the following, I will analyze two of the scenarios presented by them and which are closely connected to the economic relations between East and West.

The first scenario describes a world with factor mobility within the national boundaries, but not across countries. They assume the existence of two factors of production, which produce three commodities. Furthermore, they postulate a total of three countries, one the U.S., which has an efficient technology in production of all three commodities. The second, the East, has an inferior technology in production of one commodity (C). And the rest of the world has an inferior technology in production of commodity B. They moreover assume that the three countries always engage in "free trade in at least two commodities," since this guarantees the factor price equalization across countries. (Canto and Laffer 1982, P. 62) Under these conditions, if the U.S. embargoes the exportation of commodity C, the U.S. production of C can now be used to produce the other commodities. Meanwhile, the rest of the world, which is as efficient as the U.S. in production of C, will increase the production of C and consequently reduce the production of commodity A. Thus it will export more of C and import more of A. The East, on the other hand, will be unaffected and will simply import commodity C from the rest of the world instead of from the U.S. "Because factors are mobile within countries, and at least one other country has technology equivalent to that of the U.S., world prices and world consumption will not be altered by the U.S. embargo." (Canto and Laffer 1982, P. 62)
In another scenario they assume the export restrictions are totally effective and labor is mobile across industries while capital is immobile. In this case "a U.S. embargo on the export of commodity C will remove foreign demand for the embargoed commodity." Consequently, there will be a decline in the domestic price of C as well as a decline in the rate of return on capital employed in production of commodity C both in the U.S. and the rest of the world. At the same time, in the East the price of C as well as wages paid and rate of return on capital used in its production will rise.

Their conclusion is interesting: "The U.S. industry's incentive would be to invest less in the embargoed sector, while for the country East the opposite would be true." Therefore, they predict the identical reactions in response to similar situations in both East and West. "As investment occurs in the activities with the highest returns, the rate of return to capital in each sector will again be equalized. Trade in the remaining two commodities assures factor price equalization." (Canto and Laffer 1982, P. 63)

Summary of Theoretical Investigation of East-West Trade:

It has not been my purpose to offer a full critique of each model presented here; rather an attempt has been made to put forward some of the methodological problems of each model. And Canto and Laffer's model probably more aptly than any other models presented here reveals one of the major inadequacies in the neo-

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23 A group of neo-classical economists have emphasized the organizational aspect of the socialist countries foreign trade. Appendix (I) shows an example of such a discussion.
classical methodology: The lack of consideration for differences in institutions and the ways the economy operates under different socio-economic conditions. Declaring that in the East a rise in the 'rate of return on capital' in any branch of industry will automatically and necessarily bring an increase in investment in that particular branch, if nothing else proves the ignorance and lack of knowledge of the authors about how the decisions regarding investment priorities are made in the centrally planned economy.

A brief review of the theoretical investigation of East-West trade in this section reveals the following points: First, the orthodox economists tend to ignore the differences in the socio-economic systems of different countries. Consequently, they extend the neoclassical's marginal rule to the conditions of a planned economy. They perceive consumers, in a planned economy, as maximizing their utility, and firms as maximizing their profit. A more sophisticated orthodox economist, such as Wolf (1982), takes planners' indifference curves to be identical to those of society in general. He then argues that the combination of these indifference curves with planners' maximization behavior, as well as the limitation imposed by the country's natural endowments, determine a planned country's pattern of trade.

Secondly, since the same rules can be applied to both a market and a planned economy, then one is correct to conclude that the socialist countries conduct their trade according to the principles of comparative advantage. Consequently, in socialist countries, one should witness a rise in import-domestic supply of those products for
which DCs maintain a 'comparative cost advantage' in their production. I will investigate this point in the fifth chapter of this dissertation.

Thirdly, trade can be advantageous to both socialist and capitalist countries. Such a conclusion is in complete opposition to the dependency school's argument. The dependency school maintains that the socialist countries' participation in the international division of labor has led to the exploitation of these countries by DCs, as discussed in the second chapter of this dissertation.

3.7. THEORIES OF INTERNATIONAL DIRECT INVESTMENTS AND SOCIALIST COUNTRIES:

It is difficult to find a common thread running through all of the neo-classical school's studies which have attempted to theoretically investigate the international investments in Eastern Europe. This lack of common denominator can in part be attributed to the existence of a variety of theories presented by the neo-classical economists for explaining the international investments in general. This problem becomes even more apparent when one focuses only on these economists' theoretical explanations of international direct investments and production. John H. Dunning (1973), for instance, enumerates in a survey article at least five different approaches
presented by the neo-classical school in response to 'why international direct investment and production?'

In recent years, however, a dominant theoretical approach seems to be emerging in the international direct investment literature; and it is the study of the application of this theory to Eastern Europe which will be the focus of most of this section. Based on this theory, the multinational corporations are considered to be the result of internalization of real costs within imperfect markets. The analytic basis of the argument is derived from Coasian theory of firm. (Coase 1973) The argument, reduced to the simplest terms, is that when transaction costs associated with the market exchange are high, the firms tend to internalize the transaction. Coase recognized two modes of implementing an economic transaction: through firms or through markets. "In certain cases the market entails transaction costs significantly in excess of those that would be incurred if the firm internalized the transactions." Consequently, MNCs' establishment of subsidiaries in other countries can be viewed as internalizing markets across the national boundaries and is due to efficiency considerations. (Coughlin 1983, P. 28)

Development of new technology, according to Williamson (1975), generates strong incentives for internalization. A combination of factors makes the sale of new technology by means of market transactions difficult. For example, the seller of the technology holds significant advantages over the outside buyers due to access to information about details of the technology. There exists, therefore, a tendency on the part of the seller to not represent the
accurate value of the technology. Consequently, it is difficult for the interested parties to reach an agreement. Furthermore, the seller of technology may also find out that the price which the outsiders are willing to pay "yields a lower return to the firm's R & D expenditure than does its own exploitation of the technology." (Brada 1981, P. 210) The combination of these factors encourages the firm to establish foreign production rather than sell their technology, and thus internalize the costs of allocating the technology. (Coughlin 1983, P. 130)

In what will follow I will start with a discussion of those studies which have employed the above theory in investigation of East-West industrial cooperation agreements. Referring to them as the model of cost internalizing, I will then discuss those studies which have attempted to explain I.C.A.s with the use of mathematical models.

3.7.1. Cost Internalizing Models:

Josef C. Brada (1981) is interested in a theoretical appraisal of the transfer of technology to Eastern Europe by means of I.C.A.s. Brada's main hypothesis is that the pattern of transfer of technology through I.C.A.s can be explained by the "economic parameters" which determine the way that firms organize their international operations and "exploitation of technology" as well as the type of technology that the firms use.
Brada distinguishes two types of technology which firms use in support of their market position: product technology and process technology. This distinction is important in elaborating his theory. "Product technology" is concerned with developing new products which are unique and have few or no close substitutes. The firm's advantages derive solely from the ownership rights over technology which yield the firm monopoly profit. The process technology, on the other hand, deals with production and marketing of a given product. In this case, the firm's advantages over its competitors are due to its ability to produce the same product at a lower cost or to produce a similar but better product at the same cost incurred by its rivals. Brada believes that in some industries the competition is exclusively based on process technology, and in others competition is on the basis of product technology. He further believes that the type of technology competition which is predominant in a given industry will be reflected in the manner that the firms in that industry organize their international operation. Firms that compete based on the product technology tend to be centralized, vertically integrated, and unwilling to transfer technology. On the other hand, firms that compete based on the process technology tend to be decentralized, horizontally integrated, and willing to transfer technology and as a result good candidates for I.C.A.s.

Brada uses the 'cost internalizing model' discussed earlier and argues that firms which compete mainly through the innovation of unique products should experience "the need to internalize the technology transfers more intensely" than firms which compete on
the basis of process technology. Brada believes the majority of "information costs" associated with development of new and unique products are absent in the case of firms involved in improvement in process technology. Innovation in process technology usually takes place on the factory floor and does not require expensive research laboratories; moreover, "the innovation is often carried out by engineers and technicians who may have routine production or design functions in addition to their R & D responsibilities." (Brada 1981, P. 211) Consequently, innovation in process technology is much cheaper than the development of a unique product. It is also easier to determine the price of innovation in a particular process, partly because by definition it must have at least one substitute for the previous technology for producing the product. These factors plus a couple more reduce the "information costs" of transferring

24 Brada believes there are several reasons for such a tendency. First, the firms whose innovative activities are focused on development of new products spend heavily on R & D and employ highly trained specialists and modern and specialized facilities. Second, development of new and unique products by nature is risky; a new product may or may not appear as a result of a certain amount of R & D expenditure, and even if it does it may not gain acceptance in the market. It is, therefore, difficult for a firm to allocate R & D costs precisely to a successful new product. The managers consequently allocate arbitrarily the total amount of a firm's R & D expenditure on its successful new products. There are other factors which increase the uncertainty surrounding the transfer of technology. The uniqueness of a new product makes it difficult to set a price for it, mainly because there is no close substitute for the new product. Thus there is no market price that the inter-and intra-company transfers could be based on. Furthermore, the uniqueness of a new product complicates the process of determining the economic benefits which it may bring to the owner, particularly because "the monopoly profits derived from a product's uniqueness are subject to erosion from generally unpredictable successes of the firm's rivals." (Ibid., P. 212) It is the combination of these factors which creates the need for internalizing the transfer of technology.
technology and as a result reduce these firms' tendency toward internalization and make them good candidates for I.C.A.s.\textsuperscript{25}

Brada's theory indicates an important factor in a firm's behavior. "The willingness of firms to undertake any action, including I.C.(A.), is to a large extent objectively determined by its competitive position and the technology and material means of production at its disposal." (Brada 1981, P. 227)

The policy implication of Brada's theory is obvious: Eastern Europe should seek I.C.A.s with those Western firms which compete based on prices and services, and avoid those firms which operate in

\textsuperscript{25} Brada, after postulating the main points of his arguments, takes up the case studies of two different industries, which he believes are the polar cases - the pharmaceutical industry and the construction-equipment industry. While the former according to Brada relies heavily on promotion of new drugs, the latter relies on improvement in process technology to promote competition among firms. Consequently the pharmaceutical industry as his theory predicts, must be reluctant to transfer technology. Indeed, Brada argues "(t)he lack of inter-firm transfer of technology and inputs evident in the pharmaceutical industry is reflected in the attitude of pharmaceutical firms toward I.C.A. in East Europe." (Ibid., P. 215) He then cites the conclusion arrived by Holt (1977) in studying a number of pharmaceutical firms in Eastern Europe, as supportive of his argument. Holt characterizes these firms' behavior as one of "limited cooperation."

In contrast to the pharmaceutical industry, within the construction equipment industry there are several factors which facilitate I.C.A.s. "The greater certainty about the price of components and the value of technology greatly aid negotiations and the development of trust between the two partners." Second, because the construction equipment industry clearly uses intensive intra- and inter-firm transaction of technology it can transfer technology across national boundaries more cheaply than drug industry. According to Brada, International Harvester "has developed important skill in transferring its standards, design needs and technology" to suppliers in Western markets. Thus "it is likely to find similar transfers to" the Eastern European companies "much cheaper and easier to carry out than would a firm which had no experience in inter-firm technology transfer." (Ibid., P. 217) Brada mentions International Harvester and BUMAR's cooperation as an excellent example of a successful I.C.A. conducted by a firm operating in an industry where competition takes the form of development in process technology.
industries where competition is based on innovation in new products. However, he acknowledges that such policy may not be in accordance with the development plans in Eastern European countries. These countries may perceive the participation in industries where the new product development is highest as important "in order to maintain a dynamic industrial structure. However, they should be aware that participation in such industries is not likely to be aided by I.C.(A.) but will require, instead, indigenous efforts." (Brada 1981, P. 219)

Coughlin (1983) is interested in an economic analysis of joint ventures in Yugoslavia. He believes that the Yugoslavs have been disappointed by the Western corporations' response to the joint ventures legislation. It is his purpose to shed some light on possible reasons for the Western firms' lack of interest in participating in Yugoslav joint ventures. He starts with a more or less complete description of Yugoslavia's current joint ventures legislation.26

Coughlin then proceeds by reviewing all the studies which have attempted to explain the reasons behind the limited success of Yugoslavia in attracting foreign investments. Huff (1972) and Gupta (1978), for example, believe the "foreign exchange restrictions have hindered the repatriation of profits and, consequently, have deterred

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26 Some of the important aspects of this legislation are as follows: Joint ventures are allowed in all sectors except in insurance, social services, domestic and foreign trade. Foreign ownership is restricted to 49% of investment and most joint ventures are expected to be export oriented. The joint ventures contracts must specify a ceiling on annual profit transfer. "Firms have three alternatives concerning the disposition of profit exceeding the maximum." They can consider these profits as repatriation of capital; they can reinvest these profits in the joint ventures until the 49% limit is reached, or they can invest the funds in another joint venture in Yugoslavia. (Ibid., P. 14-15)
foreign investment." (Coughlin 1983, P. 31) Others argue the inflexibility of joint ventures legislation in response to potential areas of conflicts discourages foreign investment. According to Coughlin, however, the analysis of the impact of the minority-ownership restrictions on foreign investment has generally been neglected by the majority of the studies; and it is the purpose of his study to analyze the effects of such restrictions.

Coughlin believes some of the deficiencies of the previous studies can be overcome by taking into the account the theory of firm behavior. Since the Western MNCs are the prime actors in the joint ventures, "an underlying theory of MN's is essential for understanding joint venture investment." (Coughlin 1983, P. 26) He chooses the "cost internalizing" theory discussed previously as the corner-stone of his arguments; furthermore Coughlin accepts Magee's (1977) theory that "development that is not easily imitated is a primary goal of the MNCs. The difficulties associated with imitation increase the probability that the firm can capture a satisfactory return on its research and development. Given the incentives for secrecy, the MNC will tend to exploit any new technology via wholly owned direct investment." (Coughlin 1983, P. 27, emphasis added)

Coughlin argues that the preceding theories can provide a number of important insights about foreign investment in Yugoslavia. "The most important revolve around the implications of restricting foreign ownership to a minority position." (Coughlin 1983, P. 27) According to him the ownership restrictions affect not only the magnitude but also the distribution of foreign investments. To
support these arguments Coughlin uses the information about the amount of the U.S. foreign investments in Yugoslavia and other developing countries. The amount of such investment is comparatively small in Yugoslavia relative to that in other developing countries, and he concludes: "(T)he reduced flow of foreign investment, relative to situations where ownership restrictions are less prominent, follows directly from the theory." (Coughlin 1983, P. 28)

Coughlin also provides information about the ownership and distribution of the U.S. global foreign investment between 1967-1975. His study shows, for example, that 91% of the printing industry's foreign investment was in the wholly owned subsidiaries. His data indicate that "(i)f ownership restriction exists, the printing, drugs and cosmetics, wood and furniture, and beverages sectors provide poor prospects" for foreign investments, because over 75% of foreign investment in each of these industries goes to wholly owned subsidiaries. (Coughlin 1983, P. 28) Consequently, one would expect to find no or limited participation of these industries in Yugoslavia's joint ventures. Coughlin submits supporting data: as of the end of December 1978, these industries accounted for only 9 out of 150 joint ventures in Yugoslavia.

Moreover, Coughlin is interested in studying the transfer of technology to Yugoslavia. Following Brada (1981), he argues that first, the transfer of technology should be biased toward process technology instead of product technology due to Yugoslav restricting foreign ownership to a minority position. Second, the product
technology transferred to Yugoslavia should be relatively old.\textsuperscript{27} To support these points he brings evidence from the case studies of the Gillette Company and the Dow Chemical Company's transfer of technology. The Gillette Company, according to him, is involved in an industry where competition is based on development of new products. Coughlin argues in 1973 Gillette transferred a technology to Yugoslavia which was being utilized in the 1960s in the West. Dow Chemical's involvement in Yugoslavia provides similar evidence. Dow has signed two joint venture agreements, and in both cases it transferred technologies which were relatively old.

Gupta (1978), in contrast to Coughlin, dismisses the importance of the majority of wholly-owned subsidiaries for MNCs, because he believes these corporations are able to adapt to different situations. Moreover, if the majority ownership was an important consideration for MNCs, one expects that they would attempt to increase their ownership to the legal maximum. Yet, despite the Yugoslav authorities' encouragement, these corporations have not attempted to do so.

P. Artisan and P. Buckley (1984) also argue Gupta's point. "The absence of urgency among firms to increase their share of joint venture's capital to the legal maximum of 49.9 percent" is an indication "that there is little concern (among these firms) about minority participation." They support their argument with a survey of 42 Western European and North American firms which have joint

\textsuperscript{27} In another paper Coughlin endeavors to present the same arguments. See (Coughlin 1983)
venture investments in Yugoslavia. Eighty percent of the firms in their sample do not consider the minority participation rule in Yugoslavia as "an impediment to their potential investment." Only a minority of firms-10 percent-consider restrictions as an initial deterrent to their investment activities in Yugoslavia. And even for them the "equal representation on the joint management board had subsequently allayed their fears of under-representation. (Artisan and Buckley 1984, P. 168)

Peter F. Cory (1982) establishes his theory based on the "Cost Internalization" model. Although he argues that attempts to "validate and substantiate" this model and to specify the circumstances under which it may apply have been numerous, it is the "eclectic theory of international production" which offers a comprehensive framework for such a task.28

The eclectic theory's "principal hypothesis is that a firm will engage in foreign direct investment if three conditions are satisfied:

1. It possesses net ownership advantages vis a vis firms of other nationalities in serving particular markets. These ownership advantages largely take the form of the possession of intangible assets, which are at least for a period of time exclusive or specific to the firm possessing them.

2. Assuming condition (1) is satisfied, it must be more beneficial to the enterprise possessing these advantages to use them itself rather than to sell or lease them to foreign firms, for it is

28 The 'eclectic theory' is fully discussed by Dunning. (1980) & (1979)
to internalize its advantages through an extension of its own activities rather than externalize them through licensing and similar contracts with independent firms.

3. Assuming conditions (1) and (2) are satisfied, it must be profitable for the enterprise to utilize these advantages in conjunction with at least some fact or inputs (including natural resources) outside its home country; otherwise foreign markets would be served entirely by exports and domestic markets by domestic production. (Dunning 1979, P. 275)

Cory's principal purpose is to explain the industrial cooperation agreements and joint ventures within the framework of the above mentioned theories.

He starts his analysis by raising the same issues and concerns expressed by Coughlin. He argues the MNCs' strategic option is establishing wholly-or majority-owned subsidiaries. In Eastern European countries, however, foreign ownership is severely restricted, thereby eliminating MNCs preferred option. Such elimination affects "the quantity and/or quality of resources transmitted, and the manner of their utilization." Yet, he asks, given the existence of a set of "intermediate contractual relations," which I.C.A.s and joint ventures signify, how great will this effect be? And to what extent will these "intermediate contractual relations" provide some benefits of full internalization ("with respect to the maintenance of decision-making authority and control and the
lowering of transaction costs")? Such agreements as licensing fail to ensure these benefits. (Cory 1982, P. 131)

Cory believes that these "intermediate contractual relations" may under some circumstances evolve into de facto internalization mainly because over time mutually dependent, intimate relations, understanding and trust can emerge between Eastern European enterprises and MNCs. Cory argues that of course important decisions in regards to utilization of resources and allocation of rewards are subject to negotiation and bargaining and are part of long run contractual agreements. But over time, as the intimate relations are established among the parties, "the transaction costs associated with negotiating and enforcing such agreements, and adapting them to the changing circumstances, may decline substantially." Furthermore, within the climate of mutual trust, understanding and familiarity, MNCs may attain control "through the 'exercise of influence,' rather than exclusively via the 'exercise of authority' through specified contractual terms." (Cory 1982, P. 131) Consequently, the benefits of full internalizing in regards to both maintenance of control and lowering of transaction costs will be achieved. Cory's arguments are in contrast to Coughlin's finding that the restrictions imposed on wholly-or majority-owned ownership are the main deterrent to foreign investment in Yugoslavia.

Cory's second step is to empirically validate his arguments by using the information concerning MNCs' activities in Yugoslavia. He intends to discover to what extent the I.C.A.s and joint ventures between this country and MNCs can "be classified as significant
'intermediate mechanism' for resource allocation, as de facto internalization?" (Cory 1982, P. 137)

He presents some aggregate data on the levels and patterns of various technology transfers between Yugoslavia and Western corporations. He next consider the development of inter-firm contractual relations within a few industries. His focus on these industries is partly due to the fact that the sub-contracting and co-production within I.C.A.s and joint ventures are more common in these industries.

Cory's empirical investigations reveal that a very large number of agreements have been concluded between Yugoslavia and MNCs in the last few decades. They also indicate a rapid expansion of foreign subsidiary production vis-a-vis licensing production. Moreover, they denote that the establishment of the intimate relations between two parties in most cases have started from simple import-export or licensing agreements. Furthermore, they disclose a significant integration of Yugoslav enterprises into Western industries. In most instances these relations appear to be motivated by a desire to maintain or to expand the Yugoslav local markets. The export activities resulting from those arrangements are frequently due to increasing the local pressures on companies to produce for export. Nevertheless, there are important examples which represent some notable "subcontracting or sourcing role" for some Yugoslav firms. The production of small tractors by Pobeda, production of Fiat autos

29 He chooses the following industries: The engineering, motor vehicles, parts and accessories; tractors; household appliances; office and telecommunication equipment; bearings; and razor blades.
and vans by Zastava are examples of arrangements which have made it possible for a Western firm to "phase out its own production of items that have become superseded in its production programme." (Cory 1982, P. 166)

On the basis of his empirical research, Cory concludes that because the number of instances where the MNCs got involved in joint ventures in order to "exploit sophisticated, advanced, valuable proprietary technology" is significantly large, it appears that eventually all but a small minority of MNCs will accept the ownership restrictions imposed by Yugoslavia.30 This acceptance according to him, does not signify the "sacrifice of effective control; rather, it implies that (joint ventures) arrangements can incorporate the essential elements of internalized relationships between the parties." (Cory 1982, P. 167)

John Holt (1976) provides another interesting analysis of I.C.A.s.31 His stated goal is to offer a theoretical framework for "a more systematic study, explanation, and prediction of East-West industrial cooperation." (Holt 1976, P. 71) However, what he produces in fact are a description of possible areas of conflicts in

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30 Provided that "the stakes, in terms of local market size, are high enough." (Ibid., P. 167)

31 Holt is not following the cost internalizing model, and, therefore, presenting his mode in this section may seem inappropriate. I have however presented his paper in this section for two reasons: First, because I believe he is a prominent scholar in East-West economic relations and it is important to be familiar with his work, and in particular with the analysis provided in this particular paper especially because here it is his stated goal to provide a theory of the East-West I.C.A.s; second, the second section of this part is devoted to presenting the mathematical models of theories of direct investment in Eastern Europe, and because Holt's investigation is certainly not a mathematical one.
conducting an I.C.A. and some recommendations for their resolutions, as well as a description of the factors which influence each party's decision in regards to participation in the I.C.A.s.

An I.C.A. requires connecting a market oriented enterprise with a centrally planned enterprise. According to Holt, linking a "profit-oriented Western company with" an Eastern enterprise which operates based on the requirements of central plans "requires adjustments and entails costs, reducing the net benefits of industrial cooperation." (Holt 1976, P. 72) In the same manner that for a Western firm flexibility in responding to changes in market prices is compulsory, for an Eastern firm adherence to the central plan is compulsory; and "(F)lexibility in meeting an unpredictable market constitutes a cost to Eastern enterprise compare with the advantage of a long run production for achieving centrally planned production goals." (Holt 1976, P. 73) In Holt's view, it is to overcome this problem that the Eastern governments in some cases have decentralized foreign trade negotiations and have exempted those enterprises engaged in I.C.A.s "from five-year plan allocations and requirements in varying degrees." (Holt 1976, P 73)

I.C.A.s also require linking enterprises under two different systems of ownership. For the Western firms a maximum return on investment traditionally requires ownership and managerial control. The I.C.A.s, therefore must not only preserve the Eastern countries' principle of social ownership, but at the same time they must provide some sense of security for the Western partners. To overcome this problem, the Eastern countries in most cases provide
guarantees and higher returns to the Western partners. According to Holt, in fact, "the Eastern countries are accepting in varying degrees the hypothesis that" in I.C.A.s "the prospects of mutual benefit will increase with Western company sharing not only the supply of capital and technology but also in management, income and disposable rights over assets." (Holt 1976, P. 75) Their actions are in accordance with the belief which postulates that transfer of technology will be most efficient if it is accompanied with Western firms' participation in capital and management. Holt's thrust of argument is, therefore, "(t)he greater the bargaining power of the Western firm, the higher its prospects of participation in the rights of ownership; the more extensive these rights, the greater the prospect for mutual economic advantage from industrial cooperation." (Holt 1976, P. 76)

A part of Holt's study is devoted to describing factors which influence Western companies' and Eastern countries' decisions in regards to participating in I.C.A.s. The nature of transferred technology, for instance, will determine the possibility of some types of I.C.A.s. "(T)he ease with which the industrial process can be broken down for an economical division of labor and managed in separate locations or by separate managements...effects the feasibility of specialization, co-production, and subcontracting." (Holt 1976, P. 79) Holt believes the technology life cycle also plays a role in Western companies' degree of interest in I.C.A.s. Western companies prefer to transfer those technologies which are at the stage of introduction in the Eastern markets. At this stage, however,
the technology is usually widely available to the Eastern countries from other sources; therefore, the bargaining power of these countries will increase.

The size of the firm is also important. Holt cites a study which shows the larger the Western firm, the more likely it is to engage in I.C.A.s. Another study observes that the middle-size firms more engaged in licensing agreements, and the largest firms more engaged in scientific-technical cooperations.

After enumerating some other factors which he believes affect the Western firms' decisions to embrace I.C.A.s, Holt reaches an important conclusion: It is eventually the degree of each party's bargaining power which determines the allocation of costs and benefits resulting from I.C.A.s. Their bargaining power, in turn, depends on "their resources, priorities, and available alternatives." (Holt 1976, P. 84)

**Summary:**

The authors who have employed the "cost internalizing" model are interested in determining what factors influence a Western firm's decision to undertake an ICA with an Eastern European country. Although in some cases they arrive at contradictory conclusions (see, for example, Gupta and Coughlin), in most cases they are able to provide useful information about conducts of MNCs in Eastern Europe.
<table>
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| Brada (1981)                 | He distinguishes two types of technology:  
|                              | 1- Product technology  
|                              | 2- Process technology  
|                              | Firms who compete based on product technology experience the need to "internalize" the cost of transfer technology. Consequently, these firms are reluctant to transfer technology. In contrast, firms involved in process technology can transfer technology across national boundaries.                                                                                                  |
| Coughlin (1983)              | The ownership restrictions in eastern Europe prevent MNCs from seeking investment ventures there. Using Brada's (1981) argument, Coughlin argues that firms involved in "process technology" are more likely to transfer technology to Eastern Europe.                                                                                                                                 |
| Gupta (1978)                 | He down plays the importance of the majority of wholly-owned subsidiaries for MNCs because he believes these corporations are able to adapt to different situations.                                                                                                                                                                                                 |
| Artisan and Buckley (1984)   | They dismiss the importance of wholly-owned subsidiaries in the MNCs' decision as to whether or not they should invest in Eastern Europe.                                                                                                                                                                                                 |
| Peter Cory (1982)            | The MNCs' strategic option is establishing wholly- or majority owned subsidiaries. However, ICAs provide some benefits of full internalization, mainly because over time mutually dependent, intimate relations are established between the parties, "the transaction costs associated with negotiating and enforcing such agreements may decline substantially." Furthermore, eventually MNCs may attain control "through the 'exercise of influence,' rather than exclusively via the 'exercise of authority.' Consequently, the benefits of full internalizing in regards to both maintenance of control and lowering of transaction costs will be achieved. |
3.7.2. The Mathematical Model:

There are some neo-classical economists who have chosen to discuss the subject by the use of elaborate mathematical models. For instance, Brada's purpose (1977) is to demonstrate that despite the similarity in legal and organizational structures of joint ventures in Rumania, Hungary and Yugoslavia, the joint ventures in these countries "differ in terms of criteria for resource allocations, economic motivation of the participants, and the nature of economic benefits about which the partner must negotiate." (Brada 1977, P. 168)

Brada presents in the case of each of the three countries a more or less comprehensive description of joint ventures regulations. Also in each case he derives an objective function from the standpoint of each partner involved in the joint venture. Brada's purpose is to show that although both Western and Eastern partners are after maximizing their objective functions, as their objective functions differ the allocations resources will be suboptimal, and are strongly influenced by the structure of property rights as well as the extent that prices are determined by the market in the socialist country.32

Brada's model clearly demonstrates the validity of the argument presented earlier in this chapter, namely that the neo-classical theory is established at such a high level of abstraction which is institution free. Brada assumes the firms in both capitalist

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32 For a mathematical explanation of his model see appendix II.
and socialist countries are "maximizers." The capitalist firms maximize their profit, and as a result they are efficient and allocate inputs efficiently. The socialist firms, on the other hand, maximize either income per worker or their profit plus the income which they derive from the sales of inputs. Such a generalization provides models which are incapable of explaining the reality. For instance, the majority of studies which have dealt with the question of East-West I.C.A.s have counted almost every reason but maximizing profits as the motivation for East European involvement in a joint venture.33 Even some researchers such as Artisan and Buckley (1984) question and raise doubts about the generation of profit, at alone the maximization of profits, as the prime motive of the Western firms' participation in the joint ventures in Eastern Europe. Using a sample of 42 West European and North American firms, they found that 33 firms cited growth as their main objective for investment in Yugoslavia; and only 4 firms obtained higher profits in Yugoslavia than in home based operation. The majority of firms, they argue, "did not wish to forego the medium - and long-term benefits of an enlarged market solely for the purpose of shorter-term superior profits."(Brada 1977, P.165)

Jan Svejnar and Smith (1982) criticize Brada's analysis within the neo-classical framework, using the variable bargaining power model, in order to show that the behavior of joint ventures in Eastern

33 See, for example almost all the studies presented previously under section 3.7.1. of this chapter
Europe is quite similar. Their conclusions indicate that in the case of Rumania, partners jointly allocate resources so that the "marginal value of each input equals the corresponding per unit cost of input." (Svejnar and Smith 1982, P. 159) As a result their actions lead to "socially efficient allocation of resources." Consequently, they conclude "the joint venture operating in a 'Romanian type' institutional system can thus be expected to be pareto-efficient from the private point of view of the two partners as well as from the social vantage point." (Svejnar and Smith 1982, P. 159)

They also apply their model to Hungary using the same profit function presented by Brada and taking into account the new changes in the Hungarian joint ventures regulations and conclude that the allocational and distributional conditions in the "revised Hungarian model" are identical with those in the "Romanian-type-model."

Furthermore, they use their model and substitute for the profit functions presented by Brada (1977) for the Western and Eastern partners involved in a joint venture in Yugoslavia. They consequently conclude that the "resources are allocated so that the marginal value products of all non labor inputs are equated to the per unit acquisition costs of these inputs. In this respect the Yugoslav joint ventures behave like their Romanian or Hungarian counterparts." (Svejnar and Smith 1982, P. 164) Like Brada, they find out that in contrast to Rumanian and Hungarian joint ventures,

34 For a mathematical explanation of their model, please see appendix II.
the Yugoslav joint ventures equate the marginal value product of labor input to the income per worker. As a result, they argue, "the actual allocation by a given joint venture is pareto-inefficient from the social point of view." (Svejnar and Smith 1982, P. 165)

**Conclusion:** What was presented above was only a 'limited' discussion of orthodox economists' arguments. Nevertheless, even such a limited overview clearly supports the underlying theme of this chapter: The neo-classical economists' belief in the universal applicability of their theory eventually leads them to treat every country in exactly the same manner regardless of the differences in their socio-economic system. The "laws" of profit and utility maximization govern the behavior of firms and consumers in each society. If this is so, then there must be no separate laws which regulate Western trade with and investments in Eastern European countries and distinguish them from those of any capitalist country. Every country's pattern of trade is mainly determined by its factor endowment, and the changes in such patterns can mainly be explained by the "growth," in other words the changes in its factor endowment. Moreover, the Eastern European enterprises' investment decisions are induced by the same kind of incentives.

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35 This statement can be verified by Rosefield's (228) attempts to apply the Hecksher-Ohlen model to the Soviet economy. He shows that in terms of factor content the post war development of Soviet foreign trade has been by and large consistent with the shift in factor proportions in the Soviet economy over the same period. Investments in Eastern Europe are not in any way qualitatively different from those in any other country organized by a free market economic system.
which motivate the Western firms. Finally, the Western companies' direct investments in Eastern Europe are not in any way qualitatively different from those in any other country by a free market economic system.
CHAPTER IV

**Eastern European Views:**

As was discussed in Chapter two, the dependency school maintains that the economic relations between the East and West have entailed the socialist countries' conversion into a functioning part of the capitalist system. The world system approach, on the other hand, asserts that the mere existence of the world capitalist system implies the impossibility of the presence of any other economic system. The neo-classical approach in contrast to the above approaches seems to ignore the differences in the socio-economic systems of capitalist and socialist countries, and/or to believe such differences are irrelevant and play an insignificant role (as far as the basic assumptions of economic theory are concerned) in the investigation of economic relations of the East and the West. Still another position is expressed mainly by the East European economists who acknowledge the existence of two different economic systems in the world, but suggest that some form of economic coexistence between them is possible. They believe not only that East-West economic relations help to solve a number of common problems, but that progressive movements in the direction of mutually advantageous trade and cooperation between the two systems will foster forces of peace, democracy and socialism in the
world. It is the purpose of the fourth chapter of my dissertation to focus on the discussion of this final approach.

This group's views in part reflect the changes in the role of foreign trade in the Eastern European economies. Foreign trade itself in these societies is, however, only significant as part of a larger process, the process of construction of socialism. In order to get a better understanding of Eastern European economists' views, I will therefore start with a brief discussion of the evolution of this process, tracing it from the outset to the October Revolution, to the reform of the 1960s which marked the beginning of an increased interrelationship with the West.

PART ONE: GENERAL BACKGROUND

This chapter will be divided into two major parts. In the first part the historical rational for autarky will be discussed. In the process I will attempt to highlight the following points:

1. The role of foreign trade in Eastern Europe, particularly the Soviet Union was determined by changes in the material conditions of these countries. It was the interaction of both internal and external factors which led to adoption of one policy and the rejection of others. For instance, I will try to show that adoption of autarky, in contrast to popular belief, was not due to one man's choice.
Moreover, in contrast to Frank's argument, it was not mainly forced upon them by the world market capitalist economy.

2. One of the most important characteristics of the Soviet model of development was the fact that there was no attempt to direct trade according to the principle of comparative advantage.

3. The accepted principle was, and to a large extent still is, to import only when there was a shortfall in domestic production, and to export only the surplus goods which were enough to finance imports. Furthermore, these countries continue to rely minimally upon trade with capitalist countries and on Western technology.

In the second part of this chapter, I will discuss the recently emerged doctrine of openness in Eastern Europe. In the process I will attempt to show:

1. How the recently emerged philosophy explains its dissatisfaction with the autarkic model of development, and the alternative it seeks.

2. How the new doctrine views the role of Eastern Europe in the international division of labor.

Pre-Revolutionary Russia was a backward semi-feudal country. The majority of the population consisted of peasants who had been recently freed from the obligations of serfdom. In the late 1800s, as a result of government policies some industrial progress was taking place; consequently the industry grew at an average annual rate of 5.8 percent over the period 1885-1913, and the industrial working class grew to the estimated number of 2.5 million in 1913. In spite of industrial progress, Russia was, however, behind industrial countries: its industrial large-scale output was only 6.9 percent of
American gross industrial output (Nuti 1979, P. 236), and in terms of industrial output per-capita Russia ranked with the poor Western European countries. (Gregory & Stuart 1981, P. 18)

In regard to foreign trade Russia was an exporter of raw and agricultural products and an importer of manufactured goods. More than fifty percent of Russia's total exports was of cereals and other food stuffs. The imports of manufactured goods were so important for Russia that it continued to import from Germany even during the First World War, explicitly exempting imports of such products as chemicals, metals and machinery from the general prohibition of trade with enemy countries. (Dobb 1978, P. 37)

Russia was also an importer of capital from the West. It imported on the average an annual amount of 200 million roubles in the two decades prior to the First World War. The total foreign capital invested in Russian industry before the Revolution is estimated at more than 2 billion gold roubles, and a further 5 billion in state and municipal and state-guaranteed loans. (Dobb 1978, P. 38) Foreign capital accounted for 40 percent of industrial investment, and 15-20 percent of total investment at the end of the Tsarist era. (Gregory & Stuart 1981, P. 32)

The Weakness of Russia's industries and agriculture and its "dependence" on the foreign sector were not the sole difficulties faced by the Revolutionary government which took power in 1917. The country was devastated by the war, and the start of civil war and the capitalist powers, aggression intensified the extent of havoc. The Soviet leadership's first step was to strengthen and stabilize its political position and to rebuild the economy to its pre-war levels.
Once this step had been accomplished, the government had to strive with the dual tasks of "economic development" and socialist construction." (Doane, Jr. 1983, and Ellman 1968) To complete these tasks the Soviet leadership not only had no model to emulate, but also had limited options to pursue. The Soviet leadership's ideology prevented the Soviets from accumulating capital through colonial exploitation, foreign investments, or military conquests. Moreover, the repudiation of Tsarist foreign debts diminished, if not completely destroyed the chance of the new government's obtaining any new loans. Most importantly, the anticipated revolution in the industrial capitalist nations of Western Europe did not take place. It was expected that if the revolution had come true it would have provided an important source of economic and technological assistance to the Soviet economy.

4.1. Prelude to Autarky as Model for the Foreign Trade:

On April 22, 1918, less than six months after accession to power, the Soviet government declared the nationalization of all foreign trade. This was the first time that in peace time, a modern state had sought to expand its control over foreign trade to such a great extent. Whereas previously governments had limited their intervention in foreign trade to imposing tariffs and enforcing prohibitions, now the Soviet government was assuming the task of conducting all imports and exports by itself. The fundamental reason for the Soviet government's nationalization of foreign trade was the fear that unrestricted and uncontrolled foreign capital might prevent them from "constructing" a socialist economy. (Quigley 1974, P. 34)
The monopoly of foreign trade must not be taken as synonymous with aversion to foreign trade. In fact, Lenin seized every opportunity to argue for the importance of foreign trade in rebuilding the war torn economy, as well as for the development of the productive forces and consequently achieving economic independence:

our economic crisis is so deep that we cannot, on our own, rehabilitate our ruined economy without machinery and technical aid from abroad. (Lenin 1977a, P. 182)

It was the extent of the crisis that made him willing to offer granting very important concessions to the West.

The calamities and havoc of the Seven-year War and the overstrain due to the virtually superhuman exertion on the part of working class . . . have now so aggravated that they demand urgent measures on the part of the Soviet power. (Lenin 1977a, P. 268)

Among such measures are:

We could grant concessions to the biggest imperialist trusts on a wider basis: say a quarter of Baku, . . and a quarter of our best forest reserves . . . in return for this we shall be getting badly needed machinery . . . (Lenin 1977a, P. 183)

We are proposing maximum concessions, and we believe it to be in our interests to sign a trade pact and purchase with all possible dispatch some of the essentials for the restoration of the railways (i.e., locomotives), for the rehabilitation of industry, and for electrification. (Lenin 1977b, P. 473)

I know no reason why a socialist commonwealth like ours cannot do business indefinitely with capitalist countries. We do not mind taking their locomotives and farming machinery, so why should they mind taking our socialist wheat, flax and plantinum? We have reiterated and reiterated our desire for peace, our need for peace and our desires to give foreign
capital the most generous concessions and guarantees. (Lenin 1977c, P. 177)

Lenin also considered the importance of foreign trade for economic development which is the precondition for achieving economic independence:

Through trade with Italy, America . . . you must exert every effort to develop the productive forces. (Lenin 1977a, 317)

Our aim now is to obtain trade agreement with Britain so as to start regular trade and be able to buy as soon as possible the machinery necessary for our extensive plan to rehabilitate the national economy. The sooner we do this the greater will be the basis ensuring our economic independence of the capitalist countries. (Lenin 1977b, P. 472)

4.1.1. The Concession Policy:

The concession policy, therefore, became the first attempt by the Soviet government to attract foreign capital and technology. There were different types of cooperation with foreign enterprises under the concession policy. In one form of cooperation, the Soviet government leased the enterprise to the foreign interest, and shared the profit. The enterprise was run by the concessionaire. Every aspect of the enterprises' activities--production, employment, trade--was regulated by contracts. The enterprise was committed by contracts to restore the idle equipment and provide the enterprise with the most advanced technology. The amount to be invested, the production specifications and the project's deadline were all stipulated by the contract. In this form of cooperation the priority was given to the former owners of the enterprises. The most
significant of the concessions given to the former owner was the one to the British Lena Goldfields that had run thirteen plants on a vast territory, and when liquidated, its wealth was estimated at $89 million. It employed almost 12,000 people, yielded 30% of the Soviet gold output, and had an even greater share in Soviet silver in 1925-26. (Koves 1976, P. 160)

Another form of cooperation was the establishment of mixed companies, in which the Soviet government held 50 percent of the shares, and directly participated in running the company. The mixed companies were primarily created in the fields of foreign trade, timber production and transportation.

Yet the significance of such cooperations in the development of factors of production was only limited. In 1928, for example, when the number of these cooperative ventures reached their peak, only 110 existed. In the same year these enterprises employed 20 thousand people and produced only 6 percent of the total industrial output. (Koves 1976, P. 162) There are several reasons cited for the lack of Western firms' interest in participation in concession agreements with the Soviet government; among them are: the uncertainty about the internal conditions of the Soviet Union, the Western propaganda against the concessions and later, in the 30s, the unfavorable effects of the Great Depression. Internally the concessions policy also faced strong opposition, partly because from the political and ideological point of view it was not yet decided whether such forms of cooperation with the industrialized West were acceptable. Moreover, the intensity of dispute was enhanced by the
specific form of concessions, in particular the aspect of concession policy calling for the cooperation with the pre-revolutionary owners.

Notwithstanding, in 1928 a comprehensive concession program was elaborated, predicting the probability of 80 million roubles of foreign investment annually. The program hoped to attract foreign capital into the branches of the industry in which the Soviet government could not afford to invest; and it hoped to involve foreign capital in "reconstruction, replacement and modernization" of state enterprises. This program was not implemented, and during the first five-year plan period the concessions virtually ceased to exist; by then, offering the concessions became more and more undesirable both politically and economically. Under the condition of a planned economy in which the intention is to "concentrate all detectable resources on the creation of new plants, and to control the investments and the whole production by means of direct instructions, concessions appeared to be intolerable foreign bodies." (Koves 1976, P. 163)

4.1.2. Controversy Over State Monopoly of Foreign Trade:

Despite the state monopoly of foreign trade, in practice during the period of war communism (1918-1921) a considerable amount of foreign trade was conducted through non-governmental channels. (Nuti 1979) And indeed by the beginning of the New Economic

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1 Some foreign firms were involved in technical assistance contracts. Under this arrangement a foreign firm made no permanent investment, but provided technical expertise for a fixed fee. For more information on the activities of the foreign firms in the Soviet Union at that period, please see (McKay 1974).
Policy (NEP 1921-1928) many leading party and government figures questioned the necessity of retaining the monopoly of foreign trade itself. The principle contention of those who attacked the government monopoly of trade was that the state agency responsible for conducting the foreign trade (i.e. the People's Commissariat of Foreign Trade) was incapable of successfully performing its tasks. Bukharin, for example, argued:

neither Lenin nor Krasin says a word about the incalculable losses that are borne by the economy of the country as a consequence of the inefficiency of the People's Commissariat of Foreign Trade, due to the principles on which it is organized; they do not say a word about the losses incurred because we ourselves are unable (and will not be able for a long time for quite understandable reasons) to mobilize the peasant's stock of goods and use them for international trade. (Quoted in Lenin 1976, P. 455)

Bukharin's opposition to the monopoly of foreign trade, therefore, stemmed from his belief in the monopoly system's inability to effectively encourage the peasants to produce and sell for exports. Considering the unavailability and high cost of consumer items in Russia itself, "only the lure of cheaper foreign consumer goods offered by private traders could stimulate the peasant to improve his production and to market goods in large quantity." (Quigley 1974, P. P. 29-30)

Lenin, while advocating the monopoly of foreign trade, was the first to admit its inefficiency. But such deficiency for him was of secondary importance.

The question of the inefficiency of the people's Commissariat of Foreign Trade is only a minor one. For this inefficiency is only
part and parcel of the inefficiency of all our People's Commissariats, and is due to their general social structure; to remedy this we shall require many years of persistent effort to improve education and to raise the general standard. (Lenin 1976, P. 455-56)

The fundamental reason for maintaining monopoly of foreign trade in Lenin's mind remained the same as when he in 1918 decreed such monopoly: to protect the country from the imperialism of Western powers. (Quigley 1974, P. 30)

In the epoch of imperialism when there are monstrous contrasts between pauper countries and immensely rich countries . . . the only system of protection worthy of consideration is the monopoly of foreign trade. (Lenin 1976, P. 457)

Lenin at the same time believed that the problem of inefficiency of the Foreign Trade Commissariat could and would be resolved. One of the remedies he suggested was:

learning from foreign traders participating in the mixed companies. The system of mixed companies is the only system that can really improve the poor staff of the People's Commissariat of Foreign Trade, since under this system foreign and Russian merchants work alongside each other." (cited in Quigley 1974, P. 31)

The opposition to the foreign trade monopoly continued through the remainder of the decade. Although such opposition was not successful in abolishing the monopoly, it did force important concessions. As a result of these concessions, a number of agencies outside the People's Commissariat of Foreign Trade were allowed to engage in direct foreign trade.  

Quigley (1974) attributes the establishment of mixed companies in the field of foreign trade to the insistence of anti-Foreign Trade Monopoly forces.
citizens and companies, cooperatives, foreign citizens, mixed companies and state-owned agencies.

It was stipulated that a Russian private citizen who owned or leased an enterprise could under exceptional cases apply for a license to import items necessary for his enterprise's production, or export goods that the government was particularly anxious to sell abroad. (Quigley 1974, P. 34) Another channel through which private Russian citizens were permitted to become involved (although indirectly) in foreign trade was by allowing them to deal with concession firms inside Russia. (Quiqley 1974, P. 35) Another major achievement of the opposition was forcing the government to grant admittance to a large number of state agencies to get involved in foreign trade activities.

4.1.3. Volume and Structure of Foreign Trade 1917-1928:

Soviet foreign trade almost ceased in 1918 and 1919 and was still very small in 1920-21. The economic recovery commenced in 1921, at the beginning of the NEP period, and was accompanied by the growth of foreign trade. Foreign trade grew sharply during the NEP; it however never reached its 1913 level. By 1927, exports (in 1913 prices) had risen to only 34.7% and imports to 38.9% of their 1913 level. (Holzman 1963, P. 286)

Throughout the period imports increased more rapidly than exports, and the country was faced with large balance of payments deficits.3 Holzman (1963) argues that the Soviets would have

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3 Except for the years 1923, 24 and 26 which showed small surpluses. (Holzman 1963, p. 86)
imported even more to speed the country’s reconstruction, but their efforts were hampered by their inability to increase exports more rapidly than imports and/or to obtain long-term credits. Their deficits were financed by exports of gold and other precious metals and by short-term credits obtained on difficult terms. (Holzman 1963, P. 287)

The inability of government to increase the exports was mainly due to the structure of landholding in the Soviet Union during the NEP period. In this period the small peasant farms replaced the large state, nobility, and church estates of the pre-revolutionary era. These estates were previously the main producers of the grain surpluses for exports. Furthermore, the Soviet government was unable to induce peasants to produce and more importantly to market grain at the pre-war level, mainly because manufactured goods were scarce, and also because the peasants could easily substitute homemade manufactures, when the government's manufactured products were not offered at sufficiently low prices. Although grain remained the number one export, it never reached its pre-war level, and the chronic shortage of grain and other agricultural products repeatedly disrupted the government's plan to increase export. (Furtado 1966, Dohan 1976, and Quigley 1974) The Foreign Trade Commissariat's problems were aggravated by the fact that the domestic prices of such important export items as timber, flax and grain often exceeded world prices. The government, nevertheless, continued to export, selling abroad at a loss, because the primary goal was to import items needed for reconstruction and not to make a profit. (Quigley 1974, P. 46)
However, the chronic balance of payment problems eventually forced the Soviet government to cut back on imports. The biggest cutbacks happened on the consumer goods items, and the imports of many industrial outputs also were curtailed. Yet the imports of industrial output crucial to the reconstruction and development of the economy increased and surpassed the pre-war levels. (Holzman 1963, P. 287)

The decade of the thirties brought important changes in the Soviet economic model of development as well as its foreign trade policy and institutions.

4.2. Autarky as the Model of Foreign Trade:

A hallmark of Soviet economic development over the years has been the emphasis on self-sufficiency. Self-sufficiency became prominent during the 1930s, when foreign trade became negligible, and it continued into the 1950s. As Holzman (1979) argues, the desire for self-sufficiency exists in all nations to some extent, partly because of the reasons of military security, partly due to economic consideration—i.e. to achieve self-sufficiency in those commodities produced at a comparative disadvantage.4 It seems, however, the

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4 Holzman (1979, p. 263) argues such desire is stronger in the centralized economies and is intensified by the following reasons: first, because of complicated inout-output interrelationships among intermediate products, central planners try to avoid dependence on foreign suppliers and insulate the economy from the vagaries of the world market. Second, the irrational price system of these economies often makes it difficult for planners to decide what to trade.
adoption of autarky as the model of foreign trade by the Soviet government was motivated by more complicated factors.

4.2.1. The First-Five Year Plan (1928-33):

In 1928 the Soviet planners drafted the first five-year plan (1928-33). One of the basic goals of the plan was the expansion of the foreign trade; exports were projected to increase 21% every year, imports were also to be expanded rapidly, especially machinery imports called for by import substitution policy. Imports became a vehicle for industrialization of the country and achievement of economic independence. In the words of a Soviet scholar

Imports into the USSR are planned so as to aid in quickly freeing the nation from the need to import... [and] in the execution of the plan for socialist industrialization [it is necessary to] import the most finished equipment and newest machines... for the organization of our own production of these very machines, to secure our technical-economic independence from capitalist nations (cited in Holzman 1963, P. 302)

Moreover, the plan projected an annual trade surplus in order to replenish depleted reserves. The planners furthermore attempted to change the structure of exports and to rely particularly on the exports of industrial raw materials such as timber, oil and manganese in the first three years of the plan. Such a move was felt to be necessary because grain, the traditional export item, had proved to be unreliable during the NEP. The government, however, planned to increase grain exports in the fifth year of the plan, on the expectation of increased output and marketing of a modest number
Throughout the plan there was no indication that the foreign trade would be cut back or discontinued after the completion of the plan. In fact it was a combination of several external and internal factors which led to an extensive cutback in the foreign trade by the end of the plan period. This contention that foreign trade was cut back because of economic forces is in contrast to the popular belief that Stalin deliberately pushed for the adoption of autarky. It is true that, in the XIVth Party Congress in 1925, Stalin said that the Soviet Union "today can't help" but to import machinery; such a necessity, he added, should not be interpreted as "a principle, theory, or development perspective." According to Stalin, imports were at that time essential in assisting the Soviet Union to move rapidly from the stage of development in which it "must import equipment and machines instead of manufacturing them" on its own. (cited in Koves 1976, P. 171) His formulation, which can be well interpreted as advocacy of the policy of import-substitution industrialization in the hope of achieving economic independence, ten years later became a theoretical base for the adoption of autarky.

There is no doubt that the realization of "economic independence" was the goal of the planners in drafting the first five-year plan. However, the planners never meant economic independence to imply a complete isolation from the outside world:

5 Except in a few cases, the increase in the domestic output permitted such a cutback or cessation, such as cotton, zinc, paper and yarn. (Dohan 1976, p. 612)
In the field of international relations we must not start from the empty slogan to develop these relations in the widest range (a consistent application of this slogan issued by the opposition would mean the end of foreign trade monopoly, as well as economic and military capitulation before the international bourgeoisie), nor from the slogan to cut the economic relations with the Capitalist world (which, if implemented, would mean a strong retardation of the rate of our economic development in general). In this field we must start from having the widest ranging relations provided that these relations (foreign trade, foreign credits, extending concessions, drawing in foreign engineers and technicians, etc.) increase the economic power of the Soviet Union, make it increasingly independent of the capitalist world, expand the socialist bases for further developing the Soviet industries; widest ranging relations may exist only within these frameworks. (quoted in Koves 1976, P. 171)

Foreign firms, in fact, continued to be active and play a role in construction and operation of new capacity associated with the five-year plan. For example, Freyn Engineering Company of Chicago, according to McKay (1974), directed all aspects of construction of the Kuznetzk steel plant, and Arthur G. McKee and Company of Cleveland directed the Magnitogorsk steel plant. The autarky, then, as will be shown was not pursued as a result of one person's wishes; it was rather a pragmatic response to the balance of payments crisis. The alternative would have been, as Dohan (1976) suggests, the reduction of "investment and output programs to a level appropriate to import capacity until the export position improved." (Dohan 1976, P. 633) This policy, if it had been adopted, would have postponed the achievement of the highly desirable goal of "realization of economic independence" to the unforeseeable future.
The period of the first five-year plan was a troubled time for Soviet foreign trade. The Great Depression in the West had an adverse effect on the Soviet international terms of trade mainly because the world price of Soviet exports fell more than the price of Soviet imports. According to Holzman (1963), the index of the prices of Soviet exports fell from 100 in 1929 to 48.7 in 1932, while the prices of its imports declined from 100 in 1929 to 68 in 1932. Despite such adverse developments, the Soviet volume of trade increased tremendously in the same period. According to Holzman (1963), the volume of exports increased 46 percent, and the volume of imports 61.5 percent, from 1929 to 1931. As a result, trade deficits were incurred in every year from 1928 to 1932, except in 1929 when there was a small surplus. These deficits were financed in part by shipments of gold and other previous metals but primarily by high-cost short-term credits and some long-term credits. (Holzman 1963, P. 290)

In response to the unpredicted large trade deficits, the original plans for 1930 and 1931 were abandoned, imports for light industry and consumer goods were cut sharply, and the government initiated another campaign to economize on imports: to attempt to meet most essential machinery needs domestically. This campaign turned out to be ineffective, and the imports continued to grow faster than exports and led to even further depletion of foreign exchange reserves and accumulation of even more short-term foreign credits.

The Great Depression had another adverse effect on Soviet foreign trade. The Depression-hit capitalist countries, in order to protect home industries, sought to reduce imports through imposition
of high tariffs and other trade barriers. The Soviet government, desperate for foreign exchange, nevertheless, continued to expand the exports, regardless of exports' prices. Consequently a vigorous campaign was waged in many Western countries against the Soviet "dumping policy" which induced the imposition of discriminatory tariffs, quotas and other restrictions against Soviet products. (Dohan 1976 and Quigley 1974) Although the outcry against Soviet "dumping policy" diminished by the summer of 1931, the general efforts of the capitalist countries to protect themselves from the widening Depression suffocated the policy of free trade and replaced it with "protective trade." As a result, the policies which a couple of months before had been merely discriminatory measures against Soviet products became Western countries' general trade policies, and by the end of 1931, Soviet products like any other nation's became thoroughly "enmeshed in general trade barriers that not only depressed export volume and prices, but also began to force the USSR toward bilateralism, which was to characterize its trade in the post World War II years." 6 (Dohan 1976, P. 622)

Another adverse development for Soviet foreign trade in late 1931 and 1932 was the decreased availability of credit. The Western creditors began to refuse to grant new credits to the Soviet government and requested at least the partial liquidation of outstanding debt. Borrowing in the international market played an important role in financing Soviet imports from 1928 up to 1931.

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6 Dohan (1976) believes the Soviet economists of the time were correct in arguing that the capitalist countries were moving toward autarky.
The Great Depression made access to foreign credits easier for the Soviet Union, and in 1931 about 25 percent of imports was financed by net increase in borrowing. In addition, as a large portion of exports increasingly became committed to retiring the existing short-term credits, the "imports had become very vulnerable to any decline in credit supply." Such vulnerability, according to Dohan, (1976) was a significant factor in reduction of imports after 1931, especially after Germany and other Western creditors discouraged new credits to the Soviet Union. (Dohan 1976, P.P. 624-626)

These major adverse international developments were not the only obstacles to the maintenance of Soviet foreign trade at the desired levels; there were also some domestic factors which spurred the cut back in foreign trade after 1931. One of the most important internal contributing factors was collectivization. Collectivization, some believed, depressed the output of agricultural outputs for exports, and unpredictably increased the imports for the agricultural sector. On the exports side Quigley, (1974, P. 61) for example, believes that peasants who were "forced into collective farms protested by slaughtering livestock and poultry, thereby

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7 The Soviet debt in October of 1931 was about 811 million roubles. Dohan (Ibid.) adds to the figure the amount of credits secured by the Soviet exports warehoused abroad and its future liabilities for machinery on order, and reaches the total real and contingent liabilities for the Soviet Union as about 1400 million roubles. He concludes with long-term credits and good prospects for refinancing. This would not have been a problem, but such was not the position of the Soviet Union.

8 Another effect of the Soviets' increasing dependence on credits was that they ended up purchasing only from a limited number of foreign suppliers, especially Germans, who were willing to supply credit. These suppliers were able to take advantage of their positions and charge higher prices on Soviet orders.
complicating considerably the procurement of eggs and butter, two important export commodities." Considering that the exports of animal products were 16% of total exports in 1927/28 and they were expected at least to double by 1932/33, the slaughter must have had a devastating effect on the export earnings. (Dohan 1976, P. 619) The slaughter of horses and oxen had another adverse effect as far as exports are concerned, because they led in part to a sudden mechanization of agriculture. The mechanization, in turn, implied diverting the petroleum products from the export market to the agricultural sector in order to meet its increasing needs for fuel. On the imports side, the sudden loss of draft power meant an unanticipated increase in imports of tractors and other heavy equipment. Added to these problems were the massive crop failures of 1931, 1932 and 1933 which worsened the export crisis of the agricultural outputs.

In addition, the overambitious plans are also cited as another factor which intensified the balance of payments crisis, mainly because planners turned to imports in order to cover the inevitable shortages due to the underfulfillment of the plans.

To ease the foreign trade crisis, by late 1931 the Soviet government undertook an extensive campaign in order to find ways to reduce or totally eliminate imports of raw materials and machineries. As a result the Soviets began a reduction of imports, production of domestic versions of the imported machineries, and redesigning products to eliminate the imports. The first step toward establishment of the "autarkic" model of development was taken. The character of the measures adopted can be illustrated by a
directive addressed to the People's Commissariat of Heavy Industry in early 1932:

To stop and to prohibit henceforth the import of the following kinds of equipment for which orders to the value of 21 million gold rubles were to be placed in the course of the next fortnight within the country: transformers, all types of trucks and railway engines, motor vehicles, cranes, internal combustion engines, generators and spares for any equipment already imported. (Cited in Koves 1976, P. 172)

The government did not intend the adoption of such policies at the time of their initiation to be a complete isolation from the outside world; they hoped such policies would assure the economic growth and defense of the country. In the words of a Soviet scholar at that time:

Economic independence means that the most important branches of the national economy are assured domestic raw materials and installations in a degree which makes them independent from individual nations of the capitalist world . . . But industrialization is, of course, not designed to reduce imports in general, and imports of machinery and installation in particular. The extent of the imports of USSR . . . will be determined by what and under what conditions one will sell to us. (cited in Dohan 1976, P.P. 633-634)

The "anti-import" policies were therefore praised because they helped to achieve economic independence.

The initiation of autarky as the model of foreign trade spurred the reinforcement of the government monopoly of foreign trade. All private citizens, mixed companies and non-commissariate state organizations once again were banned from conducting direct foreign trade. (Quigley 1974, P. 62) And the adoption of centralized
economic planning put an end to the debate over the desirability of government monopoly of foreign trade.

4.2.2. The Reinforcement of the Autarky:

By the end of the first five-year plan, there were many factors at work which prevented increases in Soviet foreign trade. As far as the capitalist countries were concerned, their attitudes toward the Soviet Union and trade in general remained the same. Domestically, however, the huge imports of machineries and large investment in the basic plant and equipment of the first-five year plan period made the Soviet Union more independent of the other countries. According to Holzman "without question, the Soviet Union could in 1933 come much closer than ever before to satisfy its requirements in areas considered important by the planners." (Holzman 1963, P. 304) Therefore, the Soviet Union's ability to produce most of its strategic requirements internally was an important factor in their unwillingness to expand their foreign trade, especially under the conditions when terms of trade were still very disadvantageous to the Soviet Union. "Having satisfied their most urgent needs for machinery and equipment, it seems most reasonable for the Soviet Union to have decided that the costs, in terms of export, of many less urgently needed imports had become too high." (Holzmann 1963, P. 305) Moreover, the Soviet government's desire to end food rationing and improve domestic food consumption increased the pressure to cut exports of agricultural products.
There were other factors at work which made the contraction of foreign trade desirable. For example, putting less emphasis on foreign trade was advantageous from the perspective of central planning. Because foreign trade is less amenable to prediction and control, its reduction minimized the possibility of the disturbance of the national economic plan. (Doane, Jr. 1983) Furthermore, the campaign for the reduction of imports, which had been adopted as a pragmatic response to the balance of payments crisis, now became a virtue.

Consequently the role of foreign trade was reduced to marginal importance. The country imported only when there was a shortfall in domestic production, and exported only the surplus of goods which were enough to finance the imports. In the words of a Soviet scholar at that time:

The basic task of Soviet exports . . . to earn foreign exchange to finance expenditures on imports and to accumulate the foreign exchange reserves of the country . . . the USSR exports its goods only in order to pay for a comparatively small quantity of imported goods which are necessary for the speedy execution of the national economic plans. Therefore, the dynamics of the quantity of exports is defined by the plan which is constructed in connection with the planned volume of imports. (cited in Holzman 1963, P. 362)

In practice, however, at times the import requirements proved to be higher than expected, and the exportable commodities had to be created either by reducing domestic consumption (Koves, P. 114) or by planning for export production. (Holzman 1976, P. 33) The most salient feature of the Soviet model remained the fact that there was no attempt to specialize and direct the foreign trade based on
the principle of comparative advantage. And the volumes of exports and imports continued to decline. By one index they only reached their 1913 levels in the 1950s.9

4.2.3. World War II and its Aftermath:

Among the important foreign economic developments during the war years was the lend-lease shipments from the United States to the Soviet Union in the amount of $10.8 billion. These shipments, according to Koves (Koves 1977), were not restricted to military equipment but also served to aid the continuous operation of Soviet industries, in particular heavy industry, as well as to help the "reconstruction of destroyed factories." However, the reemergence of the economic relations with the West did not last long and the Cold War brought a universal Western system of prohibitions and restrictions of trade with the Soviet Union.

Nevertheless, in the post 1945 era the economic and political isolation of the Soviet Union came to an end by the addition of the Eastern European countries to the ranks of socialist countries. The Soviet Union started to import what it needed from these countries. The East European countries, along with the Soviet Union followed the same economic concepts which had dominated Soviet foreign trade policy since 1931: that is they would rely only marginally on

9 Based on this index (1913=100) the volume of exports started to decline in 1933 and continued to decline until 1945 and since then has been steadily growing. The volume of imports, on the other hand, fluctuated widely between 1933 and 1945; it reached its highest level in 1948 and its lowest in 1943, and it has grown since the end of World War II. (see Gregory & Stuart 1981, p. 267)
trade with capitalist countries, on Western technology, and would take into account the effects of economic ties with the West in the solution of the economic problems of growth only to a minor extent. (Koves 1977) Moreover, these countries had attempted to industrialize as rapidly as possible as had the Soviet Union, in the hope that each would achieve self-sufficiency. In Holzman's words, these countries consequently sacrificed "mutually profitable trade based on comparative advantages" in the "pursuit of a higher degree of self-sufficiency." (Holzman 1963, P. 308) In addition, the Eastern European countries, like the Soviet Union, considered exports as "necessary evil" in order to cover the shortfall in domestic production (Doane Jr. 1983), or/and pursue the policy of import substitution. (Brown & Marer 1973) Such a policy extended, according to Holzman (1963), to even the trade relations among these countries themselves.10 In any event, the emergence of Eastern Europe as socialistic countries led Stalin in 1951 to expound the theory of emergence of two opposed, parallel world markets.

It should be observed that the U.S.A., and Great Britain and France, themselves contributed—without themselves desiring it . . . to the formation and consolidation of the new, Parallel World Market. They imposed an economic blockade on the U.S.S.R., China and the European people's democracies . . . thinking thereby to strangle them. The effect, however, was

10 In terms of foreign trade the economic relations among these countries are of major importance. However, the manner that the trade among these countries takes place in is a manner qualitatively different from that between the socialist and the capitalist countries, or among the capitalist countries themselves, and it is a subject which is beyond the discussion of this dissertation. Among the recent studies which deal extensively with such trade relation is that of M. Herald. (1985)
not to strangle, but to strengthen the new world market. (Stalin 1971, P. 566)

In Stalin's view the most significant aspect of the "socialist world market" was that it would result in "a fast pace of industrial development in these countries. It may be

confidently said that, with this pace of industrial development, it will soon come to pass that these countries will not only be in no need of imports from capitalist countries, but will themselves feel the necessity of finding an outside market for their surplus products. (Stalin 1971, P. 566)

Furthermore, the existence of the "socialist world market," according to Stalin, would imply the loss of opportunity for the Western countries, to sell in this market.

... that [capitalist countries'] opportunities for sale in the world market will deteriorate, and that their industries will be operating more and more below capacity.... This is felt by the capitalist themselves, for it would be difficult for them not to feel the loss of such markets as U.S.S.R. and China. (Stalin 1971, P. 566)

In contrast to Stalin's belief, Soviet trade with the industrialized Western countries as a portion of total Soviet foreign trade started to increase in the 1960s and it reached roughly 40% in 1978. (Gregory & Stuart 1981, P. 272) Indeed, during the 1960s, East-West trade increased more rapidly than the intra-socialist trade, albeit from a smaller percentage base. While the socialist countries continued to trade with each other and the level of their trade remained low, the first sign of a new development had emerged: the participation of the socialist countries in the international division of labor, (Holzman 1974, P.P. 127-129, Doane Jr., p. 9) and by 1978 the volume of East-West trade exceeded $60b. (NYiri 1982, P. 21)
One corollary of the increased East-West trade was a change in the perception of the role of foreign trade in socialist countries. While the autarkic model of development viewed imports to be significant as long as they cover the shortfall in the domestic production, the recently emergent philosophy stresses participation in the international division of labor and promotes the "outward looking" model of development, which seeks to increase the imports of Western technology in order to enhance the level of productivity and efficiency of production. Some even argue the economic development must be geared into specialization in production of new products for export to the Western countries (export oriented development).

I will devote the rest of the chapter to establishing how the recently emerged philosophy in Eastern Europe views the following matters:¹¹

1. The genesis of the "outward looking" model of development, and its implication for the construction of socialism.

2. The role of Eastern Europe in the international division of labor.

I will demonstrate that this approach holds that the autarky was a condition mainly forced on socialist countries by an

¹¹ I realize that my survey will be limited in extent, because I will concentrate only on those studies which are available in English. However, I believe there is an adequate amount of study available to enable one to get an accurate picture of the entire literature. Acta Oeconomica and Problems of Economics are among the best sources, one published by Hungary, the other by USSR. International Affairs (Moscow) and Current Digest of Soviet Press can be used for such purposes. In any event, the rest of this chapter will be entirely based on the Eastern European sources.
environment hostile to the Soviet Union and later to the rest of Eastern Europe, a view similar to that of dependency schools. This view contends that the autarkic model of development was successful in amassing the domestic resources, rebuilding the war torn economies and achieving the desired industrial transformation. It proved, however, to have some limitations in particular for the smaller Eastern European countries. These limitations, along with the shortage of labor and raw materials and rising capital output ratios, suggested the need for a transition from extensive growth (i.e. via increases in scale) to intensive growth (i.e. via modernization and increases in productivity) based on imports. On the other hand, the Western governments finally realized the failure of the Cold War and the economic blockade of Eastern Europe. Such realization led to the creation of the political context of détente, which facilitated the implementation of the "outward" looking model of development.

With regard to the place of the Eastern European countries in the international division of labor, it is argued that these countries occupy an intermediate position. Their economic relations with the advanced capitalist countries resemble those of center and periphery. (Nyiri 1982, and Eckstein 1980) This resemblance, however, does not mean that advanced capitalist countries exploit Eastern European countries: it rather implies establishment of a mutually advantageous relationship. In regard to their economic dealing with the LDCs, it is argued that although at the surface the Eastern European countries may resemble DCs in their relations with the LDCs, in fact Eastern European economic relations with LDCs "will
serve the socio-economic progress of people liberated from the colonial yoke." (Smith 1979, P. 310)

PART TWO: THE NEW APPROACH TOWARDS FOREIGN TRADE

The principle premise of the Eastern European economists' views in regard to the role of foreign trade is that it is indispensable for the economic development of any given country, mainly because:

Nowadays individual countries--and even whole groups of countries--can no longer grapple successfully with world-wide problems such as those connected with raw materials and power supplies. Alone and unaided, they are not in a position to eliminate the more dangerous and widespread diseases, ensure supplies of foodstuffs ... and exploit resources of the seas ... For this reason, economic links and a division of labor at the international level are assuming increasing importance for individual countries, irrespective of their stage of economic development. (Shiryaev and Sokolov 1979, P 289)

12 By the Eastern European economists, I also mean those Soviet economists who adhere to the new paradigm. Therefore, "Eastern Europe" henceforth includes the Soviet Union.
There are other factors at work which make development of even the wealthiest countries without foreign trade virtually impossible: "the assortment of goods produced is so diversified while the range of social needs is so wide, that a single economy cannot produce by itself all the goods indispensable for the normal functioning of society." (Rosati 1979, P. 53) Some of these economists even go further and in accordance with the theory of comparative advantage argue: the "production for the world market taken in the widest sense may result in considerable advantages for any country, independently of its size. Buying abroad goods which cannot at all or only too expensively be produced domestically will earn the biggest profits for a national economy if it is accompanied by the export of goods that can be produced with significant advantages in that national economy." (Koves 1979, P. 325 emphasis added)

In addition, the countries are different in terms of their productive resources "including [their] natural resources, climate conditions, and classical factors such as labor and capital," which intensify the need to participate in the international division of labor. (Koves 1979, P. 53) Moreover, such participation will resolve the "economic problems of raising the efficiency of production," (Goldian 1984, P. 3) and "promotes the acceleration of technical progress." (Klochek 1979, P. 10) The importance of such participation is further enhanced, when one considers it from a political point of view: the "development of economic cooperation between East and West is not merely an economic interest for the partner-countries, but also an important factor of peaceful coexistence." (Kador 1977, P. 153) The
policy of peaceful co-existence or "the course towards the easing of international tensions," is believed to be "inseparably linked with the expansion of mutually beneficial cooperation . . . among countries with different social systems." (Bogomolov 1979, P. 305) According to these economists, the importance of East-West cooperation was predicted and stressed by Lenin also. For example, Lenin declared that "[t]here is a power that is greater than the desire, will, and resolve of any of the hostile governments or classes. This power is common worldwide economic relations that compel them to enter into [economic relations] with us." (quoted in Bogomolov & Dostal 1974, P. 56) He also stated that the "[e]conomic need will itself point the way . . . the development of regular trade relations between the Soviet Republic and the rest of the capitalist world must inevitably continue." (quoted in Goldian 1984, P. 11)

4.3. Autarky and its Achievements:

In the light of the Eastern European economists' attribution of such important roles to the economic relations between East and West, one may wonder how do they explain the adoption of "autarky" in the Soviet Union and later on in the rest of the Eastern European countries. The most frequently cited reason for the Soviet Union's adoption of the policy of 'autarky' is the Western powers' trade blockade and economic embargo.13

13 D. Rosati (1979) believes along with the capitalist countries' pressures, other factors were also responsible for the decreases in the Soviet Union's foreign trade. Such decreases in the years 1930-39, according to Rosati, were "the result of the acceptance of a set of views concerning the independence of the Soviet economy from the world capitalist market." (Ibid., p. 52-53)
For many years the predominant view held in the socialist countries on the role of foreign trade in socialism was that the sole purpose of foreign trade was to satisfy needs which cannot be supplied by domestic production; and exports should develop only as far as is necessary to cover import necessities. This view was the product of a period when, between the two World Wars, the capitalist countries tried to isolate the economy of the Soviet Union totally by imposing an economic blockade. . . . (Szita 1974, P. 282, emphasis added)

the imperialist powers, according to Klockek (1979), at first militarily intervened against the Soviet Union and refused to establish any economic contact with the young Soviet Republic, and later on through their economic blockade tried to impede the growth of the Soviet Union's foreign trade. Nevertheless he argues that the Soviet Union "has always resolutely opposed the concept of autarkic development and proceeds from the need for the broad, mutually advantageous cooperation of countries in the realm of economic, trade, science and technology." (Klockek1979, P. 18 emphasis added)

According to Koves, (1981) another explanation seems to stem from the Western capitalist countries' economic conditions at that time. The world economy of the thirties, Koves believes, was characterized by "disintegration, slow technological and economic development," and the existence of the capitalist system itself was in jeopardy. Therefore, the price to be paid by the Soviet Union for not trading was not really so high.

It is, then, generally conceived that the policies of the Western powers forced the Soviet Union to embrace autarky. "It had been the political tension that made the Soviet Union and other countries to withdraw into themselves and that had not allowed them to progress
toward a widening cooperation." (cited in Koves 1978, P. 115) Such a conception is more or less similar to that of the dependency school which maintains that autarky was mainly forced upon the Soviet Union by the world capitalist economy.

Multiple reasons are, however, cited in order to explain the conditions which stimulated the adoption of autarky as the model for the economic development in the rest of Eastern Europe after World War II. "The heritage of the past, war damages, tensions of the Cold War, [and] an almost complete isolation from the world market" are generally perceived as the main reasons for such adoption.14 (Mandel & Muller 1974, p. 37)

In B. Kadar's view (1977), for example, the Eastern European countries shaped their development strategy along the path of internal and regional autarky "partly in consequence of the extrapolation of experiences obtained in the restricted world economic relations between the wars and partly in response to the political embargo." (Kadar 1977, P. 155)

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14 The East European economists maintain the policy of autarky did not entail completely abandoning foreign economic relations; it rather meant to curb Western economic relations and to create an almost complete isolation of the economy from the influence of the world market. (Tardos 1981, p. 222) M. Mandel and J. Muller (1974) in fact argue that the development of the socialist countries after World War II took place in a framework where "dynamism of foreign trade was so significant that formally this should exclude the qualification of the economic policy as autarky." They believe, however, employing the terminology of autarky is still justified because the foreign trade was carried on under the conditions of regional co-operation in order to satisfy the "quantitative needs of the rapid industrialization accomplished parallelly and at the same time in the individual countries." In addition to the socialist regional co-operation, development policies were based on import substitution. Mandel and Muller believe that in "consequence of these two factors the main tendencies of development policy can be qualified as autarkic despite a significant growth in foreign trade." (Ibid., p. 36)
J. Bognar (1979) counts both internal and external conditions as stimuli for adoption of autarky. He argues in the late 1940s the 'external' world was very antagonistic and hostile to the socialist countries. Politically, the Cold War was raging with full force and the danger of transforming the Cold War to an actual war between East and West was mounting. Economically, the United States declared an embargo which was followed by its allies. Eastern European participation in the international division of labor was further restricted by the fact that the colonial system was still strong, the new national states were only just beginning to come into existence, and economically they were approachable only through the Western metropolises. Under these conditions, "the preference of 'internal' trade was not only a policy but the only possibility, and import substitution (substitution of Western imports) was not only a conception but the only possible solution." (Bognar 1979, P. 3)

In regards to internal conditions, Bognar refers to the economic underdevelopment of the Eastern European countries, in particular the smaller ones, and the existence of an ample labor surplus as the conditions which made the adoption of extensive economic development in order to bring about an industrial structure not only logical but necessary.

Rosati (1979) and N. Shmelev (1979) also consider the Cold War and the Western imposition of the economic blockade as the important factors for the Eastern European reliance on the use of domestic productive forces for the purpose of economic development. Yet Rosati (1979) believes the doctrinal considerations promoting an excessive adaptation of the Soviet experience of the thirties were
also a significant factor. B. Rasdar (1977, P. 155) more or less raises the same issue: After the second World War the Western countries wanted to restrain imports from the socialist countries and prevent their economic development by applying an embargo for considerations connected with foreign policy and strategy. "The exports of socialist countries were limited by the so-called customs escalation policy of Western countries, by duties on individual products increasing parallel with the grade of processing, discriminative restrictions with reference to market disturbance and various administrative obstacles." The effect of Western powers' restrictions resulting from political hostility was strengthened by the different ideas in regard to development strategy and foreign economies in Western and Socialist countries. In the view of East European economists, it was under the above mentioned conditions that the autarky became the "creed of economic policy." Consequently the socialist countries came to the conclusion and the belief that they had to isolate themselves from the effects of the world economy, since only unfavorable and dangerous consequences could come from such a hostile environment. They devised the theory that maintained after the Second World War, a socialist world market independent of the capitalist world market had come into existence, and that the rapid economic development of socialist countries needed no more than an intensive division of labor among themselves. The strategy chosen in this context for economic development considered the highest possible degree of self-sufficiency of the individual countries and of the entire community. (Koves 1981, P. 113)
According to this conception, trade with the outside world—mainly DCs—had only marginal importance. From the DCs the socialist countries would have to import only commodities of which they are partially and/or temporarily short. Thus with a low import level, the East European economists hoped that there would be no obstacles to achieving a balance of trade. It would be sufficient to export to the capitalist countries what was left over after satisfaction of domestic needs. (Koves 1981, P. 113)

This naturally worked out less smoothly in reality. Import requirements often proved to be higher than expected, and the exportable commodities had to be created not from some excesses but by trimming domestic consumption. (Koves 1981, P.P. 113-114)

The essence of the conception was nevertheless fully asserted: self-sufficiency became the gist of economic policy and the opportunity to establish a division of labor with (DCs) was disregarded in determining the goals and trends of economic development. (Koves 1981, P.P. 113-114) There was, then, no attempt to specialize according to the requirements and possibilities of a world market which was exposed to cyclical fluctuation and full of hostile political interests. (Kadar 1977, P. 155) The engine of growth, then, relied on sources of fuel like the increase in employment, and volume of investments or what later came to be known as the "extensive economic development." (Koves 1979, P. 324) The development became characterized by a very strong quantitative approach, and the development policy emphasized new projects, for employment and regional development. (Berend 1975, P. 167) The main economic task of the time became the creation of
full employment, through industrialization, raising the minimum subsistence level as rapidly as possible, and creating a strong national defense capacity. (Nyiri 1982, P. 19) Industrialization was carried on based on the policy of import substitution, and economic planning became the rule.

According to the Eastern European economists, at that time the adoption of all these policies was logical, and their implementation was conceivable. For example, using the case of Hungary, G. Y. Kovacs (1976) argued that during the first phase of socialist industrialization, characterized by an extensive development, the fast rate of economic growth was by no means limited by either realization or production considerations. The demand on the home market, he argues, surpassed the supply and consequently there was no problem in regard to selling goods domestically. In addition, the markets in other socialist countries provided unlimited realization possibilities even for the products which did not completely satisfy the "internal technical parameters." On the production side also there existed plenty of factors which promoted extensive economic growth. First of all, there were ample labor reserves, mainly released at the first stage of socialist industrialization from the agricultural sector and households. Second, the growing raw material and energy needs of the country were satisfied by imports from other socialist countries and in particular from the Soviet Union, in exchange for industrial products resulting from extensive industrial development. Furthermore, Kovacs believes, "since the fixed assets and technological requirements of quantitative growth were not in the first place determined by criteria of realization on a competitive
market," capacity expansion was possible in many instances with not the most up-to-date fixed assets and technologies coming from home production or from other socialist countries. (Koves 1976, P. 52)\textsuperscript{15}

Furthermore, Eastern European economists maintain that the adoption of autarky and all other supporting policies was either justified or inevitable at that time. The adoption of central planning, for instance, was justified because, as S. Pasztor (1980, P. 90) argues, the autarkic endeavours can be only enforced in a framework of direct plan instructions. It was further justified, as Berend (1968, P.P.. 76) explains, because it was the only feasible solution to the problem of traditional backwardness of the Eastern European countries. These countries, he asserts, had never passed through an industrial revolution in the Western sense, and with the exception of Czechoslovakia, preserved their agrarian and semi-agrarian character. The predominantly agricultural character of this part of the European continent made capital accumulation impossible and kept the level of investment low. Consequently the economic growth of these countries was no more than moderate in the inter-war period, and "these countries were completely unable to change their economic structure or solve the dramatic social contradiction in their societies." Against this historical background Berend believes central planning seemed to be "a possible weapon against backwardness and

\footnote{\textsuperscript{15} A. Koves (1981) argues more or less the same points when he states: "it could still be reasonably expected that the Soviet Union and the other socialist countries possessed all the internal conditions, beginning with apparently boundless opportunities to increase the volume of investment and employment, for dynamic economic growth." (Ibid., p. 115)}
poverty, and presented a drastic method to forte a 'take off' period, to use Rostow's expression."^{16}

Import-substitution, given the context of the Cold War, was intended to reduce imports at both national and regional levels. (Csaba 1983, and Mandel & Muller 1974) Its adoption was inevitable not merely because the Soviet Union's industrialization was based on import-substitution policies, but because it had deep historical roots in Eastern Europe. According to L. Csaba (1983), in the interwar period in Central and South-East Europe all industrialization invariably was based on the import-substituting concept. This policy had a foundation in the 'economic nationalism' of the successor-states to the Austro-Hungarian Monarchy. These states, in the name of self-reliance, in a political climate of animosity, did what was in their power "to dismantle the integrated large economic entities of the former empire." Consequently, each state embarked on the policy of import substitution for the purpose of creating all of the branches of industry domestically in order to protect itself from the "undesirable consequences of dependence on the neighbouring states." Given such a background, Csaba believes that with the emergence of the Cold War and Western embargo policy, reemergence of the import substitution policy was inevitable.

^{16} It is important to know that this point is not shared by all the Eastern European economists. I. T. Berend, (215) for instance, maintains that the adoption of central planning was wrong from the time of its inception: "the method of compulsory plan directives, in spite of significant results, had some very decisive disadvantages from the first day of its adoption. There can be no doubt that this method was harmful, nor can the damage caused by mistaken aims be clearly separated from the damage caused by mistakes in planning." (Ibid., p. 83 emphasis added)
The Eastern European economists (with qualification) admit that the adoption of autarky and all concomitant policies induced decisive changes in the structure of Eastern European economies. For instance, the agrarian character of these societies changed drastically,\(^\text{17}\) the share of industry in the net national product increased tremendously, and the structure of the industry altered. Countries that once produced consumer goods, mainly food, began to produce capital goods. In addition, all these countries experienced a phenomenal economic growth; according to official figures, the gross national product during the 1950s more than doubled in the majority of Eastern European countries. (Berend 1968, P.P. 80-82)

4.4. **Autarky and Its Consequences:**

Yet, the Eastern European economists maintain that not all these economic achievements must be attributed to the adoption of the autarky. L. Csaba (1983), for example, argues that the impressive growth rates achieved by the socialist communities in the period of the 1950s and 1960s were influenced by several factors: "Besides the undeniable mobilizing effects of the victorious new system, the socialist ideology, the introduction of the system of macroeconomic planning," there were other factors at work; for example agrarian over-employment, female labor and chronic white and blue-collar workers' unemployment provided an excellent

\(^{17}\) This part of Europe, Berend (1968) argues, with the exception of Czechoslovakia, preserved its agrarian character even after World War II. After World War II about 75% of the population in the Balkan countries and 50% - 60% in Poland and Hungary derived their income from agriculture.
untapped pool of labor which was to be used as a source of extensive economic growth. A major share, Csaba believes, must be attributed to the possibilities inherent in a low starting level, as well as to the requirements of the reconstruction period.

M. M. Tardos (1981) raises another issue. He argues that a great part of the industrial development in small countries of Eastern Europe in the 1950s was fostered by the technical knowledge accumulated earlier prior to World War II and as a result of extensive contact with the Western powers. Among the first factories nationalized in these countries, Tardos maintains, were those operating with foreign capital and technologies, at a time when economic relations with advanced capitalist countries flourished. Most of these factories later proved to be among the most dynamic of any given industry. This technical knowledge provided a satisfactory base for rapid industrial development in Hungary animated by a growing domestic investment demand and by demand from other Eastern European countries. For example, after nationalization, the MAVAG and Ganz plants were more or less easily retooled for the production of engines and freight cars meeting Soviet demand. Shipbuilding had developed prior to World War II and had produced river-sea and deep-sea vessels; in the 1950s it received orders from the Soviet Union for the production of ships

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18 In Hungary, for instance, a decisive part in the expansion of the capital goods industry was played by the production of rolling stock, which had a long history. The MAVAG and the Ganz Wagon and Machine Works had produced engines and freight cars in large quantities during the Austro-Hungarian Monarchy.
suitable for coastal trade, in quantities permitting large-scale production unprecedented in this branch.

Tardos' belief that the industrial development in the small countries of Eastern Europe was primarily promoted, not by the learning of new advanced technical expertise, but rather by knowledge accumulated before and during the second World War—leads him to the conclusion that the scope and extent of industrial development in these countries was greatly limited by this traditional expertise.

Tardos' conclusion directs us to a point which is more or less shared by almost all the Eastern European Economists [that is]: despite the achievements of autarky and its concomitant policies, they produced several negative consequences in all sectors of the economies as well as in the foreign trade sector; indeed, these policies were imbedded with contradictions. As J. Bognar (1979) argues, "the fact that some development alternative (decision) is inevitable and justifiable" at one time "does not save us from the consequences" and their negative effects. (Bognar 1979, P. 4)

The heavy emphasis on industrialization, for instance, generated profound unbalances in the structure of the economy. First of all, the pace of industrialization was "irrational." (Berend 1968, P. 83)\(^\text{19}\) In Hungary, for example, there was a bias against

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\(^{19}\) Berend (1999) asserts that the first five-year plan envisaged a 210 percent growth in industry. During the same period he maintains that almost half of all investment was concentrated on industry, with the emphasis on the primacy of heavy industry, and only 13 percent went into the agricultural sector. Berend (1975) argues this conception of industrialization, initiated in the middle of the 20th century, was based on an idea reflecting the requisites of the turn of the century in regard to the structure of the industry and the necessity of heavy industry.
the agricultural sector, along with other policy measures involving compulsory delivery of agricultural products at low prices, excessive taxation and unrealistic pace of collectivization led to the stagnation of this sector. (Berend 1975 and Berend 1968) Such stagnation, in turn, resulted in an acute shortage of agricultural goods which hurt and weakened the traditional export base of the country and created "a permanent crisis in supplying the population with its needs." (Berend 1968, P. 83) It is believed, therefore, that the decline in the agricultural goods available for export caused great difficulties as the need for imports grew tremendously as a result of intensive investment. Some Eastern European economists believed that the system of central planning also produced damaging consequences. Among the most important of such damaging consequences was "inefficient investment." "The lack of incentive to produce for market," these economists argue, created a complete "disinterest in the cost of investment and consequently [led] to the overextension of investment in new plants and underinvestment in technology and replacement." (Berend 1968, P. 84) Waste and low efficiency characterized the production as well. For the enterprises were interested only in fulfilling the plan, and they were not concerned about cost of production.20 Furthermore, the planning system

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20 Berend (1968) argues that in fact, according to the terms of the plan, the value of production could be achieved by using greater quantities of raw materials, or more expensive ones. The fact that the most important plan directive was fulfillment of the total planned value of production was harmful in still another way. The enterprise did not produce all the articles called for, but only those which could be manufactured in the easiest way. Superfluous quantities of the most material-intensive articles were produced.
hindered technological development. Because the enterprises were not interested in modernizing, "the position of enterprise in the internal market was monopolistic, and not even in foreign trade was it exposed to the risks of competition. The artificial price system and the elimination of any kind of incentive for marketing formed a ring of protection around the economy against not only the unfavorable effects of the world market, such as major fluctuations, but against any pressure for rationalization." (Berend 1968, P.P. 84-85)

The "ring of protection" led also to the technical isolation of the Eastern European countries from the advanced capitalist countries. Such isolation had extremely harmful effects for the smaller countries of Eastern Europe as far as their technological advancement is concerned. Their main provider of technology became the Soviet Union and other more advanced countries of Eastern Europe, whose growth pattern of manufacturing and engineering industries were not in line with the world market requirements. (Tardos 1981)

The Eastern European economists furthermore claim that the low efficiency of investment and production is the major characteristic of any policy of autarky. "Needless to say, such waste and inefficiency is inherent in the autarchic view of industrialization." (Berend 1968, P. 83) Or, the "endeavours to produce in one country (or even a group of countries) all necessary products that can be produced there, or whose production can be organized through great efforts sooner or later, unavoidably lead to low efficiency." (Koves 1979, P. 325) This low efficiency stems from the fact that in almost all cases the size of the country makes it impossible "to utilize economies of scale, and the too wide range of
goods produced lead to inefficiency in individual fields, in addition to the neglect of the advantages from international specialization according to comparative advantages." (Saba 1983, P. 62) It is therefore argued that under the condition of autarky, on the one hand, the production takes place on a small scale because it has to meet only the needs of the domestic market, which in turn is limited in its purchasing power; on the other hand, production is based on the domestic production apparatus whose technical standards cannot be high in all areas. In addition, autarky cannot stimulate the use of modern and advanced production techniques because of the small scale of production, and also because the need to develop production in all areas causes a dispersion of the resources for research. As a result the internal possibilities for raising the level of quality of production is almost non-existent. Furthermore, the low quality of goods prevents the effective competitiveness on the world market and makes exporting difficult and consequently limits the imports. The insignificant size of imports does not allow a full satisfaction of consumer needs, and as a result, the provision of goods and services to society is considerably impaired. This became a further incentive for import-substitution. (Rosati 1979) Import-substitution itself, however, led to the further dispersion of productive resources, and in fact as it has been shown historically it increases the import needs, and demands a steady rise in exports in order to cover the permanent growing import needs. (Rosati 1979 and Mandel & Muller 1974)

It is, therefore, autarky per se which leads to the low efficiency and crisis in foreign trade, notwithstanding that it is implemented in
the framework of centralized planning and is accompanied with a strong emphasis on heavy industry. The problem, however, is that in Eastern Europe all these policies were adopted at the same time with the consequence of, as far as foreign trade is concerned, "weakening of the traditional export base, insufficient competitiveness of the exported finished goods, difficulties in pooling the necessary export resources under the conditions of over-strained domestic supply conditions, a not rational enough import structure, . . ." (Bogmolov 1979, P. 306) to name only a few of the problems enumerated by the Eastern European economists. It is the culmination of these problems which the Eastern European economists claim incited them to advocate another form of economic development, the "outward-looking" model of development.

The Eastern European economists' view on autarky and its consequences is diametrically opposed to that of the dependency school. As was discussed in the second chapter, Frank maintains that the adoption of 'isolation policy' is one of the major reasons that the Soviet Union and Eastern Europe can now participate in the international division of labor on a basis which is 'remotely equal' to that of developed capitalist countries. (Frank, 1981) Wallerstein also argues that autarky enabled the Soviet Union to convert itself from a weak semi-peripheral status to "a very strong member of the semi-periphery and would begin to seek full core status." (Wallerstein 1974a, P. 41)
4.5. "Outward-looking" Model of Development:

The Eastern European economists maintain that by the late 1960s, it became clear that "the price of autarky is too high and not worth 'paying'." (Pasztor, P. 90) These economists believe that by the late 1960s, changes in the following objective factors led to the creation of condition in which abandoning autarky became a necessity:

-- Labor shortage
-- Difficulty of intra-technology transfer among the Eastern European countries
-- Acceleration of the scientific and technological development
-- Shortage of raw material and energy
-- Difficulty of exporting 'low quality' goods among the Eastern European countries.

The policy of autarky can only be consistently maintained if all the factors of production are available domestically, and it was precisely this element which was changing. By the late 1960s and early 1970s the sources of extensive development, a characteristic of the policy of autarky, were exhausted. (Koves 1979, P. 324) Extensive development met with difficulties from the side of production factors: first of all the labor shortage almost rendered it impossible to continue the policy of extensive economic growth. (Kovacs 1976, P. 54 and Nyiri 1982, P. 19) Indeed, "full employment has changed to overemployment." There were no longer any labor surpluses to a point that indeed in "the dynamic sectors and in services 'anticipatory investments' have to be implemented in the
interest of releasing the necessary labor." (Bognar 1976, P. 229) In addition, in the production of any given product in Eastern Europe, an unjustifiably high amount of labor was consumed, which under the condition of exhaustion of labor reserves, further necessitated the call for fast technological progress and substitution of modern technology for manual labor and inefficient production techniques. (Bognar 1979, P. 5 and P. 10)

Moreover, the conditions of intra-technology transfer among the East European countries became less favorable (Kadar 1983, P. 308), if not impossible. (Csaba 1983, P. 55) This was mainly true in regard to the modernized technology, for transfer became particularly difficult basically because of a

"levelling up of technical standards, the large extent of parallel features in industrial-technological structures, the underdeveloped state of inter-enterprise relations and of technical transfer capacities indispensable for an efficient cooperation in technology-intensive activities, the financial limits to the trade in technology, and the difficulties of having the technical modernization and qualitative development recognized in prices, it is not justified to expect that cooperation in the technology-intensive fields can be promoted considerably." (Kadar 1983, P. 308)

These factors, along with the "low efficiency" of production inherent in the policy of autarky, demanded the raising of productivity by finding additional sources of supply of modern technology, and creation of export capacities in conformity with the import demand of the new markets.

According to the Eastern European economists, the need to acquire modern technology from Western advanced countries is further enhanced in the period of "acceleration of the scientific and
technical development." They argue that theoretically any efficient production has always demanded extensive world economic relations. However, they maintain that when the scientific and technical development was less dynamic, it was justified to assume that keeping pace with technical progress particularly if limited to only a few branches--is possible through individual import transaction. Such actions, they argue, did not require constant and regular economic relations with the West; nor did they require maintaining direct and permanent production relations with Western companies. Economic relations could be restricted for domestic or foreign political and economic considerations for a short or long period of time without fear of any permanent damage to technological progress. That was indeed the situation in the 1930s when the Soviet import substitution policy of the first five-year plan period was followed by a decline in trade relations. Practically the same conditions occurred in the period of the Cold War, when the international political situation and Western embargo led to an almost total halt in the trade relations between Eastern Europe and the West. (Koves 1978, P. 116)

The situation became different by the late 1960s and early 1970s. The acceleration of technological and scientific development entailed a permanent renewal of economic structure and product patterns, and made the above mentioned approach obsolete. Since the most modern equipment purchased today becomes out of date tomorrow, only the establishment of long term and permanent economic relations with the West could guarantee technological progress. A dynamic increase in imports of machinery became
necessary because it was not possible any more to import just a "prototype" which would then be adapted to home conditions and manufactured accordingly. Such an act requires time and is a complicated task which may lead to uneconomic manufacturing and to the "conservation of backwardness" (Koves 1978, P. 116) Therefore, the acceleration of scientific and technical development, coinciding with the limited possibility of intra-technology transfer among the Eastern European countries, became another factor in indicating a need for establishment of economic ties with the advanced capitalist countries.

Accelerated Western Technological and economic development made them [the socialist countries] realize that they could maintain the dynamism of growth and could keep pace with the scientific and technological revolution only if they encourage the development of trade with nonsocialist countries also. (Koves 1981, P. 116)

The need for meeting the requirements of the technical and scientific revolution made it necessary to ensure the inflow of technological processes, technical experiences and know how which can be taken over from the Western countries . . . by normalizing and developing the economic relations with the capitalist countries. (Kozma 1974, P. 344)

There were other indications that the sources of extensive economic growth were being depleted in the socialist countries. The Eastern European countries, in meeting their demand for raw materials and energy, were facing more and more constraints, partly because of physical limits to supply within the region, and partly because the world-wide increase in prices of these factors made tempting their exports to the non-socialist regions for the purpose of earning hard currency. (Kadar 1983, P. 308) Given the fact that in
these countries the energy and raw material inputs of almost every product are high, the need for an improvement in efficiency became even more urgent. (Kadar 1983, P. 307) The reduction in energy and raw material consumption, through the employment of more efficient production techniques, is not just due to economizing in the costs of production, but because "no body on the world market," not even the socialist countries, are willing to purchase "equipments 'devouring' energy, fuel, or raw materials." (Bognar 1979, P. 10)

Furthermore, the sale of products not matching the world market standards became increasingly difficult on the markets of socialist countries and within the country itself, which used to provide unlimited marketing possibilities. (Kovacs 1976, P. 54) The Soviet Union, hitherto a secure market for the increasing industrial output of the Eastern European countries, sought from its partners major innovative improvements in various fields. (Tardos 1981, P. 255) The same pressure was being applied by the consumers in these countries, who were demanding better quality and more diversified products. (Koves 1978, P. 120) For the first time Eastern European countries might have encountered realization problems. (Kovacs 1976, P.P. 54-5) Consequently, as a result of internal social pressures, raising the population's standard of living and providing them with more and better consumers' goods became a "major policy task." (Koves 1981, P. 19) The policy which itself required intensive participation in the international division of labor, in Leonid Brezhnev's words: "the scientific-technical revolution progress . . . vastly increases people's needs and demand, and necessitates a
growing degree of international division of labor." (cited in Koves 1978, P. 115)

A. Koves (1975, P. 312) argues that by 1971 it became quite clear that increasing the intra CMEA21 trade and of co-operation to higher levels requires more outward looking to the world market. It became common knowledge that for the socialist countries, intra CMEA trade, and trade with the developed capitalist countries could be treated not as alternatives but as two complementary processes which reinforce each other. The growth in trade of machinery as well as consumer goods and foodstuffs between CMEA countries could be significantly enhanced by imports of machinery and materials from the West.

In the late 1960s the culmination of all these difficulties was manifested in the slow down in the growth of national income in the Eastern European countries. (Csaba 1983, P. 54) In order to combat these difficulties and to increase the rate of growth, the Eastern European economists advocated "intensive economic development."

The main task of the present stage in the CMEA countries' development is not as much to accelerate the quantitative growth of the production apparatus and the scientific and technical potential as to improve their qualitative characteristics, the balance in their development, and their much more efficient use. (Bogmolov 1979b, P. 8)

21 Founded in 1949, the CMEA (formerly known as the COMECON) now has the following active members: Bulgaria, Cuba, Czechoslovakia, the German Democratic Republic, Hungary, Mongolia, Poland, Romania, Vietnam and the Soviet Union.
Such a development policy is only achievable through international cooperation and participation in the internal division of labor.

In the past, when economic growth was mostly based on sources like the increase in employment and in the volume of investments, the requirements of machinery imports... from the West--emerged less sharply. However, when possibilities of extensive development are exhausted and economic development depends more and more on the successful improvement of quality, efficiency and productivity, it will become more and more important that technological development and the raising of efficiency should be promoted also through the import of up-to-date technology, ... (Koves 1979, P. 324) See also (Dobazi and Inotai 1981).

Therefore, according to the Eastern European economists, the requirement for increasing the standard of living of the population and more importantly the requirement for the acceleration of growth--under the conditions where the sources for the further extensive growth had been exhausted--made the "greater and more many sided participation in the international division of labor" imperative. Only through such participation are the "technological development, increase in efficiency, the modernization of economic (and commodity) structure"--the basic foundation of intensive growth"--achievable. (Koves 1975, pp. 311-312)

In the stage of intensive development when the limits to the volume of investment and to increasing employment are closely discernable in every European CMEA country, the role of technological process, of higher productivity, of moderizing the economic structure and, along with these, of Western imports for the purpose of modernization, increase among the sources of growth. It is less and less possible to rely on the sources available at home or in the CMEA region for increasing efficiency, in investment policies, in the supply of materials
and parts to the ever-growing volume and ever more modern and diversified production, in supplying the population with industrial consumer goods. . . In other words, increased participation in the international division of labor, opening towards the world-economy, was put on each CMEA country's agenda by the requirements of domestic social and economic development. (Koves 1981, P. 117)

Such an argument is obviously different from that of the dependency school. One can recall Frank's belief that economic relations with the West can only bring harm to the Eastern European countries. According to Frank, the ill-effects of economic relations with the West are tremendous. They range from importing inflation to importing capitalism itself. According to Eastern European economists at the same period, some changes were happening in the Western powers' attitudes toward the Eastern European countries. Western powers gradually came to the conclusion that the "Cold War strategy was undermining the very basis of normal relations between peoples and countries and was impeding the development of their internal economy." (Bogdanov and Dustal 1975, P. 58) The end of the post war boom revealed the damages resulting from the economic blockade of the Eastern European countries. However, the change in the Western powers' stand toward the development of economic relations with the socialist countries was mainly influenced by "the general change in forces in the world arena in favor of the forces of peace and socialism," which in turn is based on the advantages of the socialist economic system;" and the ability of Eastern European countries to achieve great successes in their

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22 See the first chapter of this dissertation.
economic progress in a historically short period of time. (Bogdanov and Dustal 1975, P. 59) Consequently, remarkable progress toward normalization of political relations between East and West became possible at that time. Another factor responsible for such normalization was the fact that the socialist countries became able to maintain and increase their defense capacities. A balance of military force was achieved between East and West, a balance which is a pre-condition of peace. (Bognar 1979, P. 5) Such a development "served to fulfill the primary conditions of changing the role of foreign sector" in Eastern Europe. (Samulewicz 1984 P. 257) Because "the long lasting process of detente is indispensable in providing an atmosphere for long term and interdepenent links." (Zagorski 1981, P. 124) The policy of detente is also desirable for the development countries because the most important aim of these countries is a "fast and smooth development at home, and the establishment of such international economic conditions" which "will promote this development." (Bognar 1979, P. 5)

Besides the changes in the internal and external conditions, there were more general considerations which also compel international cooperation:

The gigantic scale of modern production requires the mobilization of material, financial, and human resources that are more and more beyond the potential of individual national economies, even the most powerful.

At the same time, it is specifically the latest equipment and technology that determine the level of the social productivity of labor and the corresponding ability to withstand competition on the world market. In this regard integrative processes are developing in countries with the same socioeconomic system,
on the one hand, and on the other extensive participation in the universal division of labor is becoming an objective necessity for all countries. In other words, the rates of economic development of each of the two competing systems are greatly influenced by the degree of their interaction. (Bogdanov and Dostal 1975, P.P. 56-57)

Furthermore, the necessity of resolving problems caused by the scientific and technological problems demands the cooperation between the industrially developed countries and socialist countries. Such problems include the development of hitherto unutilized energy sources and the resources of the ocean, the protection of the environment, etc. (Bogdanov and Dostal 1975, P. 57)

4.6. Eastern Europe and the International Division of Labor:

4.6.1. The Economic Relation with the Advanced Capitalist Countries:

In the late 1960s, it was mainly the smaller CMEA countries, more dependent on foreign trade, which increased their trade with the West rapidly. Their imports grew strongly, and under conditions of prosperity in the West markets for sales of their export items also expanded markedly. Moreover, terms of trade for CMEA countries exporting foodstuffs and finished products developed favorably. With relatively stable (slowly growing) prices and fixed rates of exchange, Western sales could be planned as safely as sales to other Eastern European countries. (Koves 1981, P. 116)

Later, in the mid-1970s, the Soviet Union also joined the ranks of other Eastern European countries and since then "has been
exploiting the inherent advantage of the division of labor more fully than ever before in order to resolve the problems of raising the efficiency of its production." (Goldina 1984, P. 3) By that time the countries of Eastern Europe were covering up to 40% of their total imports of food, 25% of their raw materials, machinery, and transport equipment, and over 40% of their imports of chemical products from developed capitalist countries. (Ivashkin and Panchenko 1980, P. 58) At the same period, in individual years, the Soviet Union's exports covered, for example, 70% of Finland's requirements for oil and petroleum products and 60% of its requirement for timber; almost 70% of Sweden's requirement for oil and petroleum products and 70% of its requirement for chromium ore; 25% of Great Britain's need for nickel; 44% of Austria's need for pig iron; 40% of France's requirement for chromium ore and 35% of its need for fuel oil; 60% of Greece's requirement for pig iron, 38% of its requirement for sawn wood. (Ivashkin and Panchenko 1980, P. 60)

Such an increase in the role of the DCs in the foreign trade of Eastern European countries, according the A. Koves (1975), proves that the "international division of labor is increasingly interpreted . . . as a long-term lasting factor of economic growth, and no longer as something marginal and complimentary, used to overcome particular, though important, bottlenecks, or tensions that might occur here and there, . . ." (Koves 1975, P. 312)
4.6.1.1. Different Types of Economic Relations with the DCs and Their Advantages for East and West:

The economic relations between East and West have not been limited to only the conventional trade agreements; they have increasingly included a broad spectrum of economic ties. In addition to trade, new forms and methods of economic cooperation "that go far beyond the framework of commodity and trade relations" have become more and more widespread. And their economic effects have been manifested "not in the sphere of commodity exchange, not in circulation, but in particular . . . on material production."

According to Eastern European economists, these new forms and methods or Industrial Cooperation Agreements (henceforth ICAs) help not only to increase the socialist countries' national income, but to influence their scientific and technical progress; they include such activities as industrial cooperation on a compensatory basis, creation of joint enterprises, agreements on reciprocal participation in various projects in third countries, etc. (Ivashkin and Pachenko 1980, P. 62) ICAs represent "the highest degree of internationalization" allowed in Eastern Europe. (Cieslik 1983, P. 69)

In the words of two Soviet economists:

The 1970s are characterized by the strengthening of economic relations between socialist and capitalist countries. While in the past socialist countries used only their available export resources, at the present time they are expanding on a planned basis the production of commodities especially intended to satisfy the needs of the markets of Western countries. New forms of collaboration are placing economic relations between socialist and capitalist countries on a stable, long-term footing. The joint construction of enterprises, the conclusion of large-scale compensatory deals, specialization and integration of
production, the adoption of a coordinated technical policy in the production of certain technical items, and the amalgamation of research efforts in the elaboration of individual urgent problems—all these factors open the way to mutually advantageous collaboration based on the enjoyment of the advantages offered by the international division of labor. (Bogdanov and Dostal 1975, P. 60)

The Eastern European economists unanimously believe that ICAs provide excellent opportunities for the transfer of technology to the Eastern European countries. Such an element is of considerable importance, because these countries are in need of imported technology at this stage of their development, when development is based on intensive growth, and because of shortcomings inherited from the previous strategy.\textsuperscript{23}

Aside from the import of technology,\textsuperscript{24} these economists believe that there are other advantages associated with industrial cooperation agreements. The ICAs guarantee higher volumes of trade, raise the productivity of labor and decrease the production costs per unit of product; in addition, they bring about the modernization of production and higher standards of final products.

\textsuperscript{23} As the extensive growth factors (employment, investment) are depleted, the socialist economy begins to encounter barriers, which can be overcome only by activating inherent human creative forces and boosting management efficiency, for example, by more extensive use of the achievements of science and technology and by closer ties with the international division of labor. This leads to the conclusion that entering the intensive growth phase—creates in the socialist economy objective preconditions for increasing the demand for imported technology and for increasing the role of foreign technology in the solution to problems of national development." (Rapacki 1982, p. 62)

\textsuperscript{24} It is argued that the transfer of technology in the context of ICAs is not transfer of "a product but an indispensable 'factor' intended to initiate further effects, such as product quality, economies of scale, and the creation of new markets growing out of active and effective cooperation." (Kozinski 1981, p. 142)
Moreover, the ICAs by increasing the productivity and efficiency of production, solve the problems of insufficient labor and raw materials in the Eastern European countries. (J. Nykryn 1979, P.P. 246-7) ICAs according to J. Kozinski, (1981, P.P. 142-143) are the most important vehicle in the introduction of up to date technology in these countries. Furthermore, ICAs can improve the balance-of-payments of the Eastern European countries directly by providing Western help to produce the kinds of goods that are stable for hard currency and to market these products in the "hard currency areas."25

The establishment of joint enterprises in the Eastern European countries with the participation of Western firms is another specific aspect of economic cooperation between East and West. The legal frameworks and economic terms of these organizations differ from country to country. What makes these organizations so significant is that the Western firms and in particular the MNCs are directly involved in the process of production in the Eastern European countries.26

25 E. Zagorski (1981, p. 127) believes that ICAs are more effective when they give each partner a chance to start new lines of production that may have been too expensive for each without cooperation or when they are used in lowering the costs of production through application of modern highly efficient technologies and economies of scale. Lower production costs can strengthen the competitive position of each partner in local as well as in foreign markets.

26 A Gordos (1978) believes MNCs are usually chosen by the socialist countries, because they "can satisfy expectations of" these countries "towards the import of technology." He argues that the MNCs subordinate their entire activity to their market strategy which includes extensive control of markets and may exclude profit maximization as their primary goal. It follows that market expansion is the primary goal of the MNCs who get involved in establishment of joint ventures (henceforth J.V.s) in the
The Eastern European economists believe J.V.s bring not only foreign capital but also technology, the two most important requirements of intensive growth, into the socialist countries. The flow of capital through J.V.s is considered to be very important by Z. Krasznai and M. Laki (1982, P. 150). They argue the increased participation of foreign capital mitigates the scarcity of capital in the receiving countries. Furthermore, the foreign banks are more willing to lend money to countries where foreign investment is allowed. The establishment of J.V.s, therefore, indirectly also helps to increase the stock of capital of these countries. They attribute additional advantages to the establishment of J.V.s. They argue the J.V.s, besides furthering the adaptations of modern technology in the Eastern European countries, will help these countries to improve their international balance of payments mainly because the J.V.s enable domestic manufacturing of several products which were previously imported. This moderates, on the one hand, the lack of equilibrium in the balance of trade on the import side and, on the other hand,
furthers the realization of efficient import substitution, that mitigates the pressure even for uneconomical exports." (Laki 1982, P.P. 150-151) J.V.s also help to strengthen the general organizational and technological discipline of Eastern European enterprises.

In general, therefore, Eastern European economists highly value and praise any aspect of the socialist countries' economics relation with the advanced countries. In regard to foreign trade, they argue that it is important because it makes significant contributions in carrying out the main task of raising the living standard of Eastern European people through importing food or equipment used in production of consumer goods. (Klochek 1979, P. 11)

Imports from the advanced capitalist countries are appreciable factors in the modernizing of leading branches of industries and in the implementation of large investment projects, to mention only a few. The exports to DCs, apart from ensuring the bulk of foreign exchange earnings to pay for the necessary imports, contribute to the rise of technological levels of production and to improvement in the quality of products of "not only enterprise working directly for exports but also within a wide scope of related branches." (Shmelev 1979, P.P. 315-316)

It is argued that taking advantage of economic integration with the DCs is even more crucial for the smaller Eastern European countries, because these countries at the present stage of their economic development are constrained more than other Eastern European countries by their limited domestic resources and by their domestic accumulation. It is no wonder that these countries are
strongly in favor of acquiring and implementing a percentage of their total investment with the aid of external sources, and increasing the share of foreign technology and machinery in their total investments. (Simai 1977, P. 2) It is further argued that the smaller Eastern European countries in the process of their development have produced unnecessarily and inefficiently a broad range of products, and if instead of importing the most modern technology from the DCs, they decide to continue their production domestically and "widen the any way too broad range of domestic products," they will face the unfavorable condition of "diminishing efficiency," and their modernization of production pattern will be impeded. (Koves 1979, p. 332)

The Eastern European economists, while insisting on the benefits of the socialist countries' participation in the international division of labor, also mention that such participation is "mutually beneficial" and the DCs also benefit from their economic relations with the socialist countries; (Bogmolov 1979, P. 305) and "the economic cooperation between countries of two opposite social system yields a mutual economic effect." (Bogmolov 1983, P. 24) Such benefits can be attained at both Macro and enterprise (Micro).

It is argued that due to the Eastern European countries' "stable, crisis free and smooth developing markets," the Western countries are able through the establishment of trade relations with them to promote the "technological functioning of leading branches of industrial production" in the West. In addition, the imports of Eastern European countries from the DCs provide new sources of income for the Western enterprises and more importantly guarantee
a long period of employment for the workers of these countries. Such economic relations can significantly attenuate the impact of economic crisis on the DCs.27 (Ivashkin and Panchenko 1980, P. 61)

The Western companies can benefit from their economic relations with the Eastern European countries through different channels. Besides such factors as cheap labor and tariff reductions which they can find in most of the capitalist developing countries, these companies face smaller political and commercial risks when they deal with the Eastern European countries. (Gordos 1978, P. 408) After all, the foreign trade organizations of these countries are not faced with the threat of bankruptcy and/or being swallowed up by more powerful competitors. The reliability of business relations with these organizations is guaranteed by the socialist countries. (Voinov 1975, P. 5) In addition, the reliability of the socialist countries to a certain degree may diminish the market problem that the Western companies encounter and create the possibility of expanding "the scale of production and increase its effectiveness in the face of merciless competitive struggle in the capitalist economy." (Voinov 1975, P. 4)

The ICAs also provide an excellent source of considerable commercial gain for the Western companies. The compensation agreements, for instance, guarantee a long range supply of the necessary raw materials, and other industrial products and result in

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27 According to V. Ivashkin and V. Panchenko (1980, p. 61) the volume of East-West trade in 1980 provided employment for at least two million persons at enterprises belonging to firms and companies in the DCs.
long-range orders for machinery equipment and industrial products. (Ivashkin and Panchenko 1980, P. 71) The delivery of the products within the context of compensation deals may be followed by delivery of products outside of these deals and further enhance the benefit obtained by the Western companies who seek markets for their products28 (Nykryn 1979, P. 247)

Once again we witness the sharp contrast between the argument of the dependency school and that of the Eastern European economists. While the dependency school maintains that as a result of socialist countries' economic relations with the West, only the West will benefit, Eastern European economists insist that such economic relations will produce mutual benefit.

4.6.1.2. The Adverse Consequences of Opening-up to the World Market

The Eastern European economists maintain that the rapid expansion of economic relations between East European countries and the DCs in the first half of the 1970s confirms the fact that the "two socially different world systems are developing not in isolation from one another but in a clear interaction with one another . . . ." (Bogdonov and Dustal 1975, P. 61) If such argument is true, then one may expect that these economists would admit that their countries cannot escape the consequences of adverse economic

28 The Eastern European economists' insistence on the benefits the West derived from East-West economic cooperation is in a way an attempt to combat the "reactionary circles" in the West who advertise the one-sided advantage of cooperations for Eastern Europe. (Bogdonov and Dustal 1975, p. 64)
conditions in DCs. Indeed, they believe that to some degree such adverse conditions have affected Eastern Europe and refer to the period of the mid 1970s when the "objective conditions for the cooperation of countries with different social system began to change," and the new trends in the world economy proved to have "far-reaching consequences and eventually affected the interests of the Eastern European countries."29 (Shmelev 1979, P. 316 and Bogomolov 1979c, P. 305)

The most drastic manifestation of these changes was the emergence of recession in the West and a general decline in economic growth of the developed countries. Such recession was accompanied by high inflation; this meant not only increases in the cost of energy and raw materials, but a steep rise in the interest rates.30 Besides

29 It is inconvenient that the appearance of requirement rooted in the intensive period of Hungarian economic development coincided with the stagnation of world economy, with the troubles of its monetary and institutional system and the sudden changes in price relations. (197, p. 57)

30 One of the significant aspects of these developments was an increase in the interest rate. In the first half of the 1970s international liquidity was high, and consequently credit was relatively cheap and easily available. Domestically, the period of intensive growth requires increasing use of efficient, modern technology. Yet possibilities of financing modernization of production apparatus from internal savings were limited in Eastern Europe due to the commitment of raising the population's standard of living. (Samulewicz 1984, p. 258) Therefore, in that period, both internal and external factors were conducive to obtaining credit. Hence, one of the cornerstones of the compensation deals became reliance on Western credit. However, the increase in the interest rates in the second half of the 1970s was among the factors which led to the slow down of economic cooperation of East and West and to the deteriorating balance of payments of some of the Eastern European countries. Some Eastern European economists believe that the application of high rates of interest on the credit issued to the socialist countries is unjustified, because such rates are dictated by the internal problems of the capitalist countries. The businesses conducting relations with the socialist countries are advised to seek Western governments' subsidies for development of credit relations with the
the inflation, the instability of the international monetary system was further enhanced by the introduction of floating exchange rates. All these developments had important effects on the Eastern European countries' policy of intensive growth through introduction of modern technology, improvement of efficiency, and quality mainly through integration into the world market. (Bogomolov 1979, P.P. 205-6; Shmelev 1979, P.P. 316-317; Koves 1981, P.P. 118-119)

In addition, the advanced capitalist countries, in order to protect their recession-hit industries, resorted to the policy of protectionism. "The policy of trade liberalization" turned into "one of 'neomercantilism;' 'new protectionism' . . ." (Golding, P. 12) The protectionism made it extremely difficult for any country to increase its participation in the international division of labor. (Kossut 1981, P. 113) Moreover, the DCs increasingly employed discriminatory measures against Eastern European products. "[T]he capitalist states, expressly violating the Helsinki accords, practice and even enhance tariff and non-tariff discrimination against the CMEA countries' exports." (Bogomolov 1983, P. 29) As a result, the Eastern European countries were faced with serious obstacles in increasing their exports. The opposition of the "reactionary" elements in the West to any trade agreements between East and West led to the

socialist countries because socialist countries can agree only with a reasonable level of interest. (Bogdonov and Dostal 1975, p. 69)

31 The Eastern European economists like to add that these restrictions do not reflect solely the strained market situation. They rather reflect the protectionist tendencies of Western countries in general. (Mujzel 1979, p. 419)
imposition of special non-tariff restrictions on the socialist countries' imports in various DCs. (Bogdanov 1983, P. 30) (Bogdanov and Dostal 1975, P. 62) Such restrictions, of course, adversely affected the balance of payments of the East European countries.

Inflation in the West also contributed to foreign trade tensions and indebtedness of the socialist countries. Due to inflation, their imports grew at a higher rate than expected, and the growth of their exports was not able to keep pace. (Koves 1981, P. 119) Consequently, the rapid growth of trade with the West took place with the dynamic of imports considerably exceeding that of exports causing the accumulation of significant trade deficits by the countries. (Koves 1979, P. 327)

The changes in relative international prices did not affect all the socialist countries identically. The Soviet Union, due to its huge purchasing power and the strategic importance of its exports, proved to be less vulnerable to the changes in Western economic conditions, and the policies adopted in reaction to them. The smaller countries of Eastern Europe, in contrast, proved to be more susceptible to the Western economic policy measures. (Kador 1982, P. 324) The Eastern European economists are, however, quick to argue that such susceptibility to the Western economic conditions and their policy measures must be sought in the internal conditions of the Eastern European countries. Therefore, many of the problems encountered by these countries as a result of their economic relations with the West stem from their internal economic structures and not from the external conditions. The Western economic situations, their political pressures, etc. certainly affect the socialist countries, but by no
means can determine or direct the economic conditions of these countries.\textsuperscript{32} To improve their international position and to reduce and eventually wipe out the adverse consequences of the economic relations with the West, the East European countries must implement economic reforms and intensify their participation in the international division of labor.

\textbf{4.6.1.3. The Internal "Structural" Problems of Eastern Europe:}

The Eastern European economists do not deny that as a result of East-West economic relations the Eastern European countries become vulnerable to external conditions, but such a vulnerability, according to them, is not as are important as the benefits derived from these relations. B. Kadar, (1982) for example, argues that

The increased dependence on the world market . . . has created an objective material base for foreign trade relations to serve power policy interests to a much greater extent than before, since, in countries sensitive to foreign trade, an unexpected closure of either markets or sources of supply may force the affected trading partners to engage in costly substitution programs. (Kadar 1982, P. 335)

Consequently, he believes the foreign trade has turned into a strategic instrument for influencing international power relations. He cites, for example, the Carter administration's imposition of the grain embargo on the Soviet Union in 1980 and the Reagan

\textsuperscript{32} This is another argument which is in complete opposition to that of the dependency school.
administration's restriction of exports of technology to the Soviet Union in late 1981. Kadar, however, maintains that

The presence of the power policy intentions and the use of political pressure, is undeniable in East-West relation. But the experience . . . call attention to the fact that government decisions do not automatically imply implementation." (Kadar 1982, P. 336)

He argues that trends in actual trade often outweigh political considerations of the traders; for instance, despite such restrictions, exports to the Soviet Union increased faster than the total exports of the OECD. The Western companies, interested in exploiting the increased purchasing power in the Soviet Union which resulted from the rise in the price of crude oil, were not willing to give up the Soviet market. Kadar admits the smaller countries of Eastern Europe are more sensitive to the political pressures and the domestic policies of the Western countries.

Many other experts of East-West economic relations, Kadar argues, call attention to the strong cyclical fluctuation and to the

33 Following American pressures in January 1982, the NATO Commission, coordinating exports of strategic goods to the Socialist countries, ordered a stricter control of exports. The resolution was a compromise; Western Europe and Japan resisted U.S. pressure, and only imposed restrictions on the export of most modern technology.

34 Kadar asserts that it is true that in the mid 1970s the growth rate of Soviet imports of engineering products gradually diminished. But such a decrease "is not necessarily a consequence of export restrictions, but reflects to a considerable extent the structural changes in the Soviet import pattern, the above average dynamics of the imports of foodstuff and other agricultural products." (Ibid., p. 336)

35 Z. Krasznai - M. Laki 1982 (p. 153) also argue that although the Western endeavor to limit exports to socialist countries is never taken from the agenda in the West, the more diversified the sources of technology imports are, the more Western firms are involved in this relationship, the less sensitive this field will be to politics.
sensitivity of such relations to the Western business cycles. Kadar believes that the growth rates of East-West trade, however, show such fluctuations which exceed those of either world trade or the trade of OECD countries. The fluctuations in East-West trade, therefore, cannot be explained simply by the phenomena of market anarchy, since they are much stronger than the swings of the business cycles of the market economy. (Kadar 1982, P. 338) Nor can they be explained by the foreign trade policy discrimination of Western Europe, because the import policy dispreferences of these countries against the four industrialized South East Asian countries are stronger than those against Eastern European countries. In spite of such dispreferences, the exports of these four countries to Western Europe expanded at a faster rate than the exports of Eastern European countries to the West.36

Kadar, along with other Eastern European economists following the doctrine of openness, believes that most of the problems associated with East-West trade relations must be sought inside of the socialist countries and in their "structural features," not in the external conditions.37 At this point one can easily observe that the dependency school, discussed in the second chapter, tends to ignore

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36 J. Szita (1974) also argues that the argument that the impediment to the development of East-West trade is discrimination imposed by the Western countries is misleading. It is misleading because it diverts attention from other problems whose solution requires efforts from socialist countries.

37 Emphasizing the external problems will, according to J. Szita (1974), "often divert attention towards questions which are not in line with the most important problems of the development of East-West trade, and then they are likely to distract attention and efforts into the wrong direction." (Ibid., p. 283)
these internal factors. However, the Eastern European economists argue that studying these internal 'structural factors' is of vital importance for understanding East-West economic relations.

The Eastern European economists believe that the development of economic relations with the West requires reacting to the sudden changes in the world economy. However, it is argued that the structure of East European economies, the weak points of their production structure, including unsatisfactory quality level of production, and the lack of flexibility and poor initiative of their industrial and trade organizations do not allow them to meet the requirement of reacting to the fluctuations of the world economy. (Kovals 1976, P. 57; Veress 1974, P. 336; Mujzel 1979, P. 420) The majority of these problems is attributed to the policy of autarky which was the dominant policy for decades in these countries, and the system of central planning and management.38

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38 W. Samulewicz (1984, p. 260), for instance, argues that the Eastern European countries' "inability to produce enough goods of sufficient quality" can be traced back to the system of central planning. The central economic authorities, he maintains, translate the national goals, (at macro level) into the plant targets (micro goals) for particular enterprises. The managers of enterprises are then stimulated to fulfill these goals. According to him, however, there is a great danger that managers neglect those aspects of the operation of enterprises which do not find formal or full expression in their plain targets. These neglected aspects are, in most instances, activities like development of new products, which produce results only in longer time periods, or those which have effects--like quality improvement--that are not quantifiable.

According to W. Samulewicz, the Eastern European countries' inability to market saleable goods in the West stems also from the domination of central planning in these countries. Marketing goods on Western markets requires the ability to adapt to changing conditions, but the Eastern European enterprises operate according to plan, and the margin envisaged by planners for flexible adjustment to changing market needs is very narrow. Consequently, many opportunities for exports are not utilized, and exports grow slowly. (Ibid., pp. 260-261)
M. Tardos (1981) attributes the problems associated with the participation of Eastern European countries in the international division of labor to the lack of flexibility of institutional and management systems in these countries. He argues "one of the principle and still unsolved economic management problems is the rather slow reaction of the whole system to new requirements and cutbacks in demand. For example, no ways have yet been found to meet the demand for a new product by establishing a new company." He further asserts that "if there is no effective demand for a company's product, the system will not suspend production and wind up the company. Instead production will be maintained by state subsidies until some government decision is taken." (Tardos 1981, P. 231)

Along with the inefficiency of Eastern Europeans' production (Koves 1979, P. 328), and the lack of adaptation to conditions of the international division of labor, another internal situation is cited as the reason behind the problematic cooperation between East and West: that is the existence of the seller's market in Eastern Europe.39 (Samulewicz 1984, P. 259)

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39 According to Samulewicz (1984), the existence of the seller's market means that the demand/supply ratio permanently is higher than unity for almost all products. Z. Krasznai-M. Laki (1982, p. 156) discussing the Hungarian situation, argue that the Hungarian market is characterized by lasting disequilibrium and excess demand. Due to the shortage situation existing for more than three decades, enterprises are defenseless as buyers while they are in a relatively comfortable situation as sellers. Hungarian enterprises can obtain new labor, investment capacity, or credit only with difficulties and they have serious problems even in purchasing parts, units and auxiliary materials required for current production.
On the seller's market sellers neglect buyers' requirements concerning qualities, assortment, etc. Because of the lasting superiority of sellers characteristic of the Eastern Europe market, the buyers have developed particular, defensive methods to increase their security. In the interest of easing their defenseless position they often arrange for occasional or lasting self supply, are willing to accumulate material stocks and in their emergency situation they themselves initiate concealed or open price increases. Under these conditions it is believed that

... if a new product or technology deviating from those well known in the enterprise is introduced, then the aforementioned forms of eliminating defenselessness are even less efficient. (Krasznai and Laki 1982, P. 158)

Relating the existence of the sellers' markets in Eastern Europe to these countries' participation in the international division of labor, Z. Krasznai and M. Laki (1982) argue that certainly the possibility of purchasing from abroad improves the position of purchasing enterprises against domestic suppliers. Subcontracting agreements make it possible for the Eastern European enterprises to become independent of domestic conditions of material supply.

In the case of Western cooperation deals and J.V., however, the situation is by no means unambiguous, especially if the deal is aimed at the manufacturing of some products or group of products new for Eastern European enterprises. Here--mainly if several domestic parts, units, auxiliary materials are used for the new product--the aforementioned methods of eliminating defenselessness is inefficient. (Krasznai and Laki 1982, P. 158) As a result, the more an enterprise
is forced to resort to domestic sources of purchasing and sales on the world market, the more problems and inconvenience the cooperation with Western firms will cause. The Eastern European countries' enterprises accustomed to circumstances of the domestic markets are rarely capable of reliable quality, deliveries in time, etc.

Z. Krasznai and M. Laki (1982) therefore conclude that due to the lasting excess-demand on the domestic market, there is a strong pressure for imports and involvement in those types of cooperation deals which lead to increases in imports; at the same time the intention to export to Western markets is weak. Furthermore, for the reasons mentioned before, they argue the Eastern European enterprises are only willing to participate in those cooperation agreements that use world market input and produce output for the Eastern Europe markets. These conditions consequently lead to chronic balance of payments problems, and do not permit the socialist countries to take advantage of participation in the international division of labor.

Besides the inability of the socialist countries to produce sufficient goods for export, to produce goods of higher quality, and [their inability] to market saleable goods in the West, some of the Eastern European governments' policies are also blamed for these countries' problems in dealing with the West. A. Koves (1981), for instance, argues that after Eastern Europe opened up to the world market, although smaller Eastern European countries encouraged the export to the West products of such inefficient sectors as agriculture, food industries, and light industries. The sectors which enjoyed priorities in development policy, and whose development was mainly
promoted by imports from the West, manufactured products not primarily for export to the West, but for domestic use.

Other unfavorable conditions were at work which made the participation of Eastern European countries in the international division of labor in the second half of the 1970s more problematic. The insufficient development of fuel, raw and primary material producing branches along with repeatedly unfavorable harvests increased demands for imports from outside Eastern Europe, and made the raising of commodity funds for exports almost more difficult. Under these circumstances, the individual countries made increased efforts to shift some of their products traditionally sold within Eastern Europe to be sold for convertible currency. Such acts, therefore, produced a chain effect which led to a general increase of imports from the West throughout all the Eastern European countries. (Koves 1979, P. 328)

The pattern of trade of Eastern European countries is also cited as an important contributor to the problem of trade deficits and other difficulties faced by these countries as a result of their engagement in the international division of labor. For example, regarding pattern of trade of smaller Eastern European countries, Kozma (1982) argues that these countries generally appear as sellers in those industries in the West in which competition is sharp and the

40 Other internal factors are also blamed for the failure of Eastern European countries to take advantage of participation in the internal division of labor. B. Kadar (1983, p. 306), for instance, argues that insufficient development of infrastructure has a retarding effect on the foreign economic relations of these countries. He believes infrastructural development (transport, distribution, storage, sales, flow information) reduces the cost of foreign economic relations.
dominating form of production is the small and medium-size plant, whose protection is, to a certain extent, in the political interest of the Western governments. Therefore, one important cause of the problems faced by the Eastern European countries in their international economic relations must be sought in what types of products these countries export and what type of products they import, (Koves 1978, P. 109) which takes us to the discussion of the Eastern European economists' arguments in regard to the place of Eastern Europe in the hierarchy of the international division of labor.

4.6.1.4. The Position of Eastern Europe in the Hierarchy of the International Division of Labor and Cost of Openness:

The Eastern European economists argue that despite tremendous development of the forces of production of Eastern European countries, they are placed in the middle of the hierarchy of the international division of labor. The structural characteristics of East-West foreign trade reflect those of foreign trade relations between the developed capitalist countries and the "medium developed" countries. (Kadar 1977, P. 154) The developed capitalist countries, "mainly for the historical reasons," are at an advantage over the socialist countries. The DCs sell goods and products to Eastern Europe which they usually export to the LDCs and in turn purchase goods and products from Eastern Europe which they usually import from LDCs. (Chase Dunn 1982, P. 21) Eastern Europe exports, consisting mostly of raw materials, sources of energy, and foodstuffs, pay for imports of industrial goods. Eastern Europe
exports mainly consumer goods, and imports mainly capital goods. (Kadar 1977, P. 158)

Such a pattern of trade put Eastern European countries in a disadvantageous position, mainly because most of the exports of these countries rely on the natural endowment (foodstuffs, raw materials, as products of timber, paper and sources of energy, etc.) which consist of products "that are more capital intensive than the average. Yet, the Eastern European countries are relatively short of capital, and by exporting the capital intensive products they aggravate their problem. (Kadar 1977)41

Moreover, the fact that there are few up-to-date machines and other industrial products of outstanding quality in the structure of Eastern European exports makes these countries especially sensitive to restrictions. (Koves 1979, P. 336) Among the manufactured products exported to the Common Market, for example, is clothing, which is produced by small and medium sized industries in the West and consequently prone to high tariff rates and other restrictions.

At any rate the Eastern European economists believed that the zone in which the Eastern European countries are situated in the international division of labor is one of the 'danger zones' in the

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41 The Eastern European economists argue, it is true, that a similar situation can be observed in the case of underdeveloped or medium-developed capitalist countries that export capital-intensive products of the extractive industries, as well as other raw materials, but in these countries the extractive industries are usually the result of foreign capital investment. In the case of Eastern European industries there is not such foreign investment; therefore the export structure engaged additional domestic resources of investment and influences the "efficiency of investments" at the national level. (Ibid., p. 159)
world economy, mainly because of the following considerations: a--
the industrializing developing countries can break into this zone in a
relatively short time and become Eastern Europe's competitors; b--
the majority of Eastern Europe's products exported to the West are
vulnerable to the DCs' defensive measures in order to protect their
"non-leading" industries and agricultural sector. (Simai 1977, P.P. 9-
10) It follows, then, that "breaking-out" of this zone and moving
towards an advanced industrial level is of vital interest for the
Eastern European countries.

The Eastern European economists, however, like to emphasize
two important points: first, the position of Eastern Europe in the
hierarchy of the international division of labor does not reflect the
level of development of productive forces of this region and is
largely of historical nature, resulting from traditional regional
specialization in production and in exports of fuels, raw materials,
other production materials, and agricultural and food products.
(Tabaczynski 1981, P. 98) To support this point, they assert that for
instance, in the case of Hungary, its exports to the socialist countries,
amounting to two-thirds of its foreign trade, correspond to the
exports of the most industrial developed countries, while the
structure of its non-socialist exports is close to the trading structure
of the developing countries. (Mandel and Myller 1974, P. 38)
Clearly Hungary is capable of producing high-quality goods but is
unable to market them in DCs. Part of this problem, apart from
discriminatory procedures of Western countries, is due to the
difficulties of establishing new, wide trade relations on the markets
of the DCs. In these countries years of development of international
trade fostered the formation of wide and stable trade and capital relations, of which for a long time the socialist countries had been left out. The sophisticated system of business relations is based on a close and complicated system of relations embracing a whole network of traders, financial institutions, production companies, governments agencies, etc. For the outsider and the newcomers it is very difficult to break into this complicated network, therefore the quality of their products and technology by itself is not sufficient for their success. (Szita 1974, P.P. 281-82) In the case of Eastern European countries, although the level of production and variety of goods and services which are produced by them are far superior to those of the developing countries and indeed in cases surpass those of DCs, they are not successful in penetrating into the Western markets. Notwithstanding, Eastern European economists do not deny that the quality of most of their goods may be below the DCs' standards.

The second point that Eastern Economists like to stress is that their participation in the international division of labor is a necessity and an undeniable fact, but it does not imply that their economic development is shaped and directed by the requirements of the world market. For example, according to Kovas (1976), the Hungarian economy is an open economy, which means that it is linked through many threads (by imports and exports) to the world economy. Such openness is no doubt necessary.

Because "of the actual and potential scarcity of production resources the utilization of neither the operating nor the newly entering capacities, nor the employment of labor can be
realized by relying exclusively on the growth of the home market. In other words, the importing of raw materials, and means of production necessary for extended reproduction in the Hungarian economy and of consumer goods as well becomes possible only by exporting a considerable part of the output." (Koves 1976, P. 51)

Kovacs, however, maintains that "openness" means something different in the case of Hungary than when applied to small and medium-sized Western countries. In their case openness means a much more direct assertion of foreign market effects on home processes. In Hungary the wide sphere of plan-controlled and influenced economic processes, the socialist character of price and income policies, and the government control of investment decisions allow—openness notwithstanding—a less direct, restricted and delayed infiltration of foreign influences. (Koves 1976, P.P. 51-52)

Yet he admits that the open character of the Hungarian economy makes this country to some extent vulnerable to the changes in the world economy and has manifested itself in deterioration of its terms of trade under the effects of world market changes in 1974 and 1975.

G. Stepanov (1981) states that the history of the Soviet state is full of examples of "futile attempts to 'punish' or 'isolate' it." For example, during the first years of the Soviet Republic the imperialist states wanted to strangle it by means of blockade. But even in those extremely difficult conditions the Soviet state managed to hold out. Another imperialist attempt to prevent the Soviet Union's economic development in the 1940s and early 1950s also ended in failure. At that time restrictive export lists included almost all products that the Soviet Union needed for the rehabilitation and development of its
economy. Yet, the Soviet Union was able to organize its own production including the most import branches of industries. Today, with the existence of the socialist community and their close collaboration, opportunities for imperialist states to influence the economic development of the Soviet Union and other socialist countries are largely limited. (Stepanov 1981, P. 46)\textsuperscript{42}

G. Kohlmey (1975) also strongly denies that the socialist countries as a consequence of their participation in the international division of labor are compelled to 'import' the capitalist countries' inflation and crisis.

"Some disadvantages do arise for us (owing to difficult marketing conditions due to recession, growing protectionism and increasing competition), but there emerge also certain advantages (e.g. more favorable procurement conditions, better credit terms). At other times the advantages and disadvantages differed, and the disadvantages were often great. Crisis and inflation do influence the socialist economies, but their influence is not significant and not deforming at all." (Kohlmey 1975, p. 305)\textsuperscript{43}

\textsuperscript{42} One can also add the increase and rivalry among Western firms to export pipeline to the Soviet Union.

\textsuperscript{43} Given the position of Eastern European countries in the international division of labor, and the problems encountered by these countries as a result of such position, the Eastern European economists seek the solution not in the curtailment but "in the expansion and rationalization of economic relations" with the non-socialist countries. (144, p. 317) They believe that the most important element of long-term strategy of the CMEA countries must be following the "export-oriented model of development." For a discussion of this approach please see appendix (II).
2.6.2 East European Countries and the LDCs:

The dependency school maintains that since the socialist countries occupy an intermediate position in the hierarchy of the international division of labor, their economic relations with LDCs resemble those of DCs with LDCs. I believe the explanation for East-South economic relations given by the Eastern European economists are important and worth further investigation.

One of the first points generally raised by the Eastern European economists is that they do not consider their countries responsible for the problems of LDCs. For example, O. Bogomolov (Bogomolov 1979b, P. 15) maintains that it is the developed capitalist countries which are responsible "for the colonial past and present condition of developing countries" not the socialist countries. Bognar (1979) also argues the same points, "[f]or the past--for colonialization and its consequences--socialist countries are in no way responsible," but he maintains that "yet for the future they are, since they have immense direct and indirect influence on its formation." (Bognar 1979, P. 15) According to him, the socialist countries should initiate and promote establishment of such circumstances "which allow that countries with different social system and state of development can help each other in solving economic problems. . . . Only in this way will it become possible that the various economics--and especially the economics of developing countries. . . ." (Bognar 1979, P. 16) Such economic development in the Third World can be accelerated by the socialist
countries' establishment of trade, extensive cooperations, and aid.44 (Bognar 1979, P. 15)

One form of economic cooperation with LDCs is providing technical assistance and "economic aid credits" to them. According to Bogomolov, the technical assistance of the socialist countries to the LDCs is concentrated mainly in the state sector, especially, in the key industries whose development is important for ensuring the "political independence" of these countries and which contribute to the consolidation of their national economies." (Bogomolov 1979d, P. 30) It was only after socialist countries started to build engineering and other heavy industries that the DCs became compelled to enlarge and extend their scale of aid to the developing countries. Therefore, the Eastern European rendering of technical assistance to LDCs has been doubly advantageous to the developing countries, on the one hand providing these countries with the heavy industrial sector, on the other hand forcing DCs to extend their economic assistance from the extractive industries to other sectors.

According to the Eastern European economists, there exists a distinct difference between the types of "economic aid credits" granted by CMEA countries to LDCs and those granted by DCs. Socialist countries' credits as a rule are long term (10-15 years) and

44 Y. Shiryayev (1979) in fact argues that the establishment of these economic relations must be aimed at elevating the position of LDCs in the hierarchy of the international division of labor. "One important indicator of the CMEA countries' growing role in the system of international economic relations is their vigorous efforts to solve one of the most imperative problems of our day, i.e. to change radically the place and role of the former colonial and semi-colonial countries in the world division of labour." (Ibid., p. 5)
are granted at a 2.5 percent interest rate. "The long-term nature of credits allow the recipient country enough time to build the industrial project, to master production and start repaying the credits with the receipt from its output." (Bogomolov 1979d, P. 31) Admittedly they assert that the total sum of credits extended by the socialist countries' assistance to the LDC is "less than that provided in the form of so-called 'aid' by the industrialized capitalist countries." They continue that one should remember that "by diverting a part of its free capital to developing countries as 'aid,' the West derives even greater benefits by extracting interest, profits and other receipts from the developing countries."45

According to Bogomolov (1979a), the socialist countries, desire to render all-round assistance to the developing countries is mainly motivated from their interest to support LDCs in their "struggle for national sovereignty and independent development." In maintaining these relations the socialist countries "are not motivated by any unilateral advantages: they are pressing for neither concessions, nor political domination, nor military bases. On the contrary, they are motivated by a sincere striving for justice, equality, mutual advantage and people's solidarity." (Bogomolov 1979a, P. 24) In

45 In 1977, for example, the LDCs (non-petroleum exporting developing countries) paid $25b against loans and credits and the interest on them amounted to 21% of their export earnings. In the same year the entire 'aid' received by these countries from the West amounted to $14.86. (Ibid., p. 31) (See also Kulev 1983, p. 26) It is argued that the socialist countries could increase their volume of aid to LDCs and increase their contribution to their development "if the progress is achieved in disarmament." The socialist countries could channel to the LDCs a fixed share of the resources which would be released through the reduction of the military budget. (Bogomolov 1979b, p. 16)
addition, he argues that the socialist countries' economic assistance to LDCs indicates "a fundamental difference in the division of labor and economic cooperation between these two groups of countries, on the one hand, and the capitalist division of labor" on the other hand. (Bogomolov 1979a, p. 24)46

The economic-relations between the socialist countries and the LDCs are not limited to technical assistance, and 'economic aid credits.' They entail a variety of economic relations including trade and ICAs.

"The Soviet Union devotes great attention to the development of relations with the developing countries. . . . and purses a policy of comprehensive--including trade--economic cooperation with them. In all phases of this cooperation the Soviet Union adheres to the democratic principles of total equality and mutual advantage and the inadmissibility of any manner of encroachment on sovereignty." (Klochek 1979, P.P. 15-16)

The Eastern European economists believe these types of economic relations not only help LDCs to "achieve genuine independence but are also an important factor of countering the imperialists' attempts to obstruct the positive processes taking place in them in the political, economic and social spheres." (Kulev 1983, P. 22)

46 On other points, however, Bogomolov suggests that the socialist countries' economic assistance and aid should be directed at rationalizing "the division of labor between the socialist countries and LDCs." Such rational division of labor will "secure new sources of stable imports of raw materials, fuel, and some goods by CMEA countries, while simultaneously creating a stable prospect for exports to the developing countries of the goods they need." (Bogomolov 1979b, p. 16-17) This type of division of labor is not significantly different from that which exists between DCs and LDCs.
The socialist countries, some argue, follow certain principles and criteria in their economic relations with LDCs; these principles are outlined by T. Szentes: (1976, P. 146):

- exclusion of exploitation from internal economic relations;
- equality of partners, avoidance of one-sided economic dependence, and exclusion of interference with the partner's affairs;
- support to countries fighting for their economic independence against imperialist economic powers;
- full respect for national sovereignty over the natural and labour resources of the partner countries and support to governments intending to realize it;
- combining the observation of the principles of mutual interests and advantages . . .
- cooperation with and assistance to the state and collective sectors, wherever it is possible in the partner countries; . . ."

The Eastern European economists also stress the economic advantages which the socialist countries obtain from their economic relations with LDCs. The question is, however, raised about what types of products CMEA countries should import from and export to LDCs which would be mutually advantageous [to both parties]. O. Bogomolov (1979c), for instance, suggests that in the interest of raising the efficiency of investment and in "a fuller satisfaction of demand for energy in the CMEA countries" it is reasonable that these countries increase the imports of energy and other raw materials from LDCs. (Bogomolov 1979c, P. 310) He furthermore argues that under the conditions of pressing "scarcity of natural resources" it is important for Eastern Europe to ensure access to mineral resources on a long-term basis. (Bogomolov 1979c, P. 311) To ensure such access, the Eastern European countries can pool their resources together and help developing countries to increase their extraction
and processing of certain raw materials. (Bogomolov 1979c, P. 310)\(^{47}\)

L. Csaba (1983) argues more or less the same points, but he is more cautious and maintains that Eastern European countries could increase their industrial exports to LDCs at the present time, but this action may overstrain "their already very strained balance of payments," especially if one considers that the Eastern European countries are in need of imports of the most advanced technology from the West in order to continue their policy of 'intensive development.' Consequently, East European countries, in order to afford these imports should channel their exports toward the West, (Csaba 1983, P. 69) and not LDCs.

There are economists like M. Simai (1977) who believe that given the growing differentiation in the Third World, and uneven economic development, it is wrong to prescribe a single and common pattern of trade with these countries. The developing countries, these days, can produce and export a variety of different industrial products. These products include: traditional and new labor-intensive industrial finished products (such as clothing; textiles);

\(^{47}\) Consequently, Bogomolov suggests that LDCs in their relations with the socialist countries should confine themselves to their traditional role in the international division of labor, i.e. the exporters of raw materials. The only impediment he foresees in the continuation of such economic relations is the inability of socialist countries to provide enough investments in the expansion of their export-oriented production in order to pay for the rising volume of imported fuels and raw materials. (Ibid., p. 310) However, he believes Eastern Europe, by redistributing the existing investment funds from the extractive industries to the manufacturing industries and consequently by specialization in the manufacturing sector, can raise efficiency and produce enough goods of high quality to be exported to the LDCs. (Ibid., p. 311)
machines, electrical engineering and electronics products; basic chemicals, chemical products, synthetic fibers, fertilizers, etc. Therefore, the Eastern European countries can purchase increasing amounts of semi-finished and finished products from these countries, and do not have to limit themselves to purchases of raw material and fuel. (Bimai 1977, P.P 16-17) I. Kulev (1983) similarly believes that the socialist countries do and will continue to provide a stable market for the developing countries' traditional export goods as well as output of their new enterprises. (Kulev 1983, P. 25) In fact, he asserts that a large portion of LDCs industrial output exported to the Soviet Union is produced by industries established by the help of this country. According to him, the conclusion of "compensatory agreements" under which deliveries of equipment and other services by the Soviet side are paid for by deliveries of the output of new enterprises is a growing practice in the economic cooperation between the Soviet Union and LDCs.

O. Bogomolov (1979a) emphasizes the importance of ICAs in the East-South economic cooperation. He believes ICAs help the developing countries "to speed up the introduction of new industries and attain the necessary production efficiency and quality output. It also helps them to increase their exports of manufactured and sophisticated goods to the extensive and stable markets of CMEA countries." (Bogomolov 1979a, P. 31) At the present time, therefore, because of the existence of a variety of economic relations between the Soviet Union and LDCs, the Soviet Union supplies these countries with increasing numbers of various kinds of machinery, equipment and materials. In turn the USSR has increased its purchases of not
only raw materials and traditional exports of foodstuffs but also of the finished products of their young industry.\textsuperscript{48} (Klocheck 1979, P. 16)

It seems there exists an apparent difference between the Soviet economists who recommend the export of a variety of industrial goods from LDCs, and those of smaller Eastern European countries whose countries lack a sufficient supply of raw materials and consequently recommend exports of traditional products of LDCs. One way of solving the apparent contradiction between these two approaches is suggested by T. Szentes. (1976)\textsuperscript{49} Szentes suggests that one can easily visualize a long-term agreement which would start from exploration and exploitation of raw materials to be sold

\textsuperscript{48} ICAs between the socialist countries and LDCs through the years have taken different forms. In the earlier time, the CMEA countries introduced mass deliveries and installation of complete plants. Under this form of cooperation the contractor undertook the delivery of all the equipment required for the project under construction. Later another form was developed, the 'turn-key' projects. Apart from delivering the complete plant, the socialist countries pledged to carry out building jobs, and hand over a complete ready-to-operate industrial enterprise. Recently, a more complex form of technical assistance has been developed. Under the type of agreement, the socialist countries undertake "to master the project's capacity and train local manpower, as well as to ensure the profitable operation of the enterprise in the initial stages." (Bogomolov 1979a, p. 29) Another form of cooperation is the establishment of joint companies. The host country holds the controlling interest and actively participates in its management. All of these types of economic cooperation are believed to help "to strengthen the state sector of these countries' economies and become an effective instrument for expanding the economic ties between the two groups of states." (Ibid., p. 34)

\textsuperscript{49} According to him, there exists an apparent contradiction even between "the deliberate policy of Hungary . . . of assisting the developing countries in the building up of their own processing facilities and the dynamic key industries, applying modern technology, and based upon local natural resources, on the one hand, and her import demands for traditional raw materials, on the other." (Szentas 1976)
partly to the cooperating country; it would then be followed by local processing of the raw materials, and the growing share of the related manufactured products in the export to the partner; and finally it would proceed to the development of some advanced industrial centers based upon the local natural resources and entering into intra-industrial exchange and cooperation with those in the assisting country. The drop, in a relative sense, of the raw material purchases of the latter from the developing country, which follows from the increasing volume of processing on the spot, can be purposefully, and for mutual benefits, compensated by an appropriate increase in the manufactured imports for the related final consumption, without harmful consequences for the Eastern European country. The greater mutual benefits will arise in those fields in which sharing of the raw material supply can be connected with the sharing of the final stages of the production. (Szentes 1976, P. 152)50

At any rate, the Eastern European economists believe that since the nature of socialist countries' economic relations with LDCs is different from that of DCs, the developing countries will obtain considerable benefits from their economic relations with the socialist countries. It is therefore irrelevant whether LDCs export raw materials or machinery to Eastern Europe. "Unlike the imperialist powers which have preserved and often even increase customs and other barriers blocking the export output of the newly-free countries

50 Szentes' proposal is almost similar to that of Csaba (187) discussed earlier. Csaba suggests a conscious and deliberate policy to divest from declining industries, and instead import the related products from the developing countries, and concentrate and specialize on those manufacturing products in the production of which Eastern Europe enjoys comparative advantage.
and especially the finished products of their industries, there are no tariff barriers in the USSR, . . . the clearing system of accounts based on cancelling out the mutual accounts of the sides is of considerable importance for a number of countries. Many young states are experiencing difficulties with freely convertible currency, and the clearing system rids these states of such difficulties." (Kulev 1983, P. 25)

Another important aspect of economic relations between the East and developing countries is its long-term nature. The long-term agreement "creates a stable basis for commodity exchange and allows the developing states to count on stable exports not only of traditional goods, but also of newly manufactured products." (Bogomolov 1979a, P. 28) They furthermore "enable the Soviet side to recoup its outlay on the building of projects." (Kulev 1983, P. 25)

Another significant element which makes Eastern European countries' relations with LDCs distinguishable from those of DCs and LDCs is that the majority of East-South economic cooperation takes place within the framework of the state sector.

"Because of the weakness of the national economy most Afro-Asian and Latin American countries lack the capital and the necessary experience to manage a modern economy. The record has shown that in these conditions the state sector, if used sensibly, can become an effective means of mobilizing internal resources, accumulating the necessary skills of developing and managing the economy. . . ." (Kulev 1983, P.25)

In addition it is argued that "the state sector makes it possible to solve top-priority social problems, such as the introduction of regular working hours, free primary education, raising minimum wages, introducing a system of social insurance, free medical services, etc."
Therefore, strengthening the state sector not only raises the level of economic development of developing countries, but it also raises the standard of living of people of these countries. The Eastern European countries do not reject, however, development of business cooperation with the private sector of LDCs under the condition that it "facilitates the consolidation of the newly-free countries' national economy." (Kulev 1983, P. 23)

Furthermore, the Eastern European countries promote these types of economic relations which are contained in the economic plans of various developing countries. "In this way commodities, services and technological systems to be supplied can directly promote economic development in the developing countries." (Bognar 1976, P. 240) The programmed, planned character of such economic relations "can offer the required safety in supply, in revenues and for the employment situation on both sides." (Szentes 1976, P. 152) Consequently, the socialist countries have been able to develop and apply "totally new patterns of international relations, differing fundamentally from those obtaining" in LDCs under capitalism. These economic relations "make it possible for all oppressed peoples to rid themselves of the imperialist yoke." (Shiryayev 1979, P. 5) In fact the economic relations between the socialist countries and the developing countries should not be viewed only based on "purely economic indicators like the volume of credits, foreign trade, . . . etc," because these economic relations produce two very important benefits for LDCs. First, they serve to strengthen the economies of these countries and their economic independence, and they consolidate the position of the state sector to build modern
industrial and agricultural sectors. Second, the developing countries become involved in an advantageous, "steady and balanced division of labor with the CMEA countries" which along with all sorts of benefits, eliminates the DCs' monopoly as sole exporters of industrial goods to them and importers of their products and consequently enhances the economic independence of the LDCs. (Shiryayev 1979, P. 6) Such economic independence in turn will help the restructuring of the world-wide economic relations and place these relations on more equitable and democratic foundations. (Bogomolov 1979a, P. 23)

Unfortunately, the economic relations between the LDCs and Eastern European countries have not reached the desired level, partly because of lack of historical contact between these two groups of countries. Historically, the majority of Eastern European countries, unlike the former colonial powers in Europe, did not establish any contact with the LDCs; as a result they did not acquire "accumulated knowledge and field experiences in the developing countries." (Szentes 1976, P.145) Consequently, many developing countries are inclined to continue their traditional ties with the Western companies.51 The Eastern European countries, therefore, need to endeavor harder and concentrate their efforts on acceleration of their economic relations with LDCs. The importance of such economic relations become even further enhanced, if one considers that the developing countries and Eastern Europe have similar interests as far

51 Apart from the influences and pressures of MNCs.
as "actively countering the forces of colonialism and neo-colonialism and the imperialist exploitation of nations are concerned." Their interests also coincide "on issues relating to restructuring world-wide economic relations and placing them on new democratic and just foundations." (Bogomolov 1979a, P. 23) It has been shown, once again, that the conclusion reached by the Eastern European economists are considerably different from those of the dependency school. Even if the Eastern European economists agree with the dependency school's argument that Eastern Europe's pattern of trade with LDCs is similar to that of DCs with LDCs, they disagree with the dependency school's idea that Eastern Europe exploits the LDCs. Eastern European economists maintain that the nature of Eastern Europe's economic relations with the LDCs is fundamentally different from that of the DCs with LDCs. Therefore, regardless of their pattern of trade, the LDCs will gain from their economic relations with the socialist countries.

4.7. Summary and The Contending Views:

The proponents of openness in Eastern Europe believe that although adoption of autarky and its concomitant policies was justified at one time, by the late 1960s it became clear that "the price of autarky is too high and not worth paying." (Pasztor 1980, P. 90) They argue that, by the late 1960s, the sources of extensive development, a characteristic of autarky policy, were exhausted; consequently, a shift from an extensive growth to an intensive
growth became imperative. An intensive growth in turn requires participation in the international division of labor.

Eastern European economists argue that as a result of its participation in the world market, Eastern Europe is placed in the middle of the hierarchy of the international division of labor. The structural characteristics of East-West foreign trade reflect those of foreign trade relations between the DCs and the "medium developed" countries. They argue, however, that as a result of such a position, Eastern Europe is neither exploited by nor dependent upon the DCs, mainly because foreign capital cannot directly infiltrate these countries, and in most cases the ill-effects of such infiltration can be mitigated by the government policies. The Eastern Europe economists' conclusion is, therefore, different from that of the dependency school.

In regard to Eastern Europe's economic relations with the LDCs, these economists argue that such relations are entirely favorable to the LDCs. They maintain that since the nature of Eastern Europe's economic relations with the LDCs is fundamentally different from that of the DCs with the LDCs, the LDCs will benefit from their relations with the socialist countries.

The proponents of doctrine of openness, with their heavy emphasis on the imports of Western technology, have been criticized in Eastern Europe on several grounds. E. Kozma (1982), for instance, argues that in spite of all the "deficiencies and exaggerations" associated with the policy of "autarky," this economic policy "had two starting points" which are correct even today, namely, that the development of the Eastern European economies "should rely on
developing the intellectual capacity and technical skills of the population and that the highly important specialization should be implemented within the socialist community." (Kozma 1982, P. 33) These two important principles seem to be abandoned by the export-oriented model's proponents; and "their abandonment would amount historically to abandoning the efforts at true development in Eastern Europe." (Kozma 1982, P. 33)

The critics argue that the policy of openness renders it possible for the capitalist countries to build in the Eastern European community "a base of raw-material supply, food supply and of cheap, moderately qualified 'subsidiary' labor, which would one-sidedly depend on Western capital and technology." (Kozma 1982, P. 31) Moreover, it is unrealistic to believe that Eastern Europe can increase in a large magnitude its exports of manufactured articles to the West, particularly in the short run.

"Massive exports of manufactured articles to the West will not be competitive for a long time to come, and this is because the products are not so new that the 'extra profit' to be included in their price could bear the relatively high social costs of labour. On the other hand, the manufactured commodities that could be otherwise sold in the West, are not introduced to the Western markets. The costs of marketing which emerge in convertible currencies are . . . much higher than what could be borne by the particular socialist countries." (Kozma 1982, P. 32)

As a result, the Eastern European countries have no choice but to resort to export of raw materials to the West in order to import Western technology, which would make Eastern Europe dependent on the West, and as a result it would do immeasurable harm to the cause of socialism. The socialist countries should develop "their
economic relations with the West to the extent which does not threaten their technological and economic independence and does not make them strategically vulnerable." (Bogomolov 1983, P. 26)

Another point raised by the Eastern European critics is that the promotion of business cooperation with the West and the import of technology from them tends to weaken the ability of Eastern Europe to manufacture sophisticated products internally. They argue that as a consequence of the import of Western technology and know-how the development of domestic research and development has been neglected. Such a negligence produces severe consequences; it for instance guarantees the Western countries' superiority in introduction of new technology, and propels Eastern Europe to seek even further the imports of Western technology until they become completely dependent on it. They then suggest that Eastern European countries, instead of emphasizing the imports of Western technologies, should direct their efforts in supporting and encouraging domestic research and development and exert themselves in introduction and diffusion of home-grown technology. (see Hanson 1983, P. 32)

Apart from all the adverse consequences of imports of Western technology mentioned above, it is believed that there is no guarantee that the Western firms will sell most up-to-date technology to the socialist countries; getting such technology is one of the major goals of the "export-oriented" model of development. (Koves 1981, P. 53) In fact, Bogomolov (1983, P. 33) maintains that in most of the ICAs, Western firms attempt to obtain unilateral advantages and supply the socialist countries with those "production lines or technologies
which seriously pollute the environment, require an insufficiently skilled labour and are difficult to be mechanized." In addition, he asserts that the "capitalist firms often sell licenses for obsolete technology while possessing a better one which is to oust the former." Moreover, he believes that the ICAs entail a substantial additional import of components and materials from the West and somewhat "tethered the CMEA countries to Western standards and technology . . ." (Bogomolov 1983, P. 33) O. Bogomolov (1979b) also points out the extension of imports of Western technology. Under no condition can these be considered as an alternative for the socialist countries' scientific and technical progress. They can merely supplement it. (Bogomolov 1979b, P. 13)

Some critics argue that the doctrine of openness makes the economic development of East Europe susceptible to Western economic fluctuations, which will produce adverse consequences for the socialist countries. These adverse effects will be further enhanced during the period of Western recession when the politically motivated discrimination against socialist countries is aggravated by the strengthening of protectionism. (Koves 1981, P.P. 52-53) The socialist countries' economic, social and scientific and technological progress must rest primarily on the development of internal resources and increasingly on expanded possibilities of cooperation," for it is only then that they will be able to protect themselves from the influences from without. (Bogomolov 1983, P.P. 29-30) Any policy which ignores the importance of economic and political independence of the socialist countries not only does not contribute
to the solution of problems facing Eastern Europe, but in fact heightens these problems.

The critics maintain that the doctrine of openness model's contention that the Eastern European countries are unable to develop their economies without the import of foreign capital, technology, and know how is groundless. (Goldina 1984, P. 13 and Stepanov 1981, P. 47) Eastern Europe and in particular the Soviet Union has tremendous economic and scientific-technological potential, and the external economic ties with the capitalist countries are only "supplement to rather than the determinant of progress for the USSR and the other members of the socialist community." (Goldian 1984, P. 13) The Soviet Union's total imports from the capitalist countries represented only 1.6% of the Soviet Union's gross social product in 1981. (Goldian 1984, P. 13) The share of industrial equipment imported from capitalist countries does not exceed 5-6 percent of the Soviet Union's total capital investment in machinery. (Stepanov 1981, P. 48) In terms of development of technology, the CMGA countries account for at least 80 percent of total research on the European continent. (Stepanov 1981, P. 48)

Nevertheless, even the critics do not advocate a total isolation from the world market. The socialist countries should take advantage of possibilities inherent in the international division of labor. However, at the same time they have to search for a rational means to link their economies to the world market, a means which intensifies the economic growth of socialist countries, does not endanger their economic and political independence, and does not
make them vulnerable and/or dependent on the economic conditions of the capitalist countries.

The doctrine of openness, some believe, strives in essence to change the socialist economies and suggest a compromise. Such an approach is criticized as ignoring "instead of understanding the reality: the socialist planned economy is an established system whose continuous development is not determined by the aspects of the trade with Western economies but by its inherent necessities and requirements." (Szita 1974, P. 283) The solution should be sought not in concessions to be made in the fields of the systems of management and trade but in those practical measures which could positively foster the development of the trade. The experience of the past years has shown that only such a pragmatic approach brought success; only this could bring about a situation in which East-West trade is developing and, according to all indications, its further expansion can be anticipated. (Szita 1974, P. 284)
CHAPTER V

EMPIRICAL INVESTIGATIONS

The table below summarizes the major issues raised in the previous chapters. It is the purpose of this chapter to investigate empirically the validity of the dependency, neo-classical and Eastern European schools' arguments in regards to East-West economic relations. This investigation does not attempt to be a thorough test; rather it will only give an indication of empirical relevance of the theoretical analyses of these three schools. Much of the emphasis throughout the chapter will be on the dependency school, since this is the only school among the three that has vigorously attempted to theorize the economic relations between East and West.\(^1\) In any event, in order to empirically substantiate or repudiate these schools' arguments I will take the following steps: First: I will systematically collect necessary data in regards to the patterns of trade of Eastern European countries with both DCs and LDCs for selected years. Second: As the dependency school (as well as some Eastern European economists) has categorized Eastern Europe along with Brazil and Mexico and a few other countries as "intermediate" countries, I will collect appropriate data in regards to patterns of trade of these "intermediate" capitalist countries with DCs and LDCs.

\(^1\) There have been various attempts in testing the dependency "theories." See for example Chase-Dunn, C. (1975); Kaufman, R., et al. (1975) and Jackson, S. I. (1979).
I Dependency School

Method of Analysis

a-Frank:
Extends his method of analysis of the DCs' and LDCs' economic relations to those of the capitalist and socialist-economic systems.

b-Wallerstein:
Since there exists only one world embracing mode of production, the capitalist mode, there is no need for devising a theory of socialism.

Conclusions and Relevant Points for "Empirical" Verification

International investment intensifies the dependency of the socialist countries on the world's market. Therefore, it can only produce harmful effects for the socialist countries.

Socialist countries occupy an intermediate position in the international division of labor, a position similar to those of "semi-peripheral" capitalist countries.

II Neo-classical School

a-Non theoretical approaches

i - Case Studies
ii - General Description
iii - Informed Specialization
iv - Taxonomical Studies
### Method of Analysis

#### b-Theoretical Approach

Ignores the differences in the socio-economic systems of capitalist and socialist countries, and/or believes such differences are irrelevant and play an insignificant role (as far as assumptions of economic theory are concerned) in the investigation of economic relations of the East and the West.

### Conclusions and Relevant Points for "Empirical" Verification

Socialist countries conduct their trade according to the principle of comparative advantage.

Socialist countries in their economic relations with the West, in particular in their establishment of joint ventures with Western firms, are "profit maximizers."

### III Eastern European Approach

Acknowledges the existence of two different economic systems in the world, but suggests that some form of coexistence between them is possible.

In general, their analyses are void of any consideration for the potential conflicts of interest between Eastern Europe and the Western firms.

Although the socialist countries occupy an intermediate position in the international division of labor, they are not dependent on the Western countries.
Third: The comparison of these sets of data together can give an indication of the authenticity of the dependency and East European schools' arguments. If the patterns of trade of capitalist intermediate and Eastern European countries with LDCs are similar to those of DCs with LDCs, then these schools are correct in one aspect of their arguments. If the patterns of trade of the capitalist "intermediate" and Eastern European countries with DCs are similar to those of LDCs with DCs, then these schools are correct in another aspect of their arguments.

Fourth: The dependency school posits that Eastern European countries' economic relations with the West place them in an intermediate position in the international division of labor. As a result of such a position, the development of the former is in essence determined by trends in the latter. These trends, in turn, are molded by the development of the capitalist system in the advanced capitalist countries. I believe one way of empirically verifying such an argument is by establishing how dependent Eastern European countries are on the imports and exports from and to DCs. By calculating the ratio of net imports and net exports of different categories of products to actual domestic production of these products, one can more or less measure such dependency. I will look at these ratios for the USSR, because it is the country most discussed in the dependency literature.²

² See, for example, Frank and Wallerstein's discussion about the Soviet Union.
**Fifth:** The calculation of such ratios can be a means to partially verify the neo-classical school's belief that the Eastern European countries conduct their trade with the DCs based on the principle of "comparative costs." If these countries are taking advantage of the gains from trade, stemming from the differences in comparative costs, then one should witness a rise in import-domestic supply ratios of those products for which DCs maintain a "comparative cost advantage" in their production. In other words they should rely increasingly on imports to satisfy a growing share of domestic demand. (Dohan 1979, P.345).³ At the same time, one should observe an increase in the export-domestic ratios of those products in which they have "comparative cost" advantages in their production.

**Sixth:** Finally, I will look at the international investments in Eastern Europe and try to establish any pattern of similarity or dissimilarity between such investments and international investments in the "intermediate" countries.

### 5.1. East-West Economic Relations:

As was mentioned previously, in the late 1960s and early 1970s the combination of both external and internal factors compelled East European countries to participate in the international division of labor. In the East, rates of growth of national product, industrial production and capital and labor productivity had begun to

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³ Since DCs mainly export industrial goods, I assume they have a comparative advantage in production of those goods.
fall from the significant levels which they achieved in the previous decades. The East European economists and policymakers perceived these problems as a consequence of movement of these countries from the extensive to the intensive phase of economic development. According to Bornstein (1979, P.292), "this diagnosis led initially to the prescription that 'reform' of the domestic economic system could improve economic performance from available resources—through . . . 'decentralization.'" The decentralization was, however, rejected in the most of these countries, with the exception of Hungary, where an "economic decentralization" policy was implemented to a significant extent. Consequently, the East European countries, in order to solve their problems, paid greater attention to the establishment of extensive economic relations with the Western countries.

In the West, by the mid 1950s a gradual thaw in the 'Cold War' situation had started. In the 1960s such a change coupled with the conditions of prosperity in the Western economies stimulated lively competition among the Western firms in regard to penetrating into the Eastern markets. As a result Eastern Europe imports from the West climbed from $6 billion in 1970 to over $26 billion, and their exports to the West increased from $6 billion in 1970 to over $17 billion in 1975. (See Table (1) all tables can be found at the end of this chapter). From 1970 to 1975, the Soviet Union's imports from

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4 In Bornstein's account, 'economic decentralization' envisions "a greater role for domestic and foreign market forces in determining the composition of output, the allocation of resources, and even the distribution of income." (Ibid., p. 293)

5 Including the Soviet Union.
the West rose from $2.4 billion to $11.8 billion, and its exports to the West from $2.4 to $8 billion.

The development of East-West trade was, however, interrupted by inflation and recession in the West. Although in 1980 imports to Eastern Europe (including the Soviet Union) from the West climbed to $47 billion and exports to the West rose to $46.8 billion, much of such increase must be attributed to price increases. For example, as Table (2) indicates between 1976 and 1980, the volume of East European countries' exports to OECD was increasing but at a declining rate every year, except for 1978 and 1979 which remained constant; during the same period, East European countries' volume of imports from OECD showed a fluctuating trend. From 1975 to 1976 the volume of imports increased by 13%; in 1977 it however decreased by 9%; in 1978 it showed a 9% increase and in 1979 it declined again. As the same table indicates, at the same time interval the prices of East European countries' imports and exports were increasing almost every year at an increasing rate, and in almost every year the increase in prices surpassed the increase in volumes of both imports and exports.

Nearly from the beginning, among the manifestations of increase in trade relations between East and West were trade deficits and balance of payment problems of East European countries. The "export-oriented" model of development was based on the assumption that the increased productivity realized from the importation of foreign technology would enable exports to be increased in order to finance the cost of Western technology.
Although it was only Poland that fully embraced this model (Bornstein 1979), the rest of the East European countries were under the impression that imports of Western technology would generate enough exports earnings to maintain the balance of payments. Even though Soviet planners in the early 1970s did not project large terms-of-trade gains, they "may have intended that these imports should be self-financing." (Hanson 1982, P. 140) Nevertheless, the adverse conditions in the West, along with the difficulties faced by East European countries in increasing their exports at the same rate as imports, led to trade deficits and balance of payment problems.6

Much of the trade deficit was financed through credits, and the debt levels of CMEA nations grew rapidly, resulting in high debt-service ratios. (Doane, Jr. 1983, P. 12) Not unexpectedly, the foreign trade deficits of East European countries had a depressing effect upon trade with the capitalist economies. These countries had to forgo planned 'import investment,' for they had experienced some bottlenecks due to reduced imports and had to reduce the availability of some consumer goods. (Hanson 1982, P. 130)

Trade is, however, only one dimension of East-West economic relations; another dimension involves Industrial Cooperation Agreements (ICAs). One important feature of the foreign economic relations of East European countries in the 1970s included not only...

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6 The Western and Eastern European economists cite different reasons for Eastern European countries' inabilitys to increase exports. (See previous chapter)
their deeper involvement in the international division of labor, but also their orientation toward long-term, large-scale economic relations with the developed capitalist countries. (Ivashkin and Panchenko 1980) The ICAs included a wide range of activities such as licensing, compensation agreements (Eastern imports of capital goods repaid by output from the finished plant), countertrade agreements (in return for a sale, the Western exporter agrees to purchase East European goods), coproduction, and joint ventures.

This chapter is divided into two major parts. The first part will analyze the trade relations between East European countries and DCs, and in the process I will take the five out of six steps mentioned earlier. In the second part I will study the ICAs between DCs and East Europe and take the final step.

5.2. Trade Relations: Geographic Distribution of East-West Trade:

In 1970, four European countries (Austria, Switzerland, Finland and Sweden) had a 20% share in the Eastern European countries' imports from the OECD; however, as East-West trade started to expand, the share of these countries as percentages of East Europe's imports and exports from the West declined. B. Kadar (1982) believes that these four countries could not cope with the economic requirements of the imports demand of the CMEA countries, for example with the buy back arrangements.
exporter to Eastern Europe and the extent of its dominance has been even further enhanced by the increase in the East-West trade. As Table (3) discloses, in 1980 about 31% of Bulgaria's, 37% of Czechoslovakia's, 38% of Hungary's, 23% of Poland's and 31% of Romania's imports from the West came from the Federal Republic of Germany. The East European countries' interests in the Federal Republic of Germany's products stem from not only the close historical and cultural ties but also from East Europe's high regards for West German engineering products. The fact that in the 1970s the Federal Republic of Germany surpassed the United States as the world's largest exporter of manufactured products should also be recognized as an important factor in the expansion of this country's export market-share in the East Europe. (Wolf 1977, P. 1052) France, United States and Italy are other important exporters for East Europe (See Table (3)).

The major importer of East European products is also the Federal Republic of Germany. As Table (4) indicates, in 1980, 23.5% of Bulgaria's, 34.4% of Czechoslovakia's, 37.2% of Hungary's, 26% of Poland's and 27.7% of Romania's exports to the West went to West Germany. The second major importer is Italy, which in 1980 attracted 33.4% of Bulgaria's, 8.6% of Czechoslovakia's, 9.3% of GDR's, 14% of Hungary's, 10.8% of Poland's and 18.9% of Romania's exports to the West (See Table (4)). The United States, which is among the dominant exporters to Eastern Europe, does not purchase much of their products. In 1980, for example, only 3.6% of Bulgaria's, 1.4% of Czechoslovakia, 2.2% of GDR's, 9% of Hungary's, 1.9% of Poland's and
2.4% of Romania's exports to the West went to the U.S.A. (See Table (4))

The Federal Republic of Germany also is the major industrialized Western trading partner of the Soviet Union. As Table (5) shows, in terms of total trade turnover, Japan and Finland follow the Federal Republic of Germany as second and third trade partners of the Soviet Union. The shares of these countries, however, are much higher as a percentage of the Soviet Union's imports and exports to the West. (See Table (6))

On the Eastern side, the Soviet Union, due to its vast market and its significant purchasing power, has attracted most of the Western countries' trade flow. As Table (7) denotes, in 1970, about 40% and in 1980, 50% of OECD's exports to East Europe went to the Soviet Union. Poland was only a distant second which received in 1970, 12.4% and in 1980, 14.7% of OECD's exports to East Europe. In summary, the major Western trading partner of the Soviet Union and Eastern Europe is West Germany.

5.3. Eastern Europe's Trade Relations with Developed Capitalist Countries

5.3.1. Data and Method:

In order to explore whether the East European countries in their trade relations with the non-socialist world play the same role as the "intermediate capitalist" countries do, I have taken the following steps:
1. I have categorized commodities into two broad groups: primary goods and manufactured goods. The primary goods include the UN’s categories of SITC (0) and (1) food, beverages and tobaccos, SITC (2) and (4) crude materials, SITC (3) mineral fuels and related materials. The manufactured goods include the UN categories of SITC (5) chemicals, SITC (7) machinery and transport equipment, and SITC (6) and (8) other manufactured goods.

2. I have taken the U.N. (1982) category of the Latin America Free Trade Association to be synonymous with the "intermediate capitalist" countries. The Latin America Free Trade Association includes Argentina, Bolivia, Chile, Columbia, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela. (Steiber 1979, P. 36) Such generalization, at first instance, may not seem to be justified. If, however, one pays attention to the fact that in 1970 almost 73% of imports and 69% of exports, in 1975, 81% of imports and 78% of exports, and in 1980, 79% of imports and 82% of exports of the Latin American Free Trade Association belonged to only four countries (Brazil, Mexico, Argentina and Venezuela)8 then such generalization will gain some ground. (See Table (8))9

8 These four countries have elsewhere been considered as "intermediate capitalist countries." Frank, for instance, refers explicitly to Brazil and Mexico as semi-peripheral countries. According to Kaufman, et al. (1975), Venezuela’s extraordinary oil wealth represents "a degree of bargaining power and an advantage in the international system not normally implied by concept of dependency." Consequently, I believe there will be no objection in considering it a "semi-peripheral" capitalist country. The same authors find Argentina ranking among the 'least dependent' countries in Latin America, which I believe gives a certain creditability to treating it as a "semi-peripheral" capitalist country.

9 I realize that to consider only these four countries as "intermediate capitalist" countries is somehow limited in scope. Such consideration,
3. In order to discover whether the East European countries, along with the Latin American "intermediate capitalist countries", exhibit the same pattern of trade that the less developed countries maintain in their trade with the DCs, I have taken the following steps:

i. For three different periods (1970, 1975, and 1980), and for three different groups of countries (LDCs, Latin America 'intermediate capitalist countries', and the East European countries), I have calculated the percentages of primary goods and manufactured goods in their total exports to DCs.

ii. For three different periods (1970, 1975, and 1980), and for the same three groups of countries, I have calculated the percentages of primary goods and manufactured goods in their total imports from DCs.

iii. In both steps (i) and (ii) I have made the calculations for five major groups of DCs, including Western Europe, U.S.A., Japan, Canada, Australia and New Zealand.

4. In order to find out whether the East European countries, along with the Latin America 'intermediate capitalist' countries, exhibit the same pattern of trade that DCs maintain in their trade relations with LDCs, I have taken the following steps:

i. For three different periods (1970, 1975, and 1980), I have calculated the percentages of primary goods and manufactured goods

However, allows me to rely on one consistent source of data (U.N. 1982, 229) which has the advantage of preventing any confusion resulting from conversion of different currencies into one major currency such as U.S. dollars.
in the total exports of LDCs to Eastern Europe and the Latin America 'intermediate capitalist' countries.

ii. For three different periods (1970, 1975, and 1980), I have calculated the percentages of primary goods and manufactured goods in the total imports of LDCs from East Europe and the Latin America 'intermediate capitalist' countries.

iii. I believe my findings will support to some degree the dependency school's argument. However, there will be some exceptions to "the dependency school's 'rules.'" I will argue that these exceptions are sufficient to enable one to reject the existence of any general and comprehensive rules which govern the pattern of East-West trade.

5.3.2. The Eastern European Countries' Position in the International Division of Labor:

It is the purpose of this section to empirically study the dependency school's argument that 'intermediate capitalist' countries, LDCs and the socialist countries exhibit an identical pattern of trade with DCs. They ostensibly import finished products from and export primary goods to DCs; consequently, part of their 'surplus' is expropriated by developed capitalist countries which makes them underdeveloped and dependent to DCs. This is a situation which is not reversible and almost impossible to change.10 East European economists, although maintaining more or less the same arguments

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10 Due to the persistently unfavorable terms of trade for LDCs' products.
in regard to pattern of trade of socialist countries with DCs, do not, however, believe such a condition is a permanent state of affairs. They argue that by importing finished goods from DCs, the socialist countries will be able to change their position and to move to a higher rung in the international division of labor.

5.3.2.1. Imports from DCs

If Eastern Europe and the Latin America 'intermediate capitalist' countries maintain the same pattern of trade that LDCs do in their trade with DCs, then, according to both the dependency and the East European schools, these countries must be the main importers of manufactured goods. In this section I will try to investigate this subject.11

The calculations for 1970 (Table (9)) show that the major portion of LDCs', Latin America 'intermediate capitalist' countries' [hence forth Latin America] and Eastern Europe's imports from DCs consisted of manufactured goods. Seventy-eight percent of LDCs' imports, 84.9% of Latin America's imports, and 75% of Eastern Europe's imports from developed capitalist countries were manufactured goods. Eighty-four percent of the Soviet Union's imports from DCs comprised of manufactured goods. However, looking at the imports of these groups of countries from different

11 I would like to remind the readers that although the dependency school and the Eastern European economists reach the same conclusions, their methodology is different. While the Eastern European economists emphasize the qualitative differences between their trade relations with DCs and those of LDCs with DCs, the dependency school ignores such differences.
parts of DCs changes the picture somewhat. For instance, while the main share of LDCs' and Latin America's imports from all sub-groups of DCs, except those from Australia and New Zealand, was composed of manufactured goods, the East European countries' main share of imports from only two out of five sub-groups of DCs consisted of manufactured goods. In the case of the Soviet Union, its main share of imports from two out of three sub-groups of DCs was made of manufactured goods.

The calculations for 1975 more or less reveal the same pattern [See Table (10).] Eighty-one percent of LDCs' imports, 84% of Latin America's and 81% of Eastern Europe's imports from DCs consisted of manufactured goods. The picture changes again when one focuses upon the imports of these countries from different sub-groups of DCs. While the main share of LDCs' imports from all sub-groups of DCs, except that from Australia and New Zealand, was manufactured goods, East Europe's and the Soviet Union's imports from only two out of five sub-groups of DCs were mainly of manufactured goods. They essentially import manufactured goods from Europe and Japan. In the case of Latin America, the imports from all sub-groups of DCs were primarily composed of manufactured goods, a performance which in the dependency school's context should be considered worse than that of LDCs.

In 1980, one observes the same pattern. The major portion of LDCs', Latin America's, Eastern Europe's and Soviet Union's imports from DCs was composed of manufactured goods. Eighty percent of LDCs', 82% of Latin America's, 71% of Eastern Europe's and 72% of
Soviet Union's imports from developed capitalist countries were made of manufactured goods. (See Table (11)) Although in 1980 the shares of manufactured goods' imports in Eastern Europe's and Soviet Union's total imports from DCs declined, compared with 1975, they still represent significant portions of their imports. In 1980, again, while the major shares of LDCs' and Latin America's imports from all sub-groups of DCs, with the exception of Australia and New Zealand, were manufactured goods, for Eastern Europe and the Soviet Union imports from two out of five sub-groups of DCs, Japan and West Europe, were in principle manufactured goods.\footnote{Steven R. Steiber's (1979) calculation for 1973 more or less reveals the same results.}

5.3.2.2. Exports to DCs:

Another issue raised by the dependency school, and in another context confirmed by the Eastern European economists, is that the Eastern European countries' exports to DCs consist mainly of primary goods, a pattern that according to the dependency school is maintained by LDCs and 'intermediate capitalist' countries. It is the purpose of this section to investigate this point empirically.

The calculations for 1970 (Table (12)) disclose that although 74% of LDCs' and 78% of Latin America's exports to DCs were composed of primary goods, only 45% of the East European countries' exports to DCs were primary goods. The situation remains the same when different sub-groups of DCs are considered. Without exception, LDCs' and Latin America's exports to all of these sub-groups, were
essentially primary goods; Eastern Europe's exports, on the other hand, to all of the DCs' sub-groups consisted mainly of manufactured goods.

In 1975, the picture changed somewhat (See Table (13)). It is true that while LDCs and Latin America continued to export mainly primary goods to DCs, Eastern Europe continued to concentrate on exports of manufactured goods. (Fifty-four percent of Eastern Europe's export to DCs were manufactured products.) In 1975 the Soviet Union's pattern of exports, however, was similar to LDCs and Latin America's (Seventy-seven percent of its exports to DCs were primary goods).

When one breaks down DCs into different groups, the situation changes slightly for the Eastern European countries. While they were in essence exporters of manufactured goods to three out of five of these sub-groups, they mainly exported primary goods to the U.S.A. and Japan (55% of their exports to the U.S.A., and 63% of their exports to Japan were primary goods). By such a breakdown, the situation changes for the Soviet Union. Its share of exports of primary goods outweighed its share of exports of manufactured goods in only two cases: Japan and West Europe. While LDCs exported mainly primary goods to all sub-groups of DCs, Latin America exported mainly primary goods to four out of five of these sub-groups.

The calculations for 1980 indicate that LDCs and Latin America were essentially exporters of primary goods to DCs: 82% of LDCs' exports and 81% of Latin America's exports to DCs consisted of
primary goods. They maintained the same pattern of exports to all sub-groups of DCs, with the exception of Latin America's exports to Australia and New Zealand. Eastern Europe, however, exported primarily manufactured goods to DCs and to all of DCs' sub-groups. Fifty-six percent of Eastern European countries' exports to DCs, 55% of their exports to West Europe, 89% of their exports to Canada, 67% of their exports to U.S.A., and 61% of their exports to Japan were manufactured goods. The Soviet Union, on the other hand, at the first glance, exhibits an export pattern similar to those of LDCs: 83% of its exports to DCs were primary goods. It exported, however, mainly manufactured goods to Canada, U.S.A. and Australia and New Zealand, three out of five sub-groups of DCs. (See Table (14)\textsuperscript{13}

_Summary:_

Clearly, as the calculations in this section reveal, in some cases dependency school adherents are justified in their argument that East-European countries' and the Soviet Union's patterns of trade

\textsuperscript{13} The conclusion of this section seems to be in part consistent with Donges' empirical study. (cited in Portes 1981, p. 345) Donges categorizes exports into: 1. Ricardo goods (some primary products), for which production functions differ between countries because of differences in their resource endowments; 2. Heckscher-Ohlin goods, for which production functions are identical but capital-labor ratios differ among various countries. 3. Product cycle goods: new commodities produced with new techniques "which are not equally available to all countries." Donges' findings suggest that Eastern Europe seems to have comparative advantages in some labor and some capital-intensive products but is shifting more and more to the production of the latter such as non-ferrous metal processings, pulp and paper. The "industrially advanced LDCs" appear to have comparative advantages in Ricardo goods and some labor intensive Heckscher-Ohlin goods as well as some mature product cycle goods (electronic assembly, for example).
with DCs display similarity with those of LDCs and DCs (an argument which is confirmed by the East European economists). More importantly, however, these calculations exhibit that there exists not a certain set of rules, which are eternal, unchangeable and inescapable, which govern the pattern of trade of LDCs, 'intermediate capitalist' countries, and Eastern European countries with DCs. One may be able to conclude from the data presented in this section that Latin American 'intermediate capitalist' countries and to some extent the Soviet Union manifest a pattern of trade similar to LDCs; but undoubtedly the East European countries, especially when the category of DCs is broken down into major sub-groups, break the "rule" and damage the dependency school's arguments.

The data presented here casts some doubt on the "theory" of dependency of East European countries on DCs, a theory which partly states that DCs dump finished goods into their economies and import primary goods from them and thereby expropriate part of their surplus. This is an interesting conclusion and contrasts with the general belief that in the early 1970s the East European countries were following the model of "export-led" growth and deliberately had concentrated on the imports of machinery from the West.14 Such a conclusion, however, confirms the contention that, although in that period most East European countries assigned to the East-West economic relations and in particular import of Western technology an important, though modest role, it was mainly Poland that went so far as to actually adopt the model of "export-led" growth as an economic

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14 See (appendix 3) for explanation.
strategy. (Bornstein 1979, P. 293, and Hanson 1982, P.P. 130-131) Poland's hard currency debt of $13 billion in 1977 out of total $31.7 billion hard currency debt of all East European countries confirms this contention. (Bornstein 1979, P. 297)

5.3.2.3. Eastern European Countries' Trade with their Major Partners

As was mentioned before, the Western European countries, in particular the Federal Republic of Germany, are the major Western trading partners of Eastern Europe. It seems, therefore, necessary to separately investigate the patterns of trade of East European countries with the Western Europe. Such necessity in part stems from the concern that it is justified to ask: it is true that East Europe's trade relations with Australia, for example, do not resemble those of LDCs and DCs, but East Europe's trade with Australia accounts for only one percent of its trade with the West? How about its trade with its major partners?

About 40% of East-West trade takes place between East Europe and twelve West European countries of Austria, Belgium, Denmark, France, FRG, Italy, Luxembourg, the Netherlands, Norway, Sweden, Switzerland and the U.K. (Wolf 1977, P. 1042) It is my intention in this section to show the commodity composition of individual East European countries' exports to and imports from the

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15 Bulgaria, Czechoslovakia, GDR, Hungary, Poland, and Romania.
above mentioned Western European countries. For the purpose of my study I have chosen three periods, 1975, 1977, and 1980.

In all three periods, Tables (15-17), the proportion of manufactured products (SITC 5-8) in the total imports of East European countries from the West was high. In 1975 (See Table (15)) the highest proportion of imports belonged to Bulgaria (93.1%) and the lowest to the GDR (83.6%). In 1980, (table 17) although the proportion of manufactured products in the imports of East Europe was uniformly high (ranging from 72.2 to 87.3), the proportion declined compared with 1975. In Romania, for instance, while the share of manufactured goods in total imports from West in 1975 was 86.1%, it dropped to 72.8% in 1980. For GDR, the same proportion declined from 83.6% in 1975 to 74.6% in 1980.

In all three periods and for all East European countries, machinery imports (STIC 7) accounted for the highest proportion of manufactured products imports from the West. On the other hand, miscellaneous manufactured products (which include most consumer goods) (SITC 8) accounted for the lowest proportion of manufactured products imported. In 1975, for instance, the miscellaneous manufactured products made up 4% of East European countries' imports from the West, at the same time the machinery imports made up 38% of these countries' imports. In 1980, while the share of miscellaneous manufactured products increased to 7% of East European imports, from the West, the share of machinery imports remained almost the same (39%). At this point it is worth noting that
the share of 'high-technology' imports,\textsuperscript{16} in total imports of manufactured goods from the West,\textsuperscript{17} fell from 15\% in 1970 to 12.7\% in 1980. (See Martens 1984, P. 40). For the Soviet Union the same ratio fell from 18.2\% in 1970 to 15.4\% in 1980. (Martens 1984, P. 70). According to Richard Portes (1981, P. 33), one reason that such deals get publicity in the West is that such attention seems to "confirm our prejudices that the centrally planned systems cannot cope without Western help."\textsuperscript{18}

The structure of East European countries' exports to West Europe has undergone a striking transformation since 1965. Agricultural exports (SITC 0-1), for instance, dropped from 35\% of total exports to 19\% in 1975 (Wolf 1977, P. 1047) and to 12\% in 1980. At this time interval, however, the share of manufactured goods increased from 36\% to 51\% in 1975 (Wolf 1977, P. 1047) and to 55\% of East Europe's total exports to the West Europe in 1980 (See Tables (19) and (21)).

As Tables (19-21) indicate, the majority of East European countries' exports to the West consist of manufactured goods. In 1975, however, Bulgaria's and Poland's share of exports of manufactured products were less than 50\% of their total exports to the West (44.9\% and 38\% respectively). In 1977, only Poland's proportion of manufactured exports to the West was less than 50\% of

\textsuperscript{16} For a list of what items are considered high technology see Table (18).
\textsuperscript{17} West, here, refers to all industrialized West.
\textsuperscript{18} Cooper (1986) also makes a similar point. He states that in recent years, "certain Western perceptions of the Soviet Union have gained broad currency (due to) sustaining deeply held beliefs in the superiority of free enterprise and liberal democracy." (Ibid., p. 317)
its total exports to the West (48.5%). In 1980, while Bulgaria's share fell to 48.2%, Poland increased its exports of manufactured goods and they reached 51.8% of its total exports to the West. At the same time, however, the proportion of Romania's exports of manufactured goods dropped to 46% of its total exports. Despite such fluctuations, because the exports of manufactured products account for a high proportion of East European total exports to West Europe, one can consider these countries in general as exporters of manufactured goods and not as exporters of primary goods. There exists, however, a distinct difference between the type of manufactured goods that they import and export. While they are major importers of machinery from West Europe (SITC 7), they export predominantly miscellaneous manufactured products (SITC 8) and manufactured goods classified by materials (SITC 6).19

5.3.3. Dependency on the West and Export Specialization:

As I mentioned in the beginning of this chapter, in order to empirically investigate the validity of the dependency, neo-classical and Eastern European schools' arguments, six steps must be taken. In the previous section I dealt with steps 1-3; in this section I will deal with the remaining steps.

19 SITC 6 includes such items as basic manufactures, rubber, paper, textiles, yarn, fabric, non-metal minerals, iron, non-ferrous metals, metal manufactures, etc. SITC 8 includes such items as furniture, clothing, precision instruments, photo equipment, plumbing, heating, lighting, footwear.
The dependency school posits the pattern of trade of a country with the DCs is an indicator of the level of development (underdevelopment) of its productive forces. If one accepts this postulate then she/he has to admit that the Soviet Union is among the least developed, if not the least developed, countries of the Eastern Europe. As Table (22) shows, the Soviet Union primarily imports machinery and manufactured goods, and exports raw materials and mineral fuels. In 1980, for example, while 71% of its total exports to the West was composed of mineral fuels, exports of manufactured products were counted as only 12% of its total exports.20 On the import side, the Soviet Union's imports of manufactured products were about 72% of its total imports from the West, and primary products, mainly food and beverages, made about 25% of its total imports. These numbers suggest that the Soviet Union's pattern of trade with the West is similar to that of LDCs: it exports primary goods and imports manufactured goods. According to the dependency school as a result of such position in the international division of labor, the 'development' of the Soviet Union is determined by the trends in the developed capitalist countries.21

20 As Table (21) shows, in 1980 in the case of Romania, one of the least industrialized countries of East Europe, the share of primary goods exports in the total exports of this country to West was about 52%; the same ratio for the Soviet Union is about 81%.

21 One can easily remember Frank's argument, which states the "socialist countries are becoming increasingly dependent on the West and on the economic and political stability in the West." (Frank 1977, p. 124) Or his argument that "the countries of Eastern Europe and the Soviet Union will be importing not only western factories... but the capitalist relations embedded in them... In short... will be and are already importing capitalism." (Ibid., p. 127)
One can verify this argument by establishing how dependent the Soviet Union economy is on the imports from and exports to DCs. One way of measuring this 'dependency' is by calculating the ratios of net imports and net exports of different categories of products to the actual domestic production of these products. The measurement of these ratios might also prove helpful in verifying the neo-classical economists' claim that the Soviet Union's foreign trade, like that of any other country, is conducted based on the principle of 'comparative costs.' If the Soviet Union is taking advantage of the gains from trade, stemming from the differences in comparative costs, then one should witness a rise in import-domestic supply ratios of those products that the Soviet Union does not maintain comparative costs 'advantages' in their production. In other words it should rely increasingly on imports to satisfy a growing share of domestic demand for those products rather than use domestic resources. (Dohan 1979, P. 345)

At the same time, one should observe an increase in the export-domestic production ratios of those products in the production of which the Soviet Union maintains comparative costs "advantages;" in other words, a growing share of domestic production should be devoted to their export.

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22 Such ratios have been calculated by Michael R. Dohan in two superb studies (Dohan 1979 and Dohan 1976). The main part of this section will rely on his studies.

23 The "comparative costs" in turn arise from "economies of scale, differences in natural resource endowment, differences in factor proportions, locational advantage, and noncompeting imports (coffee, citrus, etcetera)." (Dohan 1979, p. 345)
It is important from the outset to establish to what extent the Soviet Union is involved in the international division of labor. An analysis of the trade data (Table (23)) underscores the increasing importance of DCs' trade to the Soviet Union. In 1965, while DCs accounted for 18% of Soviet Union exports, their share increased to 32% in 1980. The major trading partner of the Soviet Union is Eastern Europe. In 1980, the Soviet Union conducted 42% of its exports and 43% of its imports with Eastern Europe. Despite the growing share of DCs in Soviet Union foreign trade, such trade accounts in general for a small portion of Soviet economic activity. In 1980, for instance, Soviet exports to the West made up 1.8 percent of Soviet GNP, and its imports from the West accounted for only 1.7% of its GNP.24 (Cooper 1982, P. 461) Indeed, as the following table suggests, the Soviet Union is less dependent on trade with the West than Western countries are with each other.

Imports to and Exports from DCs as Percent of GNP 1977-79

<table>
<thead>
<tr>
<th>Import</th>
<th>1977</th>
<th>1978</th>
<th>1979</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.S.R.</td>
<td>1.4% NMP*</td>
<td>1.4% NMP*</td>
<td>1.3% NMP*</td>
</tr>
<tr>
<td>West Germany</td>
<td>14.5%</td>
<td>14.5%</td>
<td>14.5%</td>
</tr>
<tr>
<td>France</td>
<td>12.7%</td>
<td>12.7%</td>
<td>12.7%</td>
</tr>
<tr>
<td>U.K.</td>
<td>19.8%</td>
<td>19.8%</td>
<td>19.8%</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>5.0%</td>
<td>5.0%</td>
<td>4.1%</td>
</tr>
</tbody>
</table>

Source: from (Szymanski 1982) NMP = Net Material Product

24 In 1980, total Soviet exports accounted for 5.5% of its GNP and its total imports made up 5% of GNP. (Cooper 1982, p. 461)
5.3.3.1. Export Specialization:

The major share of Soviet exports to the West comprises mineral fuels and raw materials. It is, therefore, important to find out what portion of domestic production is devoted to the exports of mineral fuels. As Table (24) shows, the net export-output ratio for coal was 4% in 1960; it increased to 9% in 1970 and declined again to 6.6% in 1976. The same ratio for crude oil was 20% in 1960; it grew to 28% in 1970 and remained about the same in 1976. One can conclude, then, that the dramatic increase in importance of oil in the Soviet Union's export structure can be largely attributed to the rise in prices. In the case of natural gas, the Soviet Union's exports were only about 4% of domestic production in 1960 and reached 4.4% in 1976. Obviously, these numbers suggest that the intensification of the Soviet Union's participation in the internal division of labor in the 1970s has not been accompanied by a significant attempt on its part to specialize in production and export of any particular item.

Ferrous metals also show a trend similar to that of 'energy products.' Net exports of iron ore, for instance, were equal to 20% of domestic output in the 1960s; it only increased to 22% of domestic output in 1976. The export-output ratio for chromite ore, on the other hand, showed a decline between 1960 and 1976. In the case of

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25 This ratio increased later on due to many gas for pipe deals negotiated between Soviet Union and Western countries in particular West Germany, France, Italy and Austria.
manganese, in 1960 18% of output was exported and in 1976 about 20% of domestic output was devoted to export. (See Table (24))

Similarly, in the case of non-ferrous metals, one does not observe a major increase in export-domestic production ratios as a result of expansion of Soviet Union trade relations with the West. For example, this ratio for copper between 1965 and 1975 increased by only 3% (See Table (25)); in the case of lead the ratio in fact showed a declining trend: while exports of lead in 1960 stood at about 12% of production, it was only about 9% of production in 1975. The export-domestic production ratio for zinc remained constant in the period of study. It was only aluminum that showed a growing export-domestic production ratio.

In sum, the above information reveals that, in general, net export-domestic output ratios for many energy products and raw materials, despite increases in their exports, increased only slightly as a result of Soviet participation in the international division of labor, and in fact in some cases, such as chromite ore and lead, these ratios declined.26

5.3.3.2. Soviet Dependency on Imports

Once a major exporter of agricultural products, the Soviet Union has become an importer of these products in recent years. Such a transformation has been attributed to "lagging productivity in agriculture, several crop failures, and a commitment by Soviet

26 For more information about commodity portfolio of Soviet exports to DCs see (Kravalis 1979).
leadership to improve the diet of its citizens." (Dohan 1979, P. 355)

As the following table exhibits, between 1950 and 1980, the Soviet Union, for instance, significantly increased its imports of coffee, tea, sugar, rice and eggs. The Soviet Union, however, imports most of its agricultural products from Eastern Europe, Cuba and developing countries primarily in bilateral exchange for Soviet exports, and thereby does not risk 'dependency' on the developed capitalist countries' economies. An exception to this trend: the Soviet Union, for instance, is a major importer of grain from the West. Every year it spends large sums of hard currency on grain imports.—largely to feed livestock to provide more meat and animal products in the population's diet.27 These imports would seem to increase Soviet vulnerability to the Western powers' trade policies, such as the U.S. grain embargo of 1980. The Soviet Union, however, as Marshall Goldman (1976) mentions, has proved able and willing to hold down it grain purchases whenever it feels it is important to maintain its independence, or when it has no choice. In 1972, for example, the Soviet Union imported 27 million tons of grain with a harvest of 168 million tons; in 1975 it imported about the same amount with a harvest of only 140 million tons, a serious shortfall from an expected yield of 215 million tons.28 As a result of such cutbacks, the pig

27 Between 1950 and 1977 Soviet per capita consumption of meat and fat increased by 2.19 times; consumption of milk and milk products by 1.87 times; consumption of eggs by 3.73 times. (Golrich 1979 and Szymanski 1982)

28 Due to a combination of serious hard currency shortages and U.S. exports embargo.
herd in 1975 fell from 72 million head to 58 million. "Thus, despite its promises of more meat in the diet, the Soviet Union seems prepared to impose at least limited hardship on its population when it wants or is forced to." (Goldman 1976, P. 86)

The increase in Soviet grain imports did not mean a reduction in domestic production. As Table (27) denotes, between 1956-61 and 1975-79, the Soviet Union increased its grain production by a factor of 1.63 times.

The same table also shows that while in the period of 1975-1979, 111 million tons of grain was used to feed animals, only 46 million tons was used as human food; in 1956-1961 human food

<table>
<thead>
<tr>
<th>Table (27)</th>
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<tbody>
<tr>
<td><strong>Soviet Grain Production and Utilization</strong></td>
</tr>
<tr>
<td>in Millions of Metric Tons</td>
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<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>1956 - 1961</td>
</tr>
<tr>
<td>1975 - 1979</td>
</tr>
</tbody>
</table>

obtained the larger share of grain production. Such a change, as was mentioned earlier, reflects the Soviet Union's desire to increase meat, eggs and other animal products in the Soviet Union population diets by increasing the animal stocks of the country. (Szymanski 1982) It is therefore doubtful that Soviet Union imports of grain from DCs
make it dependent on the West. The existence of quite a number of major grain producers and exporters in the West, along with their tendency to overproduce grain, almost ensures a permanent source of grain supply for the Soviet Union, even in the case of total cut off of Western grain the Soviet Union would only be faced with a temporary hardship, because such cutoff would imply an initial slaughter of livestock. After that the Soviet Union would have to stabilize the availability of grain by storing more grain in the years with good harvest in order to use them in the years with bad harvest. Such action, no doubt, would reduce the chance of the Soviet government to increase the meat consumption of its population quickly, but it would not render it impossible.

The Soviet Union is also a major importer of machinery from the West. Its postwar import structure has been characterized by a large share of machinery imports, 30-37 percent of total imports. (See Table (28)) The Soviet Union, at the same time, is an exporter of machinery. For instance, in 1970, gross machinery imports supplied about 15% of investment in equipment and inventory, but allowing for machinery exports, net imports were accounted as only about 5% of total machinery available for domestic use.29 (Dohan 1979, P. 356) In some branches of industry, the Soviet Union imports a large proportion of domestic supply. In 1970, for example, products with relatively high import-gross domestic supply included metal-forming

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29 In 1976, the net import-investment in equipment and machinery was about 13% much greater than 1970. Evidence suggests, however, this ratio has been falling since then.
(23%), paper and pulp industries (52%), the chemical industry (41%), food processing industry (27%) buses (10%) trolleys (39%), combines (16%), grain cleaners (13%), mowers (18%). (Dohan 1976, p. 122) According to Dohan, however, compared with 1913 or the NEP, the degree of import dependence remains relatively low. (Dohan 1976, P. 122.) Furthermore, a major portion of these imports comes from the countries of Eastern Europe, primarily from Czechoslovakia, East Germany and Poland. According to Dohan, Soviet imports of machinery can be divided into two distinct categories: "equipment for factories and mass produced items." Equipment for factories such as chemical, automotive, machine building, etc. come from DCs and to a lesser extent from GDR and Czechoslovakia (See Table (29)). Mass produced items, on the other hand, come from Eastern Europe and include such items as vehicles and parts, electric motors, transformers, lifting and transporting equipment, etc. (Dohan 1979, P. 357)

Imports of machinery from DCs in general represent a small share of Soviet equipment investment. As Table (30) indicates, this proportion has increased since the early 1960s, "but the rise has been neither strong nor continuous." (Hanson 1978, P. 25) The highest growth happened in the mid-1975, when the machinery imports from the West accounted for 5.6% of domestic machinery investment.

The fluctuations in the value of machinery imports from the West have been considerable. Between 1974 and 1975, for instance, the amount of machinery imported doubled from $2,094 million to
$4,184 million. Between 1975 and 1976, however, machinery imports increased by about $75 million. Such fluctuations, according to Hanson, appear to be "the result of the exigencies of the Soviet hard-currency balance of payments." (Hanson 1978, P. 25) One may add to this element the Soviet Union's ability and willingness to cut such imports when other priorities arise. For instance, in 1977 when the Soviet Union's hard currency indebtedness reached a point which was deemed to be undesirable by the Soviet government, it sharply reduced its new orders for Western machinery.\(^{30}\) (Hanson 1978, P. 25) In general the Soviet Union's imports of machinery in recent years, as a percentage of total imports, are lower than their share of total imports at its peak of industrialization in 1932 (which was about 55.7%). (Azov 1982)

Imports from the West in some cases, however, are responsible for a large portion of domestic production. The chemical industry is a prime example; the Soviet Union over the past quarter of a century has devoted about a quarter of all the Western machinery imports to the chemical industry (Goldman 1976, P. 138). In the 1970s alone imported chemical equipment accounted for about one-third of all Western machinery purchased by the Soviet Union. Consequently, in the late 1970s, about half of the Soviet ammonia output was from Western plants. (Parpartzoeter 1982, P. 484) Imports from DCs also

\(^{30}\) According to Hanson it is not correct to believe that the Western governments and bankers imposed a limit on the Soviet Union borrowing. To the contrary, "western governments continued to extend official credit support for exports to Soviet Union and medium-term Eurocurrency loans continued to be obtainable by the USSR on good, though marginally hardened, terms." (Hanson 1978, p. 25)
have played an important role in supporting the energy sectors; virtually all the large diameter pipe needed for gas pipeline construction has come from West Germany and Japan. (Parpartzoeter 1982, P. 485) Less well known cases are the role that the Western machinery imports play in some consumer goods producing industries. For example, in textile machinery, imports contributed 40% of the domestic supply in 1976; in shoemaking equipment industry, the machinery imports accounted for 64% of domestic production in 1976; in the paper making equipment industry, imported machinery provided about 61% of domestic production. (Dohan 1979, P. 358) In some other industries, such as the machine tool industry, although the imports of machinery from the West is relatively high, their contribution to the domestic production is not significant; their contribution is estimated to be from 1% to 10% of domestic consumption in 1975. (See Hanson and Hill 1979, P.P. 586-88)\(^{31}\)

In general the Soviet Union uses Western machinery in order to modernize its industries. The sectors which receive most of the Western machinery include first, the 'high priority' sectors, such as the chemical industry. The emphasis on this industry started with the 'chemicalization' drive begun in 1958, with the idea that the Western technology should be injected into previously neglected branches in the Soviet economy, in particular the chemical industry. (Hanson 1978, P. 76) The imports of Western technology in these

\(^{31}\) See Hanson and Hill 1979 for the reasons behind such a wide difference in such contribution.
cases enable planners to implement new priorities more rapidly. (Dohan 1979, P. 366) Second, sectors such as shoes, clothing, paper and furniture equipment industries in which design, assortment, and finishing are essential aspects of the final products. (Dohan 1976, P. 127) One reason for reliance on Western machinery in these sectors is that they "received less support in research and development over the past years compared with energy branches or metallurgy. (Koves 1978, p. 358) Growing imports, however, do not seem to have led to a drastic reduction in domestic output production. (Koves 1978, P.367) As Table (31) indicates, in all four cases domestic output grew between 1960 - 1975, notwithstanding in the cases, of equipment for the chemical industry and shoemaking equipment such growth was not smooth.

Summary:
In this section I have attempted to address two major arguments:

1. Some neo-classical economists' argument that the determinant of Soviet Union import and export structure, similar to a market economy, is comparative costs which in turn depends on comparative factor endowment. (Dohan 1976, P. 126)

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32 Cooper (1986) argues the same point. According to him, the Soviet industry has a "multilevel pyramidal structure." At the upper levels of this pyramid are those sectors which are capable of production of high-quality goods. However, the "quality of goods diminishes as one descends to lower level of pyramid." (Ibid., p. 318) In recent years, Cooper believes that the Soviet Union has acquired Western technology in order to raise such industries as oil, chemical, automotive and gas, to the higher level of the economic pyramid.

33 See for example Rosefield (1973).
2. The dependency school argument that due to the Soviet Union's position in the international division of labor, this country has become "dependent" on the DCs and consequently its "development" is largely determined by the development in the industrialized Western countries. "The socialist countries are becoming increasingly dependent on the West and on the economic and political stability in the West." (Frank 1977, P. 124).

The neo-classical economists' argument is not inconsistent with the changes in the Soviet Union foreign trade structure: a shift away from agricultural, light industry to more capital intensive heavy and extractive industries. Dohan (1976, P. 126) argues that the change in factor proportions may not be responsible for such a shift. The Soviet Union's "development" of export capacity, import needs, and comparative costs can be explained in part by reference to its natural resource endowment but also by a set of "qualitative" institutional and historical factors peculiar to Soviet economy. Such qualitative factors as historical priority of sector, comparative technological levels, the complexity of the products in terms of assortment, . . . the probability of plan fulfillment. . . ." These factors, however, are difficult to quantify, but such difficulties should not prevent one from "outlining tentatively their impact on Soviet trade." For instance, the Soviet Union transformation from an exporter of agricultural products to an importer of agricultural products has its origin in the Soviet Union's "domestic policy priorities and institutions of the prewar five-year plans" with their emphasis on heavy industry at the expense of light industry and the agricultural
sector. (Dohan 1976, P. 104) Moreover, as argued in this section the intensification of Soviet Union participation in the international division of labor has not been responsible for the Soviet Union's specialization in any particular branch of industry. The Soviet Union largely exports products of priority branches of heavy industry, in particular those which rely heavily on natural resources. Consequently, one cannot observe a significant increase in the export-domestic output ratios of the exported products as a result of the Soviet Union intensification of its participation in the international division of labor.

On the import side, the data presented in this section reveal that while imports from the West play an increasingly large role in the Soviet economy, they have not significantly increased the dependence of this economy on the West. (Dohan 1979, P. 366) In other words, neither have import-domestic supply ratios increased significantly in recent years, nor has the growth of imports led to a decline in domestic production. The Soviet Union has gained from imports of Western technology by enabling its planners to implement new priorities more rapidly, and to improve product quality and productivity of some historically neglected branches. As Cooper argues, the "economic strength and military might of the Soviet Union are based overwhelmingly on domestic resources and capabilities: Western technology is important, but by no means crucial." (Cooper 1986, P. 342) Imports are also used to cover shortfalls in domestic production. Soviet imports of grain have enabled this country to quickly improve the living standards of its
population beyond its present economic capability; such imports also reflect the institutional and historical factors peculiar to the Soviet Union, i.e. its neglect of the agricultural sector, and its inability to produce all types of commodities for which the assortment, design and "finishing" are important elements for the end product.

5.4. Eastern Europe's Trade Relations with the Less Developed Countries:

This section is devoted to empirical investigation of the dependency school's contention that the socialist countries as well as 'intermediate capitalist' countries in their trade relations with LDCs follow the same pattern of trade as DCs do in their trade with LDCs. In other words, they import essentially primary goods from these countries and export manufactured goods to LDCs. The methods of analysis is identical to that described in Section A of this chapter.

Both Tables (32) and (33) support the dependency school argument in regard to the pattern of trade of East European countries and the Soviet Union with LDCs. In all three periods of study more than 80% of these countries imports from LDCs were composed of primary goods; and in all those periods more than 75% of East European exports to LDCs consisted of manufactured goods. In the case of Latin America intermediate capitalist countries, however, the data suggest a different kind of pattern of trade. The major portion of these countries' exports and imports to and from LDCs is made of primary goods, a pattern which undeniably rejects the dependency
school prediction in regard to the trade relations between LDCs and semi-peripheral capitalist countries.

Although East Europe's and DCs patterns of trade with LDCs are similar, the breakdown of their imports from and exports to LDCs into different commodity groups displays some dissimilarity. As Table (34) shows, DCs' imports from LDCs are mainly concentrated around one category of SITC (3). In 1975, for example, 68% of DCs imports from LDCs and in 1980 about 71% of their imports were made up of fuel. On the other hand, the Soviet Union's imports from LDCs in large part are composed of food. In 1975, 56% of its imports and in 1980, 61% of its imports from LDCs were made up of food. East Europe's imports from LDCs in 1975 were largely concentrated around fuel and crude materials. In 1980, however, a major portion of Eastern European imports from LDCs were composed of fuel.

Table (35) represents the commodity breakdown of Eastern Europe's, the Soviet Union's, and DCs' exports to LDCs. Machinery and transport equipment (SITC 7) occupy the prominent position in the export structures of all three. While a large portion of DCs' and Eastern European exports to LDCs are also made up of SITC (6 and 8) and other manufactured goods, for the Soviet Union it is the exports of fuel that play an important part in its export structure to LDCs.

While there exists some obvious similarity in patterns of trade of East European countries with LDCs and DCs with LDCs, there also exist significant differences in these groups of countries' trade

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34 SITC 3 includes such items as coal, coke, petroleum and gas.
relations with LDCs which must be noted. Although since 1955 the share of LDCs' trade in the total trade of East Europe has increased considerably, it still remains at a relatively low level, and the part LDCs play in the East European countries trade is less significant than their position in the trade of DCs. For example, in 1978, LDCs supplied 25% of DCs' imports and took 23.8% of their exports. (Paszynski 1981, P. 34) In the same period, however, LDCs received only about 14.7% of East European exports and provided 10% of their imports. (Dobozi and Inotai 1981, P. P. 51) As Table (36) shows, these ratios are not identical for different countries of Eastern Europe; Romania occupies, for instance, the prominent place in the East European trade with LDCs,\(^{35}\) and GDR receives the smallest share of LDCs trade with the CMEA.

Table (36)
Percentage Share of Developing Countries in the Trade of the East European Countries (1977)

<table>
<thead>
<tr>
<th></th>
<th>Exports</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>12.6</td>
<td>6.7</td>
</tr>
<tr>
<td>Czechoslovakia</td>
<td>11.9</td>
<td>9.5</td>
</tr>
<tr>
<td>GDR</td>
<td>7.4</td>
<td>8.1</td>
</tr>
<tr>
<td>Hungary</td>
<td>14.4</td>
<td>11.7</td>
</tr>
<tr>
<td>Poland</td>
<td>10.5</td>
<td>7.5</td>
</tr>
<tr>
<td>Romania</td>
<td>18.9</td>
<td>17.1</td>
</tr>
</tbody>
</table>


\(^{35}\) Not including the Soviet Union.
Probably the differing importance of LDCs' trade with individual Eastern European countries depends to some extent on the various degrees of these countries' openness to international trade; the smaller ones tend to be more open to international trade.\footnote{Such an explanation is, of course, only a partial one, because in the case of Romania the relatively large share of LDCs' trade in its total imports and exports is mainly due to its deliberate policy of extending trade relations with and preferential treatment to LDCs. (Paszynski 1981, p. 38)}

There are several factors that explain the relatively small share of LDCs in the total trade of East European countries. Eastern Europe initiated its trade relations with a majority of LDCs only after decolonialization. The most important factor is, however, connected with the function that foreign trade performs in Eastern European economies.\footnote{This explanation is also valid in regard to the small share of DCs' trade in the total trade of Eastern Europe.} Historically, foreign trade has acquired a residual nature in the Soviet Union and Eastern Europe. These nations imported in order to cover domestic shortfalls and exported enough to pay for imports. Consequently, they did not feel an urgent need to expand their foreign trade with the LDCs. Coker (1984) argues the same point when he discusses Soviet Union foreign trade policy:

"Soviet Union's trade with the outside world, and the third world in particular, is a marginal element in its own economic planning. Most of the goods imported from LDCs are rather peripheral to the Soviet economy and therefore of no great importance to the overall planning process. Imports from the Middle East are generally exported immediately. Imports of grain from Latin America are "balancing items," for use when the plan goes awry. There is really no significant volume of
imports that is integrated into the planning system. Trade policy could be characterized as a "barter of residuals."

Another feature of trade between Eastern Europe and LDCs is the fact that Eastern Europe runs persistence trade surpluses with LDCs.\(^{38}\) Dobozi and Inotai (1981, P. 50) and R. Portes (1981, P. 327) argues that such surpluses are little help in "redressing their large deficit with the West." Much of their surpluses with LDCs is in inconvertible currencies or is covered by economic aid which will only be redeemable in the long run. For example, in the mid 1970s, almost one-half of the Soviet Union's imports from the LDCs were in the repayment for development aid credits; and its involvement in bauxite production in Guinea and in the extraction of phosphates in Morocco will not be recovered for another twenty years. In fact, the provision of credit to Morocco in 1978 was so extensive that it brought the Soviet Union's foreign aid figures in parity with those of the U.S. for the first time. (Coker 1984, P. 13)

There is, therefore, no ground for the dependency school's argument that Eastern Europe, by running surpluses with LDCs, exploits these countries in order to cover its own deficit with West. (Dobrovolny 1983, P. 98) Indeed, the existence of a trade surplus should not be taken as synonymous with the existence of a hard currency surplus. Szymanski (1982) argues that between 1975 and 1978, the Soviet Union exported, on the average, about 4.5 billion rubles annually to LDCs, at the same period importing an annual average of 2.9 billion rubles from them. According to him, a large

\(^{38}\) This feature is also a common characteristic of DCs' trade with LDCs.
portion of Soviet Union exports were financed through "exchange agreements," or the barter without any hard currency purchases by LDCs. At the same time, the Soviet Union purchased a high proportion of its imports with hard currency. In the 1975-1978 period, the Soviet Union earned $1.4 billion a year in hard currency because of its transactions with LDCs; at the same time period on the average it spent $2 billion annually in hard currency in order to purchase goods from them. In other words, the Soviet Union ran a hard currency deficit with LDCs averaging about $600 million a year. (see also Bozek 1979)

In fact, some economists believe running trade deficits is more advantageous to the socialist countries than running trade surpluses. Their arguments run as follow: the socialist countries face productive capacities which are not capable of producing enough goods to satisfy the demand. Domestic supply, therefore, lags behind, expanding domestic demand: such countries are described by Kalecki as "supply-constrained" economies. (cited in Paszynski 1981, P. 38) Under these conditions, the functions of foreign trade differ from those in DCs. In the latter, exports supplement insufficient domestic demand and therefore play the prominent role. In socialist countries, the situation is opposite: it is the imports that perform the most important function and supplement the insufficient domestic supply. Exports, on the other hand, are deemed undesirable because they compete with domestic demand; therefore, the most important function of exports is "to cover indispensable import requirements." (Paszynski 1981, P. 39) The same arguments are applicable to
export surplus over imports. In DCs "a positive trade balance acts—like investment—as a stimulus to growth of demand, through the multiplier effect, and to fuller capacity utilisation." In socialist countries it is the trade deficit that can assist the country to ease up its "supply-constrained" situation. (Paszynski 1981, P. 39)

Kalecki and Sachs express the same ideas about the economic aid:

Turning now to the definition of aid from the point of view of the donor country, we should make a clear distinction between two positions: a) the donor country has no free productive capacities (as e.g. usually happens in socialist countries); b) the donor country does not fully use its productive capacities, because of lack of effective demand (a frequent situation in developed capitalist countries).

In the former case giving foreign aid, embodied in export surplus, means a sacrifice because the aggregate internal expenditure (i.e. national income less exports plus imports) will be less than the income generated, which cannot be stepped up above the maximum level warranted by the productive capacities. Would there have been no export surplus, the aggregate internal expenditure would be equal to the income generated at a maximum level.

In the latter case the picture changes entirely: the export surplus, similarly to investment, has a "multiplier" effect, so that the aggregate domestic expenditure after deduction of the export surplus from the income thus generated is higher than the income which would be generated without the export surplus. We may say therefore, that by giving economic aid to other countries a developed country with free productive capacities assists its own economy in obtaining a higher level of economic activity. (cited in Paszynski 1981, P 39-40)
It is therefore not universally true that running a trade surplus is advantageous for any given economy and under any condition.\textsuperscript{39} There is no doubt that the Eastern European countries and the Soviet Union benefit from their trade relations with the LDCs. There is, however, some doubt about the dependency school's argument that Eastern Europe and the Soviet Union are the beneficiaries of such relations.\textsuperscript{40} The long-term nature of their trade contracts with LDCs, for instance, is certainly useful for planning purposes in Eastern Europe; but such long term contracts are also important for LDCs because they create a reliable and permanent market for these countries' products and consequently assist the stable functioning of their economy. Another feature of these trade relations, i.e. the clearing system of accounts based on cancelling out the mutual account of each side, is of considerable importance for both parties. Such a system not only perfectly matches with the foreign trade system of Eastern European countries, but at the same time it enables LDCs as well as Eastern Europe to conduct their trade without

\textsuperscript{39} The "supply constrained" feature of Eastern European economies is another important reason behind their trade aversions. It is, therefore, not surprising that Eastern Europe's trade with LDCs is comparatively low. "If we compare the CMEA share in world exports to its share of world product, we find it is in the proportion of 1:2. Taken together, its share in world exports is twice as low as its share in world production." (Coker 1984, p. 10-11)

\textsuperscript{40} It appears that most East-South economic relations tend to reinforce the existing place of the underdeveloped countries in the international division of labor. The economic and political advantages that East-South economic relations confer on the underdeveloped countries are not significantly different from "advantages" of imperialist economic relations between the capitalist underdeveloped and the capitalist developed countries of the West." (Frank 1977, p. 118)
facing difficulties of providing sufficient 'valuable' hard currency in order to import the needed products. Running trade surpluses with LDCs, as was discussed earlier, is considered by some economists to be more harmful than helpful to Eastern Europe. Many of these surpluses stem from Eastern European countries' extending economic assistance to LDCs. It is, of course, not true that Eastern European countries are the complete losers in such deals. They are "inclined to accept deferred payment conditions for that part of their exports which consist of goods that are usually traded internationally on credit terms." An export surplus in these cases is used to finance imports, but at a later stage. (Paszynski 1981, P. 40)

In view of the controversy, it is not easy to make a definite judgment on the dependency school's argument that "East-South economic relations are not significantly different from economic relations between DCs and LDCs. However, it seems to me there exists enough evidence to raise serious questions about the validity of the dependency school's argument.

5.5. Industrial Cooperation Agreements and Eastern Europe:

The dependency school posits that besides East-West trade, another aspect of East-West economic relations which has led to the integration of East European countries into the world capitalist system is defacto investment of MNCs in these countries. Such investments allegedly amount to nothing less than the utilization of cheap East European labor for the export of goods manufactured in
these countries back to the West. The dependency school believes that the MNCs' activities in Eastern Europe are parallel to the

"transfer of certain kinds of industrial production from the West to certain parts of the underdeveloped countries: the transfer of labor intensive industries, such as textiles, clothing, and footwear, or manufacturing process such as the fabrication of electronic components, from economies where the cost of labor has become too high to keep them profitable to areas with cheap labor; the transfer of some heavy industry, part of automotive and related equipment manufacturing, and of steel production, to more advanced parts of South and East . . . what better strategy than to shift some of the production in these industries to Brazil, the Soviet Union and Poland where labor is not only cheap but more disciplined?" (Frank 1977, P. 112)

In this part of my dissertation, I will try to verify empirically to what extent the dependency school's argument is valid, and find out whether MNCs' investments in Brazil and Mexico are similar to those in Eastern European countries. Since the direct investments by MNCs in Eastern Europe are minimal, and in fact nonexistent in some of the Eastern European countries such as the Soviet Union, from the beginning one has to accept a broader definition for MNCs' investments in Eastern Europe, a definition which covers all types of economic activities conducted by these corporations in Eastern Europe. Consequently, in this part I will take ICAs between Eastern Europe and the West to be synonymous with MNCs' investments in Eastern Europe. A specific feature of investment, according to this definition, is that while "equity may be title to a specified share of output or profits, rather than physical assets which generate them," the debt or return on investments may frequently be repayable in kind. (Portes 1978, P. 163) Such definition makes a distinction
between MNCs' activities in East Europe and those in the capitalist countries. In the capitalist countries MNCs' investments entail actual ownership of physical assets, and return on investments are almost never, in kind. Such a definition seems to be accepted by McMillan when he argues that ICAs are

"the framework for a form of real capital investment, since through production and marketing sharing provisions, quality control arrangements and other agreed procedures, the Western firm is able to play a continuing, if indirect, role in the use of productive assets within the Eastern economies" . ..

In sum he believes ICAs

"can be viewed as means by which, in principle a Western firm can exercise some of the property rights which normally accompany equity investment. In the absence of formal title to assets in the East, the Western partner may nevertheless exercise some control over the use, allocation of income from, and disposal of transferred assets during the life of the agreement."

In this sense he argues, ICAs "can perform some of the functions of more direct forms of capital investment and can substitute for the latter in the face of East-West legal and systematic constraints." (McMillan 1977, P. 1192)

The ICAs differ from international trade in two important aspects: time and interdependence. Ordinary trade is characterized by a series of "once-and-for-all transactions;" a cooperation agreement, in contrast, is represented by a contract "extending over a number of years." (Hanson 1978, P.P. 127-128) Although ICAs take different forms, almost all of these forms entail at least one of the following activities: sales of know how, transfer of technology,
training of labor and management, engineering consultancy, etc. It is therefore not difficult to see why these activities tend to have a duration and a character of continuing interdependence between contractual partners; (Hanson 1978, P. 128) a characteristic which is absent from an ordinary trade transaction of selling or purchasing of a given product.

5.5.1. Different Forms of ICAs:

ICAs bring Eastern European countries and Western firms together in a broad range of activities. Table (37) presents the different forms of ICAs from least to most integrated. In practice, however, "quantitative research has been hampered by the absence of a standard definition" for different forms of ICAs. (McMillan 1977, P. 1181) Furthermore, accurate classification requires a fairly detailed knowledge of a given contract and such information is not generally easily or systematically available. The East European authorities are reluctant to publish detailed information, and Western governments do not require registration of ICAs. Consequently, individual researchers are limited to collecting information based on scattered data as reported in domestic and foreign business publications, an endeavor which is extremely time consuming. The major problem, however, is that there is no guarantee about the accuracy of data or their classifications.41 (Cory

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41 Because one has to rely on the secondary sources.
1982, P. 141 and McMillan 1977, P. 1181) As a result, it is often very difficult, sometimes even impossible, to decide whether a particular deal falls within a given definition of ICAs. It is based on the realization of such difficulties that, in the empirical section of this part, I will mainly rely on the United Nations survey and McMillan's studies which are generally accepted and are referred to as accurate sources of information about the numbers, different forms and characteristics of East-West ICAs. Consequently, I do not feel it necessary to conduct a separate investigation on my own, in particular because McMillan's and the U.N.'s studies are comprehensive and cover ICAs at different periods of time and therefore allow one to draw legitimate conclusions about their characteristics.

Regardless of difficulties in classification of East-West ICAs, there are some well known examples of different forms of ICAs which can be useful in explaining Table (37). Among the examples of turnkey projects is the $20 billion Occidental Petroleum contract with the Soviet Union, part of which calls for Occidental to provide manufacturing facilities, pipelines and shipping in exchange for 1.5 million tons of ammonia per year. (Herold and Kazlov 1983, P. 65)

Licensing agreements can also operate without payments of royalties in hard currency to Western firms. For instance, there is an agreement between a Polish state enterprise and the Swedish firm Ericsson in which the former is licensed to produce heavy devices for railway signal boxes in return for payment of half of the license fees in the form of delivery of these devices to the Swedish company.
Subcontracting is another form of ICA which can be used by East European countries to earn hard currency. Hungarian subcontracting, for instance, is used in cutting and finishing clothes for Western markets. In 1975, Hungary earned an estimated revenue of $175 million from its subcontracting agreements with Western firms. Among the examples of production cooperation agreements is the one which involves the French subsidiary of Regie-Renault in Poland. Based on this agreement, the French company built a factory in Warsaw to manufacture Jelez-Berliet buses, which are sold in Eastern and Western markets as well as Africa. Machine tools and equipment for the buses are made in Poland with the help of French specialists.

Examples of joint ventures in Eastern Europe include: the one between Volvo, the Swedish car manufacturer, and the Hungarian enterprise for production of two standard models for sale in both Eastern and Western markets; another one is between the U.S. firm Corning and the Hungarian foreign trade organization for production of blood gas analyzers. In this venture Corning is responsible for providing technology and certain components as well as distribution and sales of blood gas analyzers in Western Europe.

There are other types of ICAs which are not mentioned in Table (37), such as Pepsi-Cola Corporation's agreement with the Soviet Union which illustrates a cooperation between joint-production and joint-marketing. In 1976 Pepsi Cola provided a
bottling plant to the Soviet Union with capacity of 50 million bottles of Pepsi. Pepsi-Cola Company furnishes the Soviet Union with cola concentrate, under a barter agreement in which Pepsi sells Soviet vodka and wine in the U.S.A. The more vodka and wine Pepsi can sell in the U.S., the more cola concentrate the Soviet Union gets in return. (Schnitzer 1980, p. 48)

The initial contact between Western companies and East European countries usually takes the form of licensing and/or provision of turnkey projects. They then are followed by more integrated forms of cooperation (such as co-production or joint ventures in third countries and probably later establishment of joint ventures in East Europe). (Herold and Kazlov 1983, P. 29) The reasons that licensing usually evolves into co-production deals are not difficult to comprehend. The royalties are often too expensive in hard currency, and there exist numerous complains about lack of sufficient servicing and/or advice. 42 (Herold and Kozlov 1983, P. 29)

The evolution from one form to another, however, is not automatic and depends on "the development of partners capability and the growth of mutual knowledge and confidence." (McMillan 1977, P. 1195) Furthermore, a careful study of East-West ICAs reveals the importance of historical ties in establishment of more integrated forms of ICAs. The Control Data establishment of joint venture in Romania took place only after this corporation was selling its products in Romania for a couple of years. Fujitsu Fanuc of Japan

42 For more difficulties in measurement of ICAs see (McMillan 1977, p. 1183).
had had an ICA since 1974 for numerical process control equipment in Bulgaria before establishing the first joint venture there. And the manufacturing of "the Vutronik system for controlling industrial processes" by Honeywell in Poland was made possible only after long years of Honeywell transactions with Poland. (McMillan 1977, P. 3132)

The U.N. breakdown of ICAs into different forms, using a broader definition of ICAs, as of the end of 1978 reveals that the majority (about 45.2%) of these agreements were concentrated on co-production and specialization. U.N.'s study, however, exaggerates the role of specialization and co-production in Eastern Europe. For example, 20.4% of co-production and specialization are only concerned with research and development. Therefore, only 24.8% of ICAs can be really categorized as co-production and specialization; and out of them 21% are related to co-production in which each party manufactures parts of components of a final product.43 Nearly 4 percent are the type of co-production in which each party specializes in part of the manufacturing product and then exchanges units in order to complete each other's range of product (U.N. 1979, P. 22)

One of the oldest forms of cooperation, which is closely linked with the transfer of technology, comes next: supply of plants and

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43 Co-production may be distinguished from sub-contracting by the more egalitarian nature of the relation established between the partners. "It includes determining the components of a final product, drawing up specifications for these components and distribution of this production among the co-operating enterprises, each partner periodically specifying the volume and nature of its needs in components." (U.N. 1979, p. 9)
equipment (17.4%) mainly in return for the resultant products. This form is then closely followed by joint ventures and contractual ventures in any of the following countries: Eastern European countries, DCs and LDCs (16.9%). The other forms of agreements play a more modest role, (See Table (38)), especially licensing and subcontracting which are among the original forms of cooperations. Such a breakdown, however, does not reflect the small number of joint ventures which exist in Eastern European countries (in 1981 about 99 J/Vs existed in all Eastern Europe).

5.5.2. Attractive Features of ICAs:

For the Eastern European countries the most important feature of ICAs is the import of Western technology. "This transfer of technology function is the major consideration underlying the Eastern emphasis on cooperative relationships and is repeatedly stressed in official statements and legislative enactments on the subject." (McMillan 1977, P. 1193) In Bulgaria, for instance, the Minister of Foreign Trade said that by increasing contact with the West, Bulgaria hopes "to raise the scientific and technological level of its production, improve the quality of its goods. . . ." (Herold and Kazlov 1983, P. 34) In regards to the establishment of mixed

44 A number of reasons have been cited by Western and Eastern economists for the lack of Western firms' interest in participation in joint ventures. (McMillan 1981, p. 61) ascribes such lack of interest to "difficulties of integrating jointly owned, and necessarily more autonomous enterprises into centrally administrated economies."
companies in Hungary, an Eastern source reported that "the principal task of 'these companies' is to promote scientific and technical progress." (cited Herold and Kozlov 1983, P. 34)

ICAs are not perceived by East European countries as a simple vehicle for acquisition of technology, because technology may in many cases be purchased or leased through a trade transaction. Indeed, it is possible to acquire the whole production system, from feasibility studies to construction of plants through the market.

"A cooperation agreement may also include these elements, but it extends possible 'packages' beyond the acquisition of a complete engineering system to the creation of a reinforcing system of technical and commercial linkages, extending into the future and creating the possibility of continuing access to partner technology" (McMillan 1977, p 1195)

It is this aspect of "continuity" which most interests the East European countries. Furthermore, these countries hope, by involving the Western partner in the operation and commercial application of transferred technology, to acquire those technologies which are not usually available through trade transactions. More than anything else, however, Eastern European countries wish to create the possibility of assimilation of the Western partner's technological capability through ICAs. (Ibid, p 1193)

The self-financing character of the majority of East-West ICAs is another important aspect of these deals which appeals to Eastern European countries. According to Carl McMillan (1977), there exists an implicit and an explicit aspect of self-financing in such deals. For example, he argues the production specialization automatically leads to self-financing, because it generate some hard currency earnings
which usually offset the hard currency expenditures associated with the contract. The explicit aspect of self-financing of ICAs, on the other hand, is the one which is stated in the term of the contract. Consequently "the compensatory provisions of a cooperation agreement shift the burden of financing to the Western firm." The East European countries' pressure to enter into such arrangements stems from their belief that the Western partner could arrange hard-currency financing more easily than the Eastern European country could. These countries' interest in the explicit aspect of self-financing of ICAs is reinforced by their hard-currency indebtedness. According to P. Hanson (1978, P. 138), for this reason East European planners favor ICAs which guarantee hard-currency export sales and "usually veto schemes that do not."

Table (39) is extracted from Carleton Sample, and represents the component elements of 218 East-West ICAs (Each agreement is composed of a number of elements). This sample clearly indicates the East European countries' attempt to use ICAs as a vehicle of transfer of technology. The elements directly related with transfer of technology include elements two through seven, as well as element number sixteen-joint research and development. 28.4% of agreements surveyed included sale of capital equipment, 20.2% of them included sale of complete plant; about 22% of these agreements embodied custom design of plant and equipment, and about two-thirds of them contained technical assistance (know-how). A separate calculation of the Carleton survey shows 75% of agreements
surveyed contained at least one element closely related to the transfer of technology. (McMillan 1977, P. 1189)\textsuperscript{45} It is important to note that the Carleton survey indicates that a significant share (40-50\%) of the agreements constituted the arrangement for the payment of the capital and technology transferred in resultant or related products. (McMillan 1977, P.1188)\textsuperscript{46} Although the Carleton survey is rather old, it does not lose its relevance, because it was conducted in a period of explosive growth of East-West ICAs. In any event, the survey shows the Eastern European attempt to use ICAs as a means of acquiring Western technology without heavy burden on their reserves of hard currency.

Therefore, the evidence suggests that the Soviet Union and Eastern European countries use ICAs mainly to import Western technology. Despite ICAs’ attractive features and Eastern European countries’ interests in the importation of Western technology, they are still far behind the ‘semi-peripheral’ countries of Brazil and Mexico. These two countries outpace Eastern Europe in almost all channels of technological imports. For instance, in terms of the purchase of disembodied technology-payments for patent and licence between 1972-79, Brazil and Mexico spent $3.1 billion and $2.1

\textsuperscript{45} The data on the Carleton survey is based on questionnaires completed by the Western firms located in fourteen different West European countries (including Japan). The survey was based on a sample of 218 agreements reported in McMillan (June 1976).

\textsuperscript{46} The survey by the secretariat of ECE reported in UNECE (1975) reached the same conclusion. The ECE study of 1975 was based on a sample of 207 agreements.
billion, respectively. In the same period of time, the combined expenditure of Czechoslovakia and Poland, "the largest spenders in Eastern Europe," was $84 million, only 9.9% of those of Brazil and Mexico. In terms of the transfer of embodied technology, by 1983 Eastern Europe attracted about $64 million in foreign equity investment. By 1983, the amount of foreign direct investment in Brazil. Mexico and Argentina was well above $45 billion, more than 700 times that of Eastern Europe. (Pozanski, 1986)

5.5.3. Geographic Distribution of ICAs:

The propitious economic and political climate in the early 1970s which contributed to the expansion of East-West trade was also equally helpful in the tremendous growth of East-West ICAs. According to McMillan's study (McMillan 1981, P. 56), every year between 1970-74, ICAs grew by 30%. The most active early participant in East-West ICAs from the Western side was West Germany, followed by France, Italy and the United Kingdom. These countries are also the major partners in the East-West trade. (Herold and Kazlov 1983, P. 9) As of 1977, the position seemed to be unchanged (see table 40), and West Germany continued to be the most active Western country involved in the ICAs. Marer and Miller, discussing the U.S. firms' participation in ICAs, believe that as of 1976 U.S. firms and their subsidiaries became heavily involved in East-West ICAs and no longer lagged significantly behind their West-European competitors. (Marer and Miller 1977, P. 24)
Table (41) presents the relative position of different Western countries in the East-West ICAs at the end of the 1970s. The FRG continued to be the leading Western participant in the East-West ICAs, followed by France and the U.S.A. Obviously, between 1977 and the end of the decade, while the relative share of France and Austria declined, that of Italy increased. The U.S. involvement in ICAs is underestimated because U.S. firms participate indirectly through their subsidiaries in Western Europe. Marer-Miller estimate the share of U.S. firms and their affiliates in ICAs to be somewhere around 25% of all ICAs in force, which bring U.S. firms in parity with that of their West German counterparts. (Marer and Miller 1977, p. 24)

On the East European side, the most active participants in East-West ICAs are the more reform-minded among them: Hungary and Poland, followed at some distance by Romania; the U.S.S.R., Czechoslovakia, Bulgaria and the GDR tail behind. 47 (McMillan 1977, and McMillan 1981) According to McMillan's estimate, as Table (42) denotes, at the end of the 1970s the number of non-equity agreements between Eastern Europe and West was 1367; about 33% of these agreements were signed by Hungary, 24% by Poland and 21% by the Soviet Union. At the same period, 257 agreements with Western firms were in force in regard to joint projects in a third

47 If one, however, considers the general agreements or protocols with Western firms (i.e. establishing the intent to cooperate in broad areas of cooperation, but not the specific aspects of progress), the Soviet Union steals the show from other Eastern European countries. Out of 625 general agreements as of end of 1970, the Soviet Union received 406 of them, about 64%.
country; 30% of these agreements were signed by Hungary, 28% by Poland and 11% by Romania.

Table (43) shows the number of joint venture agreements between Eastern Europe and Western firms. Hungary, as of the end of 1981, had the largest number of joint ventures, followed by Romania and then Poland and Bulgaria. The existence of more joint ventures in the most reform oriented countries of East Europe supports McMillan's contention that the main obstacle in establishment of J/Vs in these countries is the difficulty of integrating a more autonomous entity into the economic systems dominated by central planning. (McMillan 1981, P. 61)

As these tables indicate, the Soviet Union, relative to the magnitude of its economy and foreign trade, has lagged behind other Eastern European countries as measured by the number of agreements concluded. (McMillan 1981) The Soviet Union is also far behind the other Eastern European countries when one considers the East-West joint ventures in developing countries (See Table (42)). However, in terms of the number of East-West joint ventures established in DCs, the Soviet Union occupied only the second place after Poland (See Table (44)), followed by Hungary and Romania. According to McMillan, the Soviet Union's participation concentrates mainly on "protocol agreements for technical and scientific cooperation. Compensation agreements in raw materials and semiprocessed goods, and joint companies in the West for the marketing of Soviet exports." (McMillan1981, p. 62) The compensation agreements certainly play an important role in the
Soviet Union. The Soviet Union uses compensation agreements in order to acquire equipment and technology necessary to develop Siberia as well as to expand production of certain high priority industries. The Soviet Union counts on Siberia's untapped deposits of oil, coal, natural gas and metals to support the country's future economic growth. The Soviet Union also uses compensation agreements to expand production of such industries as chemical fertilizers, petrochemicals, and ferrous and nonferrous metals--"in which Soviet technology lags the West or in which expanded capacity is needed quickly." (Barclay 1979, p. 464) The compensation agreements provide several advantages for the Soviet Union. They enable it to finance the purchase of Western machinery and equipment by long-term government backed credits with "very low real interest rates."48 Furthermore, compensation agreements reduce the Soviet Union's risk, because they guarantee long-term export markets, "providing protection from development in the West that would otherwise reduce Soviet export earnings and hard currency reserves." (Barclay 1979, P. 465) The compensation agreements are therefore used by the Soviet Union to acquire Western technology, and guarantee the future availability of some important raw materials as well as oil and natural gas. Furthermore, in instances, they are used to earn hard currency, such as export of natural gas for

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48 According to Barclay (1979), the average interest rate on these loans in the 1970s was about 7%, roughly equal to inflation in world prices of the products to be delivered by the Soviet Union as repayment.
equipment and pipe in which the export earnings exceed the cost of imported equipment and pipes.49

**Summary:** The most active participant in East-West ICAs from the Western side is West Germany, and from the Eastern side: Hungary and Poland. The Soviet Union is mainly interested in compensation agreements, since they enable it to acquire equipment necessary to develop Siberia as well as to expand production of certain high priority industries.

### 5.5.4. ICAs in Different Branches of Industry:

Since 1973 several surveys have been undertaken by different researchers to outline the distribution of East-West ICAs among different industrial branches. Among the first of such studies are those of UNECE (1975) and McMillan (1975). Both of these studies showed a high degree of concentration of these agreements in the mechanical engineering, transport equipment, and chemical industries. (Hanson 1978, P. 131) Indeed, the studies found that between 36-42% of agreements in the samples studied fell into

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49 The emphasis in this section is on the West-East flow of know how and technology. Point needs to be added here that the research and development networks in East European countries do generate their own applied research results and they often include potentially worthwhile invention. According to Hanson, however, indigenous inventions "seem frequently to get stuck at that stage in the product cycle," mainly because in these countries there exists a "systematic weakness at the development and innovation stages." Therefore, the Western partner to take the unutilized Eastern research results, "does the development, initial production and de-bugging and hands back an improved and commercially viable product." (Hanson 1978, p. 138-139)
machine building industries, followed by transport equipment, chemical and the electrical and electronics industries, each ranging between 9-15% of the agreements in the two samples. (McMillan 1977, P. 1188) The studies, therefore, showed a high degree of emphasis on heavy industry and those branches of industries in which technological progress is of primary importance. (U.N. 1979, P. 18) In fact, McMillan's study showed that over 70% of agreements surveyed involved producer goods industries, and the ECE study revealed that only 17% of agreements were identifiable as consumer oriented goods industries. (McMillan 1977, P. 1188)

As was mentioned earlier, McMillan did not include U.S. firms in his survey; Miller-Marer (1977),50 on the other hand, conducted a study of concentrating only on the U.S. firms. Their findings are summarized in Table (45). Their study also demonstrates a high degree of emphasis on heavy industry, with chemical industries receiving the highest share of agreements (20.5%), followed by the machine building industry (18.7%). The electrical machinery, by receiving 14.1% of agreements, was third. Their findings reveal that all countries of Eastern Europe tend to use ICAs mainly in heavy industry. For example, in the Soviet Union only 12% of ICAs were related to consumer goods. In combined Eastern Europe, a slightly larger share (18%) of ICAs with the U.S. were in the consumer goods sector. (Marer and Miller 1977, P. 24)

50 They mailed questionnaires to 1068 U.S. corporations, and received a response from 70% of these firms.
Another study by the U.N. (1979)\textsuperscript{51} in 1978 shows the same degree of priority in regard to the distribution of East-West ICAs among different branches of industries, as was shown in Miller-Marer's study. They include respectively the chemical industry (26.1\%), mechanical and machine tools (22.3\%), and electrical equipment and electronics (17.5\%) (See Table (46)). In general, these industries for which technological progress is of primary importance together accounted for about 84\% of the cases studied. Light industry, agricultural and food industries and other industries occupy a much less important place, approximately 16\% of the total.

A more recent study by McMillan (1981) indicates that although the high priority industries still received the largest number of ICAs, there had been some changes in terms of distribution of ICAs among them, (See Table (47)). Compared with the U.N. study of Table (46), electrical equipment and electronics receive the larger share of ICAs than mechanical engineering and machine tools.\textsuperscript{52} Transport equipment ranked 4 in both studies. While in McMillan's study light industry plays a more important role than metallurgy, in the U.N.'s study it is metallurgy that ranks higher than light industry.

So far, the studies cited in this section have concentrated their samples on Eastern Europe in general, but it is important to find out how individual East European countries distribute ICAs among

\textsuperscript{51} The study is based on press information, supplemented in some cases by data obtained through direct interviews with firms.

\textsuperscript{52} Probably due to the altered plan priorities.
different branches of industry. As Table (48) denotes, the mechanical industries and machine tools occupies first place in four countries: Bulgaria, Poland, German Democratic Republic and Czechoslovakia. In the Soviet Union and Romania the chemical industry is in the first place with a share of 36.4% and 39.3% respectively; in Hungary it is the electrical equipment and electronic industries which lead among other industries. The chemical industry occupies the second place in Czechoslovakia (33.3%), and in the German Democratic Republic (14.3), the same percentage as for transport equipment and for agriculture. Mechanical engineering and machine tools takes second place in the Soviet Union, and transport equipment comes second in Romania. It is only in Bulgaria that agriculture and food industry occupies an important place and comes second (27.3%). It is clear, then, that this study confirms the previous studies' findings that Eastern European countries use ICAs primarily in heavy industry and in the high priority branches of heavy industry in which technological progress is important. (U.N. 1979, P.P.18-19)

**Summary:**

As was shown in the previous sections, East European countries view East-West ICAs as a means of acquiring Western technology on a continuous basis, and of easing hard currency problems by providing repayment to the Western partner in resultant products. Consequently, most of their emphasis on concluding such agreements is on these two aspects. It was also shown that the different studies
conducted on the different periods of time all confirm that almost three-fourths of these agreements are concerned with producer goods industries in particular machine, building and chemical industries. These are all priority sectors, i.e.

"it is neither an accident nor the result of the workings of the 'law' of comparative advantage [as the neo-classical economists argue] that the Soviet Union has negotiated a large number of ICAs in petrochemicals and fertilizers since 1970. Since the 1960s, the economic plans have called for an emphasis on chemical production. If plan fulfillment requires an expansion which is impossible to attain (or if attainment would unacceptably strain domestic resources), buy back ICAs can provide technology and equipment of high quality and in requisite quantity. (emphasis added Herold and Kazlov 1982, P. 66) Furthermore, there is no indication that Eastern European concludes ICAs, in particular joint ventures, are for the sake of maximizing profit."

This is a claim made by some neo-classical economists and discussed in the third chapter of this dissertation. A majority of these agreements are used to modernize the industrial structure of East European countries. There are, of course, some ICAs which are primarily used in the development of exports such as gas for pipes in the case of the Soviet Union.

5.5.5. ICAs as Arena of East-West Conflict:

Despite the advantages associated with ICAs, the goods shipped under these agreements only account for a small percentage of East-West trade turnover. (In 1975, for instance, such goods amounted to only 4-5 percent of total East-West trade turnover.)
The reason for such a small percentage can be mainly attributed to the fact that virtually all aspects of ICAs from their initiation to their subsequent implementation are potential areas of conflict. It is this aspect of East-West ICAs which is largely missing in the discussion of East European economists, especially the advocates of an export-oriented model of development. These economists tend to emphasize, and at times exaggerate, the potential benefits of ICAs, and are inclined to ignore the problems associated with these agreements. For instance, while the East European countries seek to obtain the latest technology, Western companies prefer to transfer standard or even aging technology. Moreover, while East Europeans are interested in acquiring capital intensive technology due to the shortage of labor in these countries, the West likes to sell labor intensive technology. In most cases, also the motivation of Western firms in entering ICAs is to increase their sales of goods and services, rather than to deepen the participation of the socialist partner in the actual operation. The evidence supporting this claim is the large number of licensing and turnkey contracts, "precisely those forms where the level of development of the participants diverges most," concluded by both sides. The two sides also often disagree on the specific varieties of models to be made and the standard of quality control. There are other problems, such as the

53 John B. Holt (1976, p. 77-78) provides a more or less comprehensive list of the areas of conflicts in East-West ICAs.

54 See appendix III
insulation of East European countries and domestic prices from the world market which make it difficult to reach agreement on pricing of inputs and outputs. (Bornstein 1979, P. 295) It is therefore more rational to view ICAs not only as an arena of cooperation between East and West but at the same time as an arena of conflict between them. Existence of such conflict does not mean (as probably the dependency school would argue) that Eastern Europe will be always the loser by virtue of being intermediate countries. For example, concluding an East-West industrial cooperation takes an unusually long period of time, sometimes even more than two years, almost three times longer than the normal time with a West European customer. 55 (Hanson and Hill 1979, P. 59) During the period of negotiation the East European production engineers find the opportunity to become extremely well-informed about technical details of technology involved in the agreement. Moreover, they have sufficient time to examine the details of similar technologies offered by other Western companies and eventually to "make the most rational purchasing decision in terms of their quality and output requirements." (Hanson and Hill 1979, P. 591) Furthermore, in the usual East European conditions of scarce hard currency, "extended proposal and negotiation times frequently "allow" them "to

55 This number is based on a survey of British companies selling machine tools to the Soviet Union. The time sometimes can be reduced when the smaller projects are under negotiation. A similar survey about operation of British chemical firms in the Soviet Union indicates 9-10 months' longer negotiating time compared with a typical Western client. (Ibid., p. 594) The study, however, indicates that this length of time could be somewhat reduced by development of mutual trust and understanding.
receive extremely favorable commercial conditions, particularly if other capital goods markets were generally depressed." (Hanson and Hill 1979, P. 591) The East Europeans' manner of negotiation, their emphasis on detailed specification of projects, and the unusual (on Western standards) negotiation time, however, are considered by Western firms as drawbacks. (Herold and Kazlov 1983, P. 62)

The recognition of these potential conflicts and the attempt to resolve them a priori will assist in a more smooth operation of ICAs and consequently will aid in averting future, more serious losses. In contrast to the advocates of "export model of development" in East Europe, some of the Western authors have fully recognized these potential conflicts. J. Holt (1977), for instance, speaks of how U.S. agricultural and construction equipment industries use different techniques in their bargaining with the East, and consider the relative uniqueness of their technology as their strongest bargaining chips; or as Philip Hanson aptly puts it, the benefits to the East European countries and deriving from ICAs, of course cannot

"be expected to be available gratis. Insofar as some of the burden of risk associated with an investment project to Eastern Europe is shifted to a Western partner, e.g. by his entering into a forward commitment to purchase output from the project at an agreed price or according to an agreed price formula, it should be expected that something will be charged (in the terms of the cooperation agreement) for his risk bearing. The Eastern partner may be thought, then, as paying for his risk-aversion as well as for Western management or marketing expertise." (Hanson 1978, P. 138)

The Eastern European economists' stress on the benefits derived from East-West economic relations resembles one of the
'modernization' school arguments presented earlier in this dissertation. Similar to the modernization school, the East European economists seem to maintain that because the nature of modernization is identical for all societies, then the economic growth and consequently development of socialist countries can largely be sped up by an inflow of Western technology. This perspective largely ignores that technology and innovation are not neutral elements that can be simply acquired from one economic system and then be installed and used in a completely different economic system. For example, development of capital intensive and highly energy consuming technology, even with Western European standards, in the United States early in the turn of the century was due to the requirements of a growing economy rich in natural resources and capital but impoverished in terms of human resources. Adoption of such technology by a country with a large source of labor and insufficient capital would not be without any adverse consequences. Furthermore, the East European economists' optimistic perception of ICAs not only may lead to future losses, it also does not reflect the actual practice of ICAs. For example, socialist governments frequently complain regarding their experiences with joint ventures. They for example argue that J/Vs actually aggravate a country's balance of payments problem, mainly because some Western firms sign J/V contracts to create "a captive client that
would subsequently" import the Western company's products. The Western firms also usually want to establish a production facility that dominates the East European market, and have no interest in the export of joint venture's products to capitalist countries. (Herold and Kazlov 1983, P.P. 48-49) Dow Chemical apparently withdrew from a $1.2 billion basic petrochemicals complex in Eastern Europe because it feared poor results due to worldwide overcapacity of basic feedstock. (Herold and Kozlov 1983, P. 49)

Moreover, the function of ICAs as a means of acquiring appropriate technology has come under question recently by some critics of the ICAs critics. For instance, under ICAs with Massey Ferguson Ltd. and International Harvester, two tractor factories were built in Poland. These plants, representing an investment of $2.5 billion, produce large tractors, when the Polish private farms are in need of smaller models. (Herold and Kozlov 1983, P. 50) In two other cases relating to the steel industry, Soviet engineers had developed a superior item of equipment, but instead foreign substitutues were acquired which were either more expensive or technically inferior. (Hanson 1983, P. 31) Similarly, in some cases related to the Soviet chemical industry, the domestically developed technology was unjustifiably neglected in favor of import of Western technology. (IHanson1983, P. 31)

56 Such a problem has apparently been at the origin of the Citroen-Oltuit joint venture dispute in Romania. Because Oltuit lacked the hard currency to purchase Citroen parts, the project came to a stand still by early 1983. (Herold and Kazlov 1983, p. 48)
A Soviet author in criticizing the above problems wrote in Pravda "it is time to abandon the idea that 'there are no prophets in one's own fatherland.' It is also time to treat the state gold reserves carefully." (Hanson 1983, P. 32) To staunchly advocate ICAs without considering the possible adverse consequences would result in at minimum a loss in state treasury.

Furthermore, some doubt has been raised by the ICAs' critics about the contribution of these agreements to increasing the productivity of these countries' industrial sector. For instance, case studies for the chemical, motor and gas transport industries reveal "a highly uncertain and possibly negligible role of imported Western technology in Soviet development since about 1960." (Hanson 1983, P. 43) And the case study of the Soviet chemical industry, an industry with heavy imports of Western technology, suggests that "labor productivity in imported plants" is typically two-thirds of that of West European labor productivity in similar plants. (Hanson 1983, P.42) Another set of case studies, which had attempted to find the extent to which the transfer of technology had narrowed the technological gap and by inference the productivity gap between the Soviet Union and the West, indicated that there had been no clear, general reduction in observed Soviet lags behind the West in a broad selection of key technologies between the mid-1950s and the early 1970s. (Hanson 1978, P. 29) Nevertheless, there have been case studies and econometric models which suggest the contribution of imported Western technology to the Soviet Union's industrial development and its productivity has been great, but most of these
studies have been criticized on different grounds. In general, Brainard (1979) makes a fairly correct statement in regard to the import of Western technology and its effects on the Soviet Union economy and by implication the rest of East European countries:

"... Western capital goods are typically allocated to priority sectors where their economic return may be very high due to their help in relieving critical bottlenecks. Such a role for Western capital may help significantly in the settling of economic priorities and the timing of interrelated projects. Western capital may also help to raise the technological lead of specific industrial branches; the mineral fertilizer industry is a case in point. Apart from a limited number of such cases where the contribution may be very significant, the size of Western capital imports points to only a modest impact on the technological level of the overall economy. The same is true of the economy's aggregate growth rate--a positive though modest contribution." (Brainard 1979, P. 100)

One exercise among a series of exercises conducted by Levine and Green indicates that a 10% projected total Western machinery imports in 1975-1980 would generate a slight change in Soviet total industrial output in 1980, from an index of 126.6 to 126.2 in the case of reduction in such imports, and to 127 in the case of an increase (1975=100). (108, 1. 28) Doubt has also been raised about the contribution of Western technology to the expansion of exports to the West. P. Hanson (1982), for instance, presents an assessment of the performance of Polish, Hungarian, and Soviet economies during the 1970s in utilizing Western capital goods to raise exports to the West. He relates the Western-imports intensity of investment in different

57 For some examples of these studies and their criticism see (Ibid. and Hanson 1978).
branches of the economy and then relates them to the subsequent growth of exports to the West from these branches. Using Spearman's coefficient of rank correlation, he finds that all of these countries performed poorly in terms of increase in exports, though the Polish performance measures were worse than the other two.

Not all the problems associated with the ICAs could be attributed to the Western firms' attitudes. Eastern European countries are also at fault in terms of implementation of some unsuccessful ICAs. The "indigestion" problem is cited as one reason for delay or complete standstill of some ICAs in Eastern Europe. The indigestion is caused by an acute shortage of labor and domestic machinery and equipment to supplement the imported machinery and by inadequacies of planning and management. (Brainard 1979, P. 103) These countries also in cases rejected the domestic technology unjustifiably in favor of imported one. In some Soviet press articles the decision for technology imports are argued to be well founded but they are criticized because they are badly implemented. For instance, one of these articles reported that the import of equipment and chemical reagents for the oil industry were abandoned as a result of negligence and corruption. (Hanson 1983, P.P. 32-33)

As John Holt aptly puts it

"to view ICAs as arena of conflict implies each potential conflict constitutes a potential cost, a sacrifice by one or both parties if agreement is to be achieved, a cost to be measured against

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58 Examples were cited earlier in this chapter.
perceivable benefits in order to assess the net benefit of the cooperation as a whole." (Holt 1976, P. 78)

The recognition of this sacrifice associated with ICAs which is largely missing in the discussion of East European economists, the advocates of export-led growth, the East European governments on the other hand seems to be more aware of the problems associated with ICAs, and it is reflected in the period of time that they spend in negotiation of different industrial cooperation agreements.

Some Concluding Remarks:

My investigation reveals that East European countries use ICAs as a means of acquiring Western technology. They do not conclude that ICAs are used for the purpose of maximizing their profit, as some orthodox economists argue; rather, they engage in ICAs because of their belief that

the country's historic destiny and the position of socialism in the present day would depend, in large measure, on how we act further. By making wide-scale use of the achievements of the scientific and technological revolution." (Mikhail Gorbachev quoted in Cooper 1986, P. 317)

These countries mainly import Western technology in high-priority sectors. In the case of the Soviet Union, the imported technology is used in such sectors as oil, chemical, and gas where the government wants to raise an enterprise to a higher level on the economic pyramid. (Cooper 1986, P. 320)

I believe it is wrong to view ICAs as only an arena of cooperation between East and West, as a large number of Eastern
European economists see them. It is more accurate to consider ICAs not only as an arena of cooperation but also as an arena of conflict between East and West. The existence of conflict does not immediately translate to Eastern European's countries' loss, or their dependency on the DCs, as probably the dependency school's proponents argue. Even the magnitude of ICAs and in particular the amount of direct foreign investment in Eastern Europe, especially when it is compared with those in Brazil and Mexico, cast some doubt about the dependency of Eastern Europe on the West.

5.5.6. MNCs and Eastern Europe:

The ICAs directly link MNCs to the countries of Eastern Europe. Although not all Western partners in these agreements are MNCs, "their motivation are those characteristic of MNCs expanding their overseas operation within capitalist world economy, i.e., a search for markets for goods and technology, and/or lower costs of production." (Radice 1979, P. 45) The involvement of MNCs in Eastern Europe is considered by the dependency school to be an instrumental factor in integration and consequently dependency of these countries on the world market economy. It is important, therefore, to investigate, even if briefly, the degree of control that MNCs can exert in Eastern European economies and then attempt to construe whether these corporations' operations in Eastern Europe are similar to their operations in "semi-peripheral" capitalist countries.
In addition to the fact that East-West ICAs account for only 5% of East-West trade turnover, itself not a significant amount, MNCs' direct investments in the majority of Eastern European countries are limited or not permitted at all, and at the end of 1981 the number of jointly owned and operated enterprises in all East European countries was 99 (See Table (43)). Except for these few joint ventures all other enterprises set up in collaboration with MNCs are totally owned and controlled by East European states. The operation of these enterprises, including J/Vs, is as much a part of the overall plan of each country as any other domestic enterprise. (Szymanski (1982), P. 59) The MNCs' economic impact is, therefore, limited, as Szymanski argues, "to their ability to participate or not participate, and to scope and extent of their participation." They can affect the rate of economic growth of these countries "slightly through providing high technology or slightly deaccelerating it by withdrawing." (Szymanski 1982, P. 59 and Szymanski 1981, P. 522)

The limited extent of MNCs' operations in East Europe is a contrast to their extensive activities in the "semi-peripheral" capitalist countries. In Mexico, for instance, according to a study completed in 1970, of the 2040 companies with the largest incomes, foreign capital controlled 36% of the income of the largest 400 companies. Of the largest 100 industrial firms, 47% belonged to foreigners. (Cockcroft 1983, P. 157) According to Cockcroft by 1970, U.S. based MNCs alone obtained the control of key sectors of the economy: they owned 57% of automotive manufacturing, 49% of petroleum products and coke; 33% of paper and cellulose; 76% of
rubber; 53.6% of mining and metallurgy; 72.2% of copper and aluminum; 100% of tobacco; 50% of industrial chemicals; 46.8% of food and beverages; 86.4% of chemicals and pharmaceuticals; 50% of electrical machinery; 52% of nonelectrical machinery; 64% of transportation equipment; 88% of computers and office equipment; 53.4% of commerce; 38.9% of construction materials. (Cockcroft 1983, P.158) These corporations, Cockcroft argues, are concentrated in more dynamic sectors of the economy and the "major contributors to Mexico's high GNP growth rates in 1950s and 1960s." Evans and Gereffi (1982) observes a similar situation in Brazil. In 1972, for instance, 32% of food, 44% of textiles, 25% of metal fabrication, 22% of nonmetallic ores, 69% of chemicals, 100% of rubber, 74% of nonelectrical machinery, 84% of transportation and 50% of total manufacturing of the 300 largest manufacturing firms in Brazil were owned and controlled by foreigners. (Evans and Gereffi 1982, P. 138) In sum, they argue in both Brazil and Mexico MNCs are not only concentrated in the leading industries, but within these industries they are also predominant among the leading firms. The same point is raised by Baer (1983, P. 175) about Brazil. He points out that within the manufacturing sector, foreign investments were concentrated in those sectors which experienced the highest growth rates within the Brazilian economy. (See Table (49))

MNCs' control over key sectors of industries in Brazil and Mexico makes these countries extremely vulnerable to these corporations' behavior, which in turn is determined by the changes in the world capitalist market. Especially if one considers that any
major decision by a subsidiary of a MNC, in particular in regard to expansion or reduction of output, is not influenced only by the conditions of local markets, but also by the general conditions under which its parent company operates.

The effect of MNCs on the growth rate of the GNP in the semi-peripheral capitalist countries is not limited to their control of the manufacturing sector. Their effect is enhanced through their control over these countries' exports and imports. According to Evans and Gereffi, in 1972, in both Brazil and Mexico, 85% of all manufactured exports were concentrated in just four industries: transportation equipment, electrical machinery, non-electrical machinery and chemicals. These are, of course, among the most dynamic sectors of the manufacturing sector, and are largely owned by foreign interests. In all these industries, except chemicals, 80% of exports are accounted for by MNCs' intercompany sales. In the case of chemicals, 55 to 65 percent of total exports are considered as intercompany sales. In other words, most of a MNC's exports are accounted for by sales to affiliates, and the percentage of these sales as a share of total exports has been generally increasing over time. (See Table (50)) Hence, one can easily confirm Evan and Gereffi's conclusion that MNCs' exports in key industries are
"largely dependent on the willingness of the" parent company "to buy or allocate production from its Brazilian or Mexican subsidiary. This source of revenues becomes quite vulnerable in the event of a general slowdown in demand or oversupply." (Evans and Gereffi 1982, P. 147) Furthermore, they argue that the Brazilian and Mexican involvement in building substantial manufacturing capacity, highly geared to exports, intensifies their vulnerability, in particular because many of these products are not "homogeneous commodities" that can be sold in many markets and specific marketing channels are required for their exports. "Since there is really only one customer for Pinto engines, the country that exports Pinto engines is in at least this sense more vulnerable than the one that exports coffee or silver." (Evans and Gereffi 1982, P.149) Specialization and co-production also take place between Eastern European countries and Western firms'. However, the nature of such specializations is different in as much as they are based on agreements and generally all details of a deal including volume and price are specified in the
agreement. This procedure is quite different from the one followed by an affiliate of MNCs in Brazil and/or Mexico, where, for example, it produces Pinto engines for which volume and price are determined by the parent company.

On the import side, the foreign owned corporations tend to "voraciously" gobble up imports and export much less than they import. According to the foreign trade department of the Bank of Brazil, the combination of 19 MNCs' subsidiaries' deficits in 1977 was sufficient enough to create a trade gap of $661 million. (Evans and Gereffi 1982, P. 150)

MNCs are also important factors in the large indebtedness of 'semi-peripheral' capitalist countries. A survey of the 50 largest firms in each ownership category in Brazil, state-owned, domestic firms and multinational reveals that MNCs are more in debt than either private Brazilian firms or state firms. Although a large part of Brazil's foreign debt in the 1970s is believed to be due to the borrowing by state enterprises, Table (51) at least can show that MNCs are also to be blamed because they borrowed substantial amounts. Such borrowing, according to Baer (Baer 1983, P. 189) is "another way of getting around profit restrictions . . . as there are no restrictions on the payments of interest on foreign loans."
Table (51)
Indebtedness of Domestic, Multinational, and State Firms
(Brazil)
50 Largest in Each Category
General Indebtedness as % of net assets

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Domestic firms</td>
<td>57.0</td>
<td>56.0</td>
<td>56.8</td>
<td>57.0</td>
<td>55.9</td>
</tr>
<tr>
<td>MNCs</td>
<td>60.9</td>
<td>57.8</td>
<td>63.7</td>
<td>62.4</td>
<td>52.5</td>
</tr>
<tr>
<td>State Firms</td>
<td>47.7</td>
<td>51.9</td>
<td>58.4</td>
<td>59.9</td>
<td>55.1</td>
</tr>
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Source: From (Baer 1983, P. 191).

Certainly East European countries' expansion of economic relations with Western countries, including MNCs, was instrumental in their increasing indebtedness to the West. However, their combined debt at its peak in 1980 was about $46 billion and they managed to bring it down to $33 billion in 1984. (Fulton, Jr. 1985, P. 22) In 1978, Brazil alone owed $31 billion (Frieden 1981) which reached to $84 billion in December 1982 (Baer 1983, P. 164) and in 1979 Mexico's external debt was nearly $30 billion, (Frieden 1981) and (at the time of writing this dissertation) it appears neither one of these countries is likely to be successful in solving the problem of their external debt in the near future. In brief, then, while MNCs can only slightly influence the economic growth of Eastern European countries, their realm of influence in the "semi-peripheral" capitalist countries is much more extensive: they can directly affect the rate of growth of the GNP in particular through their control on the
manufacturing sectors as well as on imports and exports of these countries. Furthermore, by their contribution to the foreign-debt of 'semi-peripheral' capitalist countries, MNCs can influence major government policies, especially those related to consumption and investment.

It is generally perceived that the most important feature of East-West ICAs for the East European countries is transfer of technology, although at the same time it is argued that such a feature raises the danger of "dependence" on the West. There is, however, a substantial difference between the possibility of "dependency" of Eastern European countries on the Western technology and that of 'semi-peripheral' capitalist countries. The CMEA countries accounted for at least 80 percent of all researchers on the European continent and also for 53 percent of all spending by European countries on research and development. (Stepanov 1981, P. 48) These countries, therefore, primarily rely on their own scientific, engineering and research development, and the imported technology can only be considered as a marginal factor in their development. This situation is in a sharp contrast to what exists, for instance, in Brazil, where the rate of growth is primarily a "product of joint technological agreements with transnationals." (Szymanski 1981, P. 522) According to Baer, the MNCs' affiliates' expenditures on research and development in Brazil are relatively insignificant. They

"allocate about one-fifth the expenditures to research and development that their parents do . . . if multinationals allocated to research and development in Brazil the same proportion of local sales as they do in the United States,
Brazilian expenditures would have been almost $150 million in 1972 instead of $30 million" (cited in Baer 1983, P. 192)

One should add that out of this amount a larger part probably is devoted to quality control than to development of new technology, because, although many MNCs maintain some kind of laboratories in the host countries, these labs are usually part of their quality control activities rather than part of their effort to engage in genuine technology development. (Baer 1983, P. 184)

According to Radice (1979), the following conclusions could be drawn from the expanding literature on the transfer of technology from DCs to LDCs. The application of technology involves a package of hardware and software, and decomposed elements of this package can only be transferred separately if the recipient of technology has the capacity to repackage these elements. Moreover, the recipient countries in order to avoid dependence on imported technology, must not only develop their technological capabilities, but also must avoid the packaged transfer of technology. Furthermore, a technology differs from a produced commodity in the sense that informational requirements of its market are intrinsically unattainable and consequently its price can only be determined through bargaining between buyers and sellers. Given the above, Radice argues that: "Eastern bargaining power vis-a-vis MNCs is undoubtedly qualitatively greater than that of the typical southern technology recipient in terms of market possibilities, technology assessment capabilities, and the institutional concentration of bargaining resources." Moreover, given the level of development of Eastern European countries, they are able to purchase "unpackaged"
technology and to operate and reproduce specific technologies. (Radice 1979, P. 46) Consequently, although Eastern European countries have chosen to purchase technology from the West, it is unlikely that they will become dependent on such technology transfer.

Radice also raises some more interesting points in regard to transfer of technology. He argues that

"technology cannot be isolated from the social relations of production, it does not in the last analysis determine those relations except at a very abstract level, and at the same time it is not something external to economic processes which can be chosen 'off the self' as production-function theory suggests. Thus . . . no assumption can be made about the universal applicability of any given innovation system, such as that characteristic of market economies." (Radice 1979, P. 47)

However, given the present world conditions and the decisions of socialist countries to acquire Western technology, one can add that they have more possibility and potentiality to assimilate technology successfully and to articulate it into related industries and direct it toward the requirements of their economies.

MNCs are also usually blamed for some other difficulties facing their weaker partners. For instance, MNCs are believed to inhibit the development of local firms which do not have technological and financial means to compete with these corporations. (Baer 1983, P. 185) This condition cannot be said to apply to the East European countries' relations with MNCs, since these corporations' activities are limited by the contracts set forward by the Eastern European countries and agreed to by MNCs. These corporations' method of
entry into the host countries is also believed to contribute to the displacement of local firms. In Brazil, for instance, in the early 1970s over 60% of new manufacturing affiliates of U.S. MNCs were established by acquisition of local existing firms as opposed to formation or reorganization.59 In Mexico, about three-quarters of U.S. MNCs entering affiliates were acquired rather than newly formed. (Evans and Gereffi 1982, P. 140) Some economists argue that such acquisitions are advantageous to Brazilian economy, since MNCs possess superior technology, permitting greater efficiency. A study of sixteen takeovers in Central America, however, shows that only in about one-half of the acquired firms some post-acquisition changes in production were made by MNCs. (Cited in Newfarmer 1979) Newfarmer's study of the Brazilian electrical industry indicates the same trend. In fact, he argues that "many firms acquired were technologically sophisticated prior to acquisition." (Newfarmer 1979, P. 27) The displacement of the local firms, along with MNCs' concentration on the key sectors of industries, tend "to transfer the decision-making focus concerning level of investment and production abroad." (Baer 1983, P. 185) One may not agree with this argument, but the point is that such a condition, which may be applicable to the "semi-peripheral" capitalist countries, is not relevant to the Eastern European countries.60

59 According to Newfarmer (1979), more than one-third of U.S. based MNCs established in Brazil to 1975 were acquisition.

60 For a brilliant study of the effects of stagflation on Eastern Europe see Portes 1980.
In brief, although East European countries are to some degree amenable to the policies of the MNCs, the manners in which their economies are organized, i.e. centralized economic planning and monopoly of foreign trade, mitigate or/and totally eliminate the adverse effects of establishing close links with these corporations; these are the adverse effects which seems to be the inevitable outcome of constituting such links for the "semi-peripheral" capitalist countries.
Table (1)

Eastern European Trade with the Industrialized West
(In Millions of U.S. Dollars)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Imports from West</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S.S.R.</td>
<td>2,491</td>
<td>11,867</td>
<td>24,265*</td>
</tr>
<tr>
<td>Poland</td>
<td>827</td>
<td>5,266</td>
<td>6,137</td>
</tr>
<tr>
<td>Romania</td>
<td>672</td>
<td>1,697</td>
<td>3,625</td>
</tr>
<tr>
<td>G.D.R.</td>
<td>1,061</td>
<td>3,022</td>
<td>5,662</td>
</tr>
<tr>
<td>Czechoslovakia</td>
<td>737</td>
<td>1,789</td>
<td>2,728</td>
</tr>
<tr>
<td>Hungary</td>
<td>584</td>
<td>1,784</td>
<td>3,120</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>301</td>
<td>1,046</td>
<td>1,491</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>6,673</td>
<td>26,671</td>
<td>47,075</td>
</tr>
</tbody>
</table>

| **Exports to West** |      |      |      |
| U.S.S.R.          | 2,453| 8,063| 26,981* |
| Poland            | 996  | 2,956| 5,344 |
| Romania           | 514  | 1,450| 3,055 |
| G.D.R.            | 927  | 2,309| 3,153 |
| Czechoslovakia    | 674  | 1,539| 2,972 |
| Hungary           | 507  | 1,203| 2,645 |
| Bulgaria          | 215  | 325  | 728  |
| **Total**         | 6,286| 17,836| 46,878 |

Table (2)

Trends in East-West Trade

<table>
<thead>
<tr>
<th>Period</th>
<th>Eastern Europe imports from OECD</th>
<th>Eastern Europe exports to OECD</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Percent Change in Volume</td>
<td>Percent Change in Prices</td>
</tr>
<tr>
<td>1975</td>
<td>20</td>
<td>32</td>
</tr>
<tr>
<td>1976</td>
<td>13</td>
<td>5</td>
</tr>
<tr>
<td>1977</td>
<td>-9</td>
<td>1</td>
</tr>
<tr>
<td>1978</td>
<td>9</td>
<td>17</td>
</tr>
<tr>
<td>1979</td>
<td>1</td>
<td>18</td>
</tr>
<tr>
<td>1980</td>
<td>3</td>
<td>12</td>
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</table>

<table>
<thead>
<tr>
<th></th>
<th>Bulgaria</th>
<th>Czechoslovakia</th>
<th>GDR</th>
<th>Hungary</th>
<th>Poland</th>
<th>Romania</th>
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<td>.35</td>
<td>.2</td>
<td>4.8</td>
<td>.4</td>
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<td>19.8</td>
<td>2.4</td>
<td>11.3</td>
<td>10.5</td>
</tr>
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<td>Japan</td>
<td>4.2</td>
<td>2.2</td>
<td>5.7</td>
<td>3.3</td>
<td>3.6</td>
<td>4.2</td>
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<tr>
<td>Belgium/Luxembourg</td>
<td>3.9</td>
<td>2.6</td>
<td>5.3</td>
<td>2.3</td>
<td>2.4</td>
<td>3.9</td>
</tr>
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<td>1.4</td>
<td>1.0</td>
<td>.6</td>
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</tr>
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</table>

*Excluding the Soviet Union.
**Rows may not add up to 100 percent due to rounding.

Source: Calculated from UN 1974
<table>
<thead>
<tr>
<th>Country</th>
<th>Bulgaria</th>
<th>Czechoslovakia</th>
<th>GDR</th>
<th>Hungary</th>
<th>Poland</th>
<th>Romania</th>
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<td>0.8</td>
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<td>0.6</td>
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<td>2.0</td>
</tr>
<tr>
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<td>4.0</td>
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<td>13.8</td>
<td>7.2</td>
<td>11.0</td>
<td>12.8</td>
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<td>27.7</td>
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<td>9.3</td>
<td>14.0</td>
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<td>18.9</td>
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<td>4.7</td>
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<td>3.3</td>
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<td>5.0</td>
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<td>0.9</td>
<td>2.7</td>
<td>2.0</td>
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<td>1.9</td>
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<td>2.4</td>
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<td>8.6</td>
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<td>5.0</td>
<td>0.3</td>
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</table>

*Excluding the Soviet Union.
**Rows may not add up to 100 percent.

Table (5)
Soviet's Major Western Trading Partners (1976)
(\%) of Total Soviet Trade Turnover

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Republic of Germany</td>
<td>4.7</td>
</tr>
<tr>
<td>Japan</td>
<td>3.3</td>
</tr>
<tr>
<td>Finland</td>
<td>3.1</td>
</tr>
<tr>
<td>Italy</td>
<td>2.8</td>
</tr>
<tr>
<td>France</td>
<td>2.6</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>2.6</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>2.1</td>
</tr>
<tr>
<td>Austria</td>
<td>0.9</td>
</tr>
<tr>
<td>Belgium</td>
<td>0.9</td>
</tr>
<tr>
<td>Netherlands</td>
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</table>

Table (6)
Geographic Distribution of the Soviet Union’s
Exports and Imports to and from the West
(1960)

<table>
<thead>
<tr>
<th></th>
<th>Percent of imports from the West</th>
<th>Percent of exports to the West</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Republic of Germany</td>
<td>19.0</td>
<td>18.8</td>
</tr>
<tr>
<td>Japan</td>
<td>11.3</td>
<td>6.0</td>
</tr>
<tr>
<td>France</td>
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<td>9.5</td>
</tr>
<tr>
<td>Italy</td>
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<td>13.2</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>6.1</td>
<td>5.4</td>
</tr>
</tbody>
</table>

Source: Compiled from Cooper (1963).
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Soviet Union</td>
<td>42.1</td>
<td>56.0</td>
<td>40.7</td>
<td>50.1</td>
</tr>
<tr>
<td>Poland</td>
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</table>

*excluding F.R.G.

### Table (8)
Brazil, Mexico, Venezuela and Argentina’s Trade as (%) of Total Trade of Latin America*  

<table>
<thead>
<tr>
<th>Year</th>
<th>The Four Countries</th>
<th>Latin America</th>
<th>(%)</th>
<th>Imports (in Millions of U.S. Dollars)</th>
<th>Exports (in Millions of U.S. Dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>8,634</td>
<td>11,710</td>
<td>73.7%</td>
<td>8,629</td>
<td>12,632</td>
</tr>
<tr>
<td>1975</td>
<td>29,902</td>
<td>36,734</td>
<td>81.4%</td>
<td>23,633</td>
<td>30,102</td>
</tr>
<tr>
<td>1980</td>
<td>65,580</td>
<td>82,610</td>
<td>79.3%</td>
<td>65,752</td>
<td>79,000</td>
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</table>

*Latin America as is used in U.N. (1962).

Table (9)

Imports of Selected Goods by LDCs and Semi-Periphery from Core in Million of U.S. Dollar
and Their Percentages to the Total Imports of These Countries from Core

<table>
<thead>
<tr>
<th>1970</th>
<th>LDCs</th>
<th>Europe</th>
<th>Canada</th>
<th>USA</th>
<th>Japan</th>
<th>Australia and New Zealand</th>
</tr>
</thead>
<tbody>
<tr>
<td>LDC's imports of primary goods</td>
<td>5611 (17.6%)</td>
<td>1817 (12.1%)</td>
<td>352 (46.5%)</td>
<td>2119 (28.5%)</td>
<td>524 (7.5%)</td>
<td>554 (57.1%)</td>
</tr>
<tr>
<td>LDC's imports of manufactured goods</td>
<td>24815 (78.7%)</td>
<td>12801 (85.7%)</td>
<td>398 (52.6%)</td>
<td>4498 (60.6%)</td>
<td>6334 (91.7%)</td>
<td>351 (36.1%)</td>
</tr>
<tr>
<td>LDC's total imports</td>
<td>31514</td>
<td>14951</td>
<td>756</td>
<td>7417</td>
<td>6903</td>
<td>970</td>
</tr>
<tr>
<td>Latin's imports of primary goods</td>
<td>1284 (15.3%)</td>
<td>215 (5.6%)</td>
<td>96 (22%)</td>
<td>856 (17.6%)</td>
<td>17 (2.5%)</td>
<td>36 (91.8%)</td>
</tr>
<tr>
<td>Latin's imports of manufactured goods</td>
<td>6357 (84.9%)</td>
<td>3515 (97.7%)</td>
<td>330 (75.6%)</td>
<td>3825 (78.9%)</td>
<td>657 (96.9%)</td>
<td>8 (18%)</td>
</tr>
<tr>
<td>Latin's total imports</td>
<td>9642</td>
<td>3809</td>
<td>436</td>
<td>4641</td>
<td>678</td>
<td>44</td>
</tr>
<tr>
<td>E.E.'s imports of primary goods</td>
<td>971 (31%)</td>
<td>557 (15%)</td>
<td>33 (84%)</td>
<td>175 (75%)</td>
<td>14 (13%)</td>
<td>36 (70.5%)</td>
</tr>
<tr>
<td>E.E.'s imports of manufactured goods</td>
<td>4065 (75%)</td>
<td>2807 (79.9%)</td>
<td>91 (12.8%)</td>
<td>87 (24%)</td>
<td>96 (89.7%)</td>
<td>6 (11.7%)</td>
</tr>
<tr>
<td>E.E.'s total imports</td>
<td>4066</td>
<td>3612</td>
<td>39</td>
<td>233</td>
<td>107</td>
<td>51</td>
</tr>
<tr>
<td>USSR's imports of primary goods</td>
<td>431 (15%)</td>
<td>149 (6.6%)</td>
<td>92 (93%)</td>
<td>95 (29%)</td>
<td>5 (1.4%)</td>
<td>89 (100%)</td>
</tr>
<tr>
<td>USSR's imports of manufactured goods</td>
<td>2422 (84%)</td>
<td>2004 (90%)</td>
<td>6 (6.1%)</td>
<td>84 (70.5%)</td>
<td>320 (96%)</td>
<td>0 (0)</td>
</tr>
<tr>
<td>USSR's total imports</td>
<td>2872</td>
<td>2226</td>
<td>98</td>
<td>119</td>
<td>341</td>
<td>89</td>
</tr>
</tbody>
</table>


*Semiperiphery here is used in the dependency school's context and includes Eastern Europe and Latin America intermediate capitalist countries.
Table (10)

Imports of Selected Goods by LDCs and Semi-periphery\(^*\) from DCs in Million of U.S. Dollars
and Their Percentages to the Total Imports of These Countries from DCs

<table>
<thead>
<tr>
<th>Year</th>
<th>DCs</th>
<th>Europe</th>
<th>Canada</th>
<th>USA</th>
<th>Japan</th>
<th>Australia and New Zealand</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>LDC's imports of primary goods</td>
<td>1770 (16%)</td>
<td>6607 (12%)</td>
<td>924 (47%)</td>
<td>7157 (29.6%)</td>
<td>915 (3.6%)</td>
</tr>
<tr>
<td></td>
<td>LDC's imports of manufactured goods</td>
<td>89232 (81%)</td>
<td>47335 (86%)</td>
<td>1019 (52%)</td>
<td>1558 (63.8%)</td>
<td>23628 (95.3%)</td>
</tr>
<tr>
<td></td>
<td>LDC's total imports</td>
<td>110085</td>
<td>54798</td>
<td>1953</td>
<td>24122</td>
<td>24773</td>
</tr>
<tr>
<td></td>
<td>Latin's imports of primary goods</td>
<td>3772 (16%)</td>
<td>600 (5.8%)</td>
<td>196 (20%)</td>
<td>2380 (17.4%)</td>
<td>79 (2.9%)</td>
</tr>
<tr>
<td></td>
<td>Latin's imports of manufactured goods</td>
<td>23432 (84%)</td>
<td>946 (92%)</td>
<td>744 (70.9%)</td>
<td>10400 (76.2%)</td>
<td>2000 (96.8%)</td>
</tr>
<tr>
<td></td>
<td>Latin's total imports</td>
<td>27893</td>
<td>10269</td>
<td>942</td>
<td>13656</td>
<td>2685</td>
</tr>
<tr>
<td></td>
<td>E.E.'s imports of primary goods</td>
<td>2487 (17%)</td>
<td>1510 (12.1%)</td>
<td>156 (69%)</td>
<td>637 (67%)</td>
<td>25 (4.3%)</td>
</tr>
<tr>
<td></td>
<td>E.E.'s imports of manufactured goods</td>
<td>11785 (81.9%)</td>
<td>10869 (87%)</td>
<td>21 (10%)</td>
<td>305 (32%)</td>
<td>54 (94%)</td>
</tr>
<tr>
<td></td>
<td>E.E.'s total imports</td>
<td>14378</td>
<td>12466</td>
<td>208</td>
<td>4836</td>
<td>574</td>
</tr>
<tr>
<td></td>
<td>USSR's imports of primary goods</td>
<td>2626 (19.5%)</td>
<td>697 (7.5%)</td>
<td>359 (9%)</td>
<td>1160 (15%)</td>
<td>25 (1.5%)</td>
</tr>
<tr>
<td></td>
<td>USSR's imports of manufactured goods</td>
<td>10786 (79.9%)</td>
<td>8556 (92%)</td>
<td>444 (10.9%)</td>
<td>670 (15.5%)</td>
<td>4559 (95.9%)</td>
</tr>
<tr>
<td></td>
<td>USSR's total imports</td>
<td>13483</td>
<td>9252</td>
<td>402</td>
<td>1834</td>
<td>425</td>
</tr>
</tbody>
</table>


*Semi-periphery here is used in the dependency school's context and includes Eastern Europe and Latin America Intermediate capitalist countries.
Table (11)

Imports of Selected Goods by LDCs and Semi-Periphery* from DC’s in Million of U.S. Dollars and Their Percentages to the Total Imports of These Countries from DCs

<table>
<thead>
<tr>
<th>Country</th>
<th>DCs</th>
<th>Europe</th>
<th>Canada</th>
<th>USA</th>
<th>Japan</th>
<th>Australia and New Zealand</th>
</tr>
</thead>
<tbody>
<tr>
<td>LDC's imports of primary goods</td>
<td>41775 (17.9)</td>
<td>19535 (16%)</td>
<td>2094 (47%)</td>
<td>12485 (27%)</td>
<td>2047 (5.8%)</td>
<td>4605 (66%)</td>
</tr>
<tr>
<td>LDC's imports of manufactured goods</td>
<td>180415 (80.7)</td>
<td>99721 (82%)</td>
<td>2372 (154%)</td>
<td>31926 (71%)</td>
<td>50295 (95%)</td>
<td>2099 (30%)</td>
</tr>
<tr>
<td>Total Imports of LDCs</td>
<td>235466</td>
<td>121390</td>
<td>4581</td>
<td>44930</td>
<td>52955</td>
<td>6950</td>
</tr>
<tr>
<td>Latin's imports of primary goods</td>
<td>9505 (15%)</td>
<td>1515 (7.8%)</td>
<td>805 (33%)</td>
<td>6832 (21%)</td>
<td>130 (2%)</td>
<td>161 (60%)</td>
</tr>
<tr>
<td>manufactured goods</td>
<td>49415 (82%)</td>
<td>17435 (89%)</td>
<td>1582 (66%)</td>
<td>24097 (76%)</td>
<td>5787 (97%)</td>
<td>45 (16.8%)</td>
</tr>
<tr>
<td>Total Imports of Latin</td>
<td>59920</td>
<td>19411</td>
<td>2352</td>
<td>51394</td>
<td>5925</td>
<td>267</td>
</tr>
<tr>
<td>E.E.'s imports of primary goods</td>
<td>8170 (27%)</td>
<td>3550 (19%)</td>
<td>296 (64%)</td>
<td>2974 (86%)</td>
<td>97 (12%)</td>
<td>214 (90%)</td>
</tr>
<tr>
<td>manufactured goods</td>
<td>15986 (71%)</td>
<td>14716 (79%)</td>
<td>162 (35%)</td>
<td>361 (15%)</td>
<td>704 (87%)</td>
<td>17 (7%)</td>
</tr>
<tr>
<td>Total Imports of E.E.</td>
<td>18440</td>
<td>458</td>
<td>2540</td>
<td>807</td>
<td>237</td>
<td></td>
</tr>
<tr>
<td>USSR’s imports of primary goods</td>
<td>6393 (26%)</td>
<td>2942 (16%)</td>
<td>1145 (97%)</td>
<td>1085 (71%)</td>
<td>101 (3.6%)</td>
<td>1275 (99%)</td>
</tr>
<tr>
<td>manufactured goods</td>
<td>17680 (72%)</td>
<td>14479 (83%)</td>
<td>169 (12%)</td>
<td>424 (28%)</td>
<td>2607 (95%)</td>
<td>0 (0)</td>
</tr>
<tr>
<td>Total Imports of USSR</td>
<td>24285</td>
<td>17383</td>
<td>1315</td>
<td>1510</td>
<td>2770</td>
<td>1279</td>
</tr>
</tbody>
</table>

*Semiperiphery here is used in the dependency school's context and includes Eastern Europe and Latin America Intermediate capitalist* countries.

### Table (12)

**Exports of Selected Goods to LDCs and Semi-Periphery* to Core in Million of U.S. Dollars**

and Their Percentages to the Total Exports of These Countries to Core

<table>
<thead>
<tr>
<th></th>
<th>LDCs</th>
<th>Europe</th>
<th>Canada</th>
<th>USA</th>
<th>Japan</th>
<th>Australia and New Zealand</th>
</tr>
</thead>
<tbody>
<tr>
<td>1972</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LDC's exports of primary goods</td>
<td>22276 (74%)</td>
<td>15781 (81%)</td>
<td>354 (65.5%)</td>
<td>3737 (59%)</td>
<td>4444 (84%)</td>
<td>517 (69.9%)</td>
</tr>
<tr>
<td>LDC's exports of manufactured goods</td>
<td>6977 (23%)</td>
<td>3147 (18.7%)</td>
<td>189 (34%)</td>
<td>2546 (40%)</td>
<td>779 (14.8%)</td>
<td>204 (27.6%)</td>
</tr>
<tr>
<td>LDC's total exports</td>
<td>30090</td>
<td>16959</td>
<td>555</td>
<td>6320</td>
<td>5235</td>
<td>759</td>
</tr>
<tr>
<td>Latin's exports of primary goods</td>
<td>7596 (78.5%)</td>
<td>3516 (75.5%)</td>
<td>418 (96.7%)</td>
<td>5023 (79.7%)</td>
<td>582 (81%)</td>
<td>10 (71.4%)</td>
</tr>
<tr>
<td>Latin's exports of manufactured goods</td>
<td>2056 (21.2%)</td>
<td>1128 (24.2%)</td>
<td>13 (3%)</td>
<td>762 (20%)</td>
<td>135 (18.6%)</td>
<td>4 (20.6%)</td>
</tr>
<tr>
<td>Latin's total exports</td>
<td>9668</td>
<td>4655</td>
<td>432</td>
<td>3792</td>
<td>118</td>
<td>14</td>
</tr>
<tr>
<td>E.E.'s exports of primary goods</td>
<td>1972 (45.6%)</td>
<td>1657 (46.8%)</td>
<td>4 (7%)</td>
<td>71 (46.7%)</td>
<td>31</td>
<td>5 (13.5%)</td>
</tr>
<tr>
<td>E.E.'s exports of manufactured goods</td>
<td>2306 (53.4%)</td>
<td>2076 (52.2%)</td>
<td>34 (94.7%)</td>
<td>55 (52.8%)</td>
<td>66</td>
<td>18 (81.8%)</td>
</tr>
<tr>
<td>E.E.'s total exports</td>
<td>4316</td>
<td>3966</td>
<td>37</td>
<td>152</td>
<td>22</td>
<td></td>
</tr>
<tr>
<td>USSR's exports of primary goods</td>
<td>1575</td>
<td>1276</td>
<td>5</td>
<td>22 (34.3%)</td>
<td>274</td>
<td>1</td>
</tr>
<tr>
<td>USSR's exports of manufactured goods</td>
<td>750</td>
<td>578</td>
<td>4</td>
<td>43 (67%)</td>
<td>106</td>
<td>12</td>
</tr>
<tr>
<td>USSR's total exports**</td>
<td>2325</td>
<td>1854</td>
<td>9</td>
<td>440</td>
<td>380</td>
<td></td>
</tr>
</tbody>
</table>


*Seml-periphery here is used in the context of dependency school and includes East Europe as well as “capitalist intermediate” countries.

**The Soviet Union's summations of exports of primary and manufactured goods do not add up to their total, probably because the exports of those commodities not reported by kind (SITC 9) were large in 1970.
<table>
<thead>
<tr>
<th></th>
<th>DCs</th>
<th>Europe</th>
<th>Canada</th>
<th>USA</th>
<th>Japan</th>
<th>Australia and New Zealand</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LDC's exports of primary goods 109,768 (85%)</td>
<td>57,365 (87.5%)</td>
<td>2,280 (77.5%)</td>
<td>2,2539 (76%)</td>
<td>2,4532 (91%)</td>
<td>1,694 (67.4%)</td>
<td></td>
</tr>
<tr>
<td>LDC's exports of manufactured goods</td>
<td>18,059 (14%)</td>
<td>7,569 (12%)</td>
<td>670 (22%)</td>
<td>6759 (22.9%)</td>
<td>2,285 (8.5%)</td>
<td>787 (31.5%)</td>
</tr>
<tr>
<td>LDC's total exports 120,827</td>
<td>65,944</td>
<td>2,940</td>
<td>2,9464</td>
<td>2,6862</td>
<td>2,497</td>
<td></td>
</tr>
<tr>
<td>Latin's exports of primary goods 15,585 (80.7%)</td>
<td>6,035 (76.9)</td>
<td>1,211 (90%)</td>
<td>7,078 (83%)</td>
<td>1,905 (79.9%)</td>
<td>15 (38%)</td>
<td></td>
</tr>
<tr>
<td>Latin's exports of manufactured goods</td>
<td>3,851 (19.9%)</td>
<td>1,776 (22.8%)</td>
<td>134 (9.9%)</td>
<td>1,402 (16%)</td>
<td>276 (19.9%)</td>
<td>25 (64%)</td>
</tr>
<tr>
<td>Latin's total exports 19,300</td>
<td>7,810</td>
<td>1,345</td>
<td>8,510</td>
<td>1,382</td>
<td>39</td>
<td></td>
</tr>
<tr>
<td>E.E.'s exports of primary goods 4,909 (46%)</td>
<td>4,417 (45%)</td>
<td>17 (13%)</td>
<td>2,242 (55.5%)</td>
<td>110 (63%)</td>
<td>5 (11.9%)</td>
<td></td>
</tr>
<tr>
<td>E.E.'s exports of manufactured goods</td>
<td>5,775 (54%)</td>
<td>5,341 (54.8%)</td>
<td>110 (60%)</td>
<td>189 (43%)</td>
<td>70 (37%)</td>
<td>37 (88%)</td>
</tr>
<tr>
<td>E.E.'s total exports 10,684</td>
<td>9,758</td>
<td>128</td>
<td>4,456</td>
<td>107</td>
<td>42</td>
<td></td>
</tr>
<tr>
<td>USSR's exports of primary goods 7,445 (77.7%)</td>
<td>6,500 (77%)</td>
<td>18 (40.9%)</td>
<td>86 (45%)</td>
<td>838 (89%)</td>
<td>3 (50%)</td>
<td></td>
</tr>
<tr>
<td>USSR's exports of manufactured goods</td>
<td>1,793 (16.7%)</td>
<td>1,576 (18%)</td>
<td>22 (50%)</td>
<td>104 (54%)</td>
<td>88 (9.4%)</td>
<td>3 (50%)</td>
</tr>
<tr>
<td>USSR's total exports 9,238</td>
<td>8,076</td>
<td>44</td>
<td>191</td>
<td>927</td>
<td>6</td>
<td></td>
</tr>
</tbody>
</table>

*Semi-periphery here is used in the same context as the dependency school and includes Eastern European countries and Latin America 'Intermediate capitalist' countries.

Table (14)

Exports of Selected Goods by LDCs and Semi-Periphery* to DC's in Million of U.S. Dollars and Their Percentages to the Total Exports of These Countries to DCs

<table>
<thead>
<tr>
<th>Country</th>
<th>DCs</th>
<th>Europe</th>
<th>Canada</th>
<th>USA</th>
<th>Japan</th>
<th>Australia and New Zealand</th>
</tr>
</thead>
<tbody>
<tr>
<td>LIC's exports of primary goods</td>
<td>281199 (92%)</td>
<td>135824 (94%)</td>
<td>3297 (69%)</td>
<td>70452 (75%)</td>
<td>67375 (91%)</td>
<td>4512 (47.6%)</td>
</tr>
<tr>
<td>LIC's exports of manufactured goods</td>
<td>57559 (16.6%)</td>
<td>24231 (15%)</td>
<td>1390 (29%)</td>
<td>22546 (24%)</td>
<td>6060 (9%)</td>
<td>2056 (30.8%)</td>
</tr>
<tr>
<td>LIC's total exports</td>
<td>341274</td>
<td>161356</td>
<td>4716</td>
<td>93757</td>
<td>73738</td>
<td>6672</td>
</tr>
<tr>
<td>Latin's exports of primary goods</td>
<td>41800 (81%)</td>
<td>16515 (78.8%)</td>
<td>2249 (90.7%)</td>
<td>19432 (84.5%)</td>
<td>2544 (64%)</td>
<td>38 (26.7%)</td>
</tr>
<tr>
<td>Latin's exports of manufactured goods</td>
<td>22423 (83%)</td>
<td>21155 (83%)</td>
<td>50 (21%)</td>
<td>1161 (79%)</td>
<td>4 (28.5%)</td>
<td></td>
</tr>
<tr>
<td>Latin's total exports</td>
<td>22423</td>
<td>21155</td>
<td>50</td>
<td>1161</td>
<td>4</td>
<td>38</td>
</tr>
<tr>
<td>E.E.'s exports of primary goods</td>
<td>8848 (77.4%)</td>
<td>8575 (39.9%)</td>
<td>7 (0.8%)</td>
<td>7 (0.8%)</td>
<td>7 (0.8%)</td>
<td>7 (0.8%)</td>
</tr>
<tr>
<td>E.E.'s exports of manufactured goods</td>
<td>11697 (56.5%)</td>
<td>10460 (55.3%)</td>
<td>172 (69.6%)</td>
<td>775 (67.7%)</td>
<td>179 (61.9%)</td>
<td>179 (61.9%)</td>
</tr>
<tr>
<td>E.E.'s total exports</td>
<td>20660</td>
<td>18916</td>
<td>192</td>
<td>1144</td>
<td>209</td>
<td>89</td>
</tr>
<tr>
<td>USSR's exports of primary goods</td>
<td>3273 (13.6%)</td>
<td>3185 (12.6%)</td>
<td>34</td>
<td>193 (78.5%)</td>
<td>263 (17.9%)</td>
<td>9 (64%)</td>
</tr>
<tr>
<td>USSR's exports of manufactured goods</td>
<td>3273 (13.6%)</td>
<td>3185 (12.6%)</td>
<td>34</td>
<td>193 (78.5%)</td>
<td>263 (17.9%)</td>
<td>9 (64%)</td>
</tr>
<tr>
<td>USSR's total exports</td>
<td>20660</td>
<td>25225</td>
<td>46</td>
<td>233</td>
<td>1464</td>
<td>14</td>
</tr>
</tbody>
</table>

*Semiperiphery here is used in the dependency school's context and includes Eastern Europe and Latin America 'Intermediate capitalist' countries.

<table>
<thead>
<tr>
<th>SITC</th>
<th>Bulgaria</th>
<th>Czechoslovakia</th>
<th>German Democratic Republic</th>
<th>Hungary</th>
<th>Poland</th>
<th>Romania</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>2.6</td>
<td>3.7</td>
<td>5.9</td>
<td>4.9</td>
<td>5.4</td>
<td>4.5</td>
</tr>
<tr>
<td>1</td>
<td>0.4</td>
<td>0.5</td>
<td>1.4</td>
<td>0.4</td>
<td>0.1</td>
<td>1.1</td>
</tr>
<tr>
<td>2</td>
<td>2.1</td>
<td>6.1</td>
<td>6.0</td>
<td>4.7</td>
<td>4.9</td>
<td>2.7</td>
</tr>
<tr>
<td>3</td>
<td>1.0</td>
<td>1.6</td>
<td>0.1</td>
<td>0.4</td>
<td>0.1</td>
<td>3.4</td>
</tr>
<tr>
<td>4</td>
<td>0.1</td>
<td>0.7</td>
<td>0.5</td>
<td>0.4</td>
<td>0.4</td>
<td>1.6</td>
</tr>
<tr>
<td>5</td>
<td>12.0</td>
<td>21.7</td>
<td>20.7</td>
<td>25.3</td>
<td>10.9</td>
<td>11.7</td>
</tr>
<tr>
<td>6</td>
<td>29.7</td>
<td>18.7</td>
<td>27.1</td>
<td>32.0</td>
<td>32.2</td>
<td>35.3</td>
</tr>
<tr>
<td>7</td>
<td>46.4</td>
<td>39.4</td>
<td>32.3</td>
<td>26.4</td>
<td>41.2</td>
<td>38.0</td>
</tr>
<tr>
<td>8</td>
<td>3.0</td>
<td>6.6</td>
<td>3.5</td>
<td>4.8</td>
<td>3.0</td>
<td>3.1</td>
</tr>
<tr>
<td>9</td>
<td>0.7</td>
<td>1.1</td>
<td>0.5</td>
<td>0.8</td>
<td>1.7</td>
<td>0.5</td>
</tr>
<tr>
<td>Total**</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

| 5 to 8 | 93.1   | 86.6          | 83.6                      | 88.5   | 87.3  | 88.1    |

*Include exports of Canada and Japan to CMEA (6), resulting in probable biasing of the percentages by less than one percentage point. Excludes Federal Republic of Germany-German Democratic Republic trade.

**Columns may not add to 100 percent due to rounding.

## Table (16)

**Commodity Composition of Individual East European Countries' 1977 Imports from Western Europe**
*(in Percent)*

<table>
<thead>
<tr>
<th>SITC</th>
<th>Bulgaria</th>
<th>Czechoslovakia</th>
<th>German Democratic Republic</th>
<th>Hungary</th>
<th>Poland</th>
<th>Romania</th>
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*Columns may not add to 100 percent due to rounding.

### Table 17

**Commodity Composition of Individual East European Countries' Imports from Western Europe (1980)**

(Percentage)

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<th>SITC</th>
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<th>Czechoslovakia</th>
<th>German Democratic Republic</th>
<th>Hungary</th>
<th>Poland</th>
<th>Romania</th>
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<td>4.3</td>
<td>1.7</td>
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<tr>
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<td>1.9</td>
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<td>100.0</td>
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<td>74.6</td>
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*Not including trade with FRG.
**Columns may not add to 100 percent due to rounding.

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<tr>
<th>Code</th>
<th>Item Description</th>
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</tr>
<tr>
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<td>Pumps and centrifuges</td>
</tr>
<tr>
<td>7288</td>
<td>Electrical machinery, n.e.s.</td>
</tr>
<tr>
<td>72952</td>
<td>Electrical measuring and control instruments</td>
</tr>
<tr>
<td>71992</td>
<td>Cock, valves, etc.</td>
</tr>
<tr>
<td>8619</td>
<td>Measuring and control instruments, n.e.s.</td>
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<tr>
<td>7249</td>
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</tr>
<tr>
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<tr>
<td>7197</td>
<td>Ball, roller or needleroller bearings</td>
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<tr>
<td>71492</td>
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<td>(incl. computer parts)</td>
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<td>7262</td>
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<td>71852</td>
<td>Glass-working machinery</td>
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<tr>
<td>73492</td>
<td>Aircraft parts</td>
</tr>
<tr>
<td>89111</td>
<td>Gramophones, tape recorders, etc.</td>
</tr>
<tr>
<td></td>
<td>(incl. videorecorders)</td>
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<tr>
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<tr>
<td>7341</td>
<td>Aircraft, heavier than air</td>
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<td>72911</td>
<td>Primary batteries and cells</td>
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<td>Electron and proton accelerators</td>
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<td>86161</td>
<td>Image reactors</td>
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<td>7117</td>
<td>Nuclear reactors</td>
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<td></td>
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<td>Total Exports</td>
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Source: Martinez (1984)
Table (19)

Commodity Composition of Individual East European Countries' Exports to Western Europe*  
1975  
(Percentage)

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<tr>
<th>SITC:</th>
<th>Bulgaria</th>
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<th>German Democratic Republic</th>
<th>Hungary</th>
<th>Poland</th>
<th>Romania</th>
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<td>4.8</td>
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<td>26.9</td>
<td>17.1</td>
<td>16.2</td>
<td>13.6</td>
<td>16.5</td>
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<td>18.5</td>
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<td>100.0</td>
<td>100.0</td>
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</tbody>
</table>

*Include exports of Council of Mutual Economic Assistance (6) to Canada and Japan, resulting in probable biasing of the percentages by less than 1 percent point. Excludes Federal Republic of Germany--German Democratic Republic trade.

**Columns may not add to 100 percent due to rounding.

### Table (20)
Commodity Composition of Individual East European Countries’ 1977 Exports to Western Europe (in Percent)

<table>
<thead>
<tr>
<th>SITC</th>
<th>Bulgaria</th>
<th>Czechoslovakia</th>
<th>German Democratic Republic</th>
<th>Hungary</th>
<th>Poland</th>
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<td>1.7</td>
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<td>.4</td>
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<td>77.9</td>
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*Not including trade with FRG.

**Columns may not add to 100 percent due to rounding.

Table (21)

Commodity Composition of Individual East European Countries' Exports to Western Europe (1980) (Percentage)

<table>
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<th>Bulgaria</th>
<th>Czechoslovakia</th>
<th>German Democratic Republic*</th>
<th>Hungary</th>
<th>Poland</th>
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<td>100.0</td>
<td>100.0</td>
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</table>

5 to 8--- 48.2  58.1  66.4  58.8  51.0  46.0

*Not including trade with FRG.
**Columns may not add to 100 percent due to rounding.

Source: Calculated from U.N. (1964).
Table (22)

Commodity Pattern of USSR Trade with Developed Capitalist Countries
(total exports and imports, respectively = 100)

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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
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<td>Food, beverages and tobacco</td>
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<td>1.8</td>
<td>1.5</td>
<td>0.8</td>
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<tr>
<td>Commodities and transactions not classified according to kind</td>
<td>0.2</td>
<td>0.9</td>
<td>0.5</td>
<td>0.6</td>
<td>0.6</td>
<td>0.6</td>
<td>0.6</td>
<td>0.6</td>
<td>0.6</td>
<td></td>
</tr>
</tbody>
</table>

Note: The columns do not always add up to 100, because of rounding.


*Including miscellaneous manufactured articles.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastern Europe</td>
<td>56</td>
<td>53</td>
<td>47</td>
<td>42</td>
<td>58</td>
<td>57</td>
<td>41</td>
<td>43</td>
</tr>
<tr>
<td>DCs</td>
<td>18</td>
<td>19</td>
<td>26</td>
<td>32</td>
<td>20</td>
<td>24</td>
<td>36</td>
<td>35</td>
</tr>
<tr>
<td>LDCs</td>
<td>15</td>
<td>16</td>
<td>14</td>
<td>14</td>
<td>11</td>
<td>11</td>
<td>11</td>
<td>11</td>
</tr>
</tbody>
</table>

## Table (24)

**Export Specialization in Soviet Union**
*Selected Product (1960-1976)*

<table>
<thead>
<tr>
<th>Year</th>
<th>Coal net xx/Q</th>
<th>Crude Oil net xx/Q</th>
<th>Natural Gas net x/Q</th>
<th>Iron Ore net xx/Q</th>
<th>Manganese Ore xx/Q</th>
<th>Chromite Ore xx/Q</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>4.0%</td>
<td>20%</td>
<td>.4%</td>
<td>20%</td>
<td>18%</td>
<td>52%</td>
</tr>
<tr>
<td>1965</td>
<td>6.3%</td>
<td>27%</td>
<td>.3%</td>
<td>25%</td>
<td>15%</td>
<td>57%</td>
</tr>
<tr>
<td>1970</td>
<td>9.1%</td>
<td>28%</td>
<td>.2%</td>
<td>29%</td>
<td>23%</td>
<td>74%</td>
</tr>
<tr>
<td>1975</td>
<td>5.2%</td>
<td>26%</td>
<td>2.4%</td>
<td>23%</td>
<td>21%</td>
<td>61%</td>
</tr>
<tr>
<td>1976</td>
<td>6.6%</td>
<td>28%</td>
<td>4.4%</td>
<td>22%</td>
<td>20%</td>
<td>51%</td>
</tr>
</tbody>
</table>

**Note:**
- Q = domestic output
- X = simple exports
- xx = embodied in related exports (+ simple exports)
- M = simple import
- MM = embodied in related imports (+ simple imports)
- net x = x - M
- net xx = xx - MM (net embodied exports)

**Source:** From Dohan 1979, p. 372-373
Table (25)

Export Specialization in Soviet Union
Selected Products
(1960-1976)
(in thousand metric tons)

<table>
<thead>
<tr>
<th></th>
<th>Copper</th>
<th>lead</th>
<th>zinc</th>
<th>Aluminum</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>net x/Q</td>
<td>net x/Q</td>
<td>net x/Q</td>
<td>net x/Q</td>
</tr>
<tr>
<td>1960</td>
<td>----</td>
<td>12</td>
<td>5</td>
<td>11</td>
</tr>
<tr>
<td>1965</td>
<td>22</td>
<td>16</td>
<td>12</td>
<td>32</td>
</tr>
<tr>
<td>1970</td>
<td>22</td>
<td>12</td>
<td>6</td>
<td>44</td>
</tr>
<tr>
<td>1975</td>
<td>25</td>
<td>9</td>
<td>5</td>
<td>40</td>
</tr>
</tbody>
</table>

Note:  
Q = domestic output  
x = simple exports  
xx = embodied in related exports (+ simple exports)  
M = simple import  
MM = embodied in related imports (+ simple imports)  
net x = x - M  
net xx = xx - MM (net embodied exports)

Source: (from Dohan 1979, p. 374).
Table (26)

Soviet Union Food Imports
(1,000 tons)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Coffee</td>
<td>1.2</td>
<td>19.1</td>
<td>41.5</td>
<td>46.3</td>
</tr>
<tr>
<td>Cocoa beans</td>
<td>12.2</td>
<td>58.1</td>
<td>99.9</td>
<td>126.8</td>
</tr>
<tr>
<td>Tea</td>
<td>5.7</td>
<td>22.6</td>
<td>20.2</td>
<td>70.9</td>
</tr>
<tr>
<td>Raw Sugar</td>
<td>---</td>
<td>1467.8</td>
<td>3003.3</td>
<td>3839.</td>
</tr>
<tr>
<td>Rice</td>
<td>39.8</td>
<td>501.1</td>
<td>322.9</td>
<td>694.</td>
</tr>
<tr>
<td>Fruit &amp; Fresh Berries</td>
<td>3.1</td>
<td>334.8</td>
<td>679.3</td>
<td>995.1</td>
</tr>
<tr>
<td>Eggs (million)</td>
<td>35.5</td>
<td>113.2</td>
<td>602.3</td>
<td>737.</td>
</tr>
</tbody>
</table>

Source: (Azov 1962, p. 41).
Table (28)
Soviet Imports of Machinery (million of rubles)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Imports</th>
<th>Machinery Imports</th>
<th>Share of Machinery in Total Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1913</td>
<td>1079</td>
<td>179</td>
<td>16%</td>
</tr>
<tr>
<td>1931</td>
<td>667</td>
<td>468</td>
<td>53%</td>
</tr>
<tr>
<td>1950</td>
<td>1310</td>
<td>282</td>
<td>21%</td>
</tr>
<tr>
<td>1955</td>
<td>2755</td>
<td>833</td>
<td>30%</td>
</tr>
<tr>
<td>1960</td>
<td>5066</td>
<td>1507</td>
<td>29%</td>
</tr>
<tr>
<td>1965</td>
<td>7253</td>
<td>2423</td>
<td>33%</td>
</tr>
<tr>
<td>1970</td>
<td>10556</td>
<td>3706</td>
<td>35%</td>
</tr>
<tr>
<td>1975</td>
<td>26670</td>
<td>8666</td>
<td>33%</td>
</tr>
<tr>
<td>1977</td>
<td>30097</td>
<td>11289</td>
<td>37%</td>
</tr>
</tbody>
</table>

### Table (29)

**Origin of Soviet Union Machinery Imports**

**Selected Items**

**1977**

(Percentage)

<table>
<thead>
<tr>
<th></th>
<th>Metal Working Equipment</th>
<th>Metal Working Whole Plants</th>
<th>Mining Equipment</th>
<th>Metallurgical Equipment</th>
<th>Oil Refining and Drilling Equipment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastern Europe</td>
<td>56%</td>
<td>6%</td>
<td>14%</td>
<td>33%</td>
<td>40%</td>
</tr>
<tr>
<td>DCs</td>
<td>42%</td>
<td>63%</td>
<td>43%</td>
<td>38%</td>
<td>57%</td>
</tr>
<tr>
<td>Other</td>
<td>2%</td>
<td>29%</td>
<td>43%</td>
<td>29%</td>
<td>3%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Food Industry Equipment</th>
<th>Chemical Industry Equipment</th>
<th>Timber, Paper, and Cellulose Equipment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastern Europe</td>
<td>74%</td>
<td>21%</td>
<td>9%</td>
</tr>
<tr>
<td>DCs</td>
<td>26%</td>
<td>79%</td>
<td>89%</td>
</tr>
<tr>
<td>Other</td>
<td>0</td>
<td>0</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: Extracted from (Oden 1979, p. 386-87).
<table>
<thead>
<tr>
<th>Year</th>
<th>Value in U.S. dollars, current prices, f.o.b. (millions)</th>
<th>Estimated ruble value, in 1969 investment prices (millions)</th>
<th>Imports as share of domestic machinery investment in the following year (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955</td>
<td>104</td>
<td>148</td>
<td>2.0</td>
</tr>
<tr>
<td>1956</td>
<td>139</td>
<td>188</td>
<td>2.4</td>
</tr>
<tr>
<td>1957</td>
<td>128</td>
<td>166</td>
<td>1.8</td>
</tr>
<tr>
<td>1958</td>
<td>123</td>
<td>158</td>
<td>1.6</td>
</tr>
<tr>
<td>1959</td>
<td>177</td>
<td>227</td>
<td>2.2</td>
</tr>
<tr>
<td>1960</td>
<td>310</td>
<td>393</td>
<td>3.4</td>
</tr>
<tr>
<td>1961</td>
<td>390</td>
<td>472</td>
<td>3.6</td>
</tr>
<tr>
<td>1962</td>
<td>436</td>
<td>510</td>
<td>3.6</td>
</tr>
<tr>
<td>1963</td>
<td>402</td>
<td>467</td>
<td>2.8</td>
</tr>
<tr>
<td>1964</td>
<td>489</td>
<td>561</td>
<td>3.2</td>
</tr>
<tr>
<td>1965</td>
<td>366</td>
<td>421</td>
<td>2.2</td>
</tr>
<tr>
<td>1966</td>
<td>395</td>
<td>456</td>
<td>2.2</td>
</tr>
<tr>
<td>1967</td>
<td>457</td>
<td>499</td>
<td>2.4</td>
</tr>
<tr>
<td>1968</td>
<td>639</td>
<td>721</td>
<td>3.2</td>
</tr>
<tr>
<td>1969</td>
<td>689</td>
<td>966</td>
<td>3.8</td>
</tr>
<tr>
<td>1970</td>
<td>805</td>
<td>913</td>
<td>3.4</td>
</tr>
<tr>
<td>1971</td>
<td>640</td>
<td>796</td>
<td>2.8</td>
</tr>
<tr>
<td>1972</td>
<td>1,126</td>
<td>959</td>
<td>3.0</td>
</tr>
<tr>
<td>1973</td>
<td>1,574</td>
<td>1,091</td>
<td>3.2</td>
</tr>
<tr>
<td>1974</td>
<td>2,094</td>
<td>1,316</td>
<td>3.4</td>
</tr>
<tr>
<td>1975</td>
<td>4,184</td>
<td>2,287</td>
<td>5.6</td>
</tr>
<tr>
<td>1976</td>
<td>4,259</td>
<td>2,282</td>
<td>5.5b</td>
</tr>
<tr>
<td>1977</td>
<td>4,571</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

**Table (31)**

**Domestic Production of Some Industries with Large Imports of Machinery from DCs**

<table>
<thead>
<tr>
<th>Year</th>
<th>Paper &amp; Cellulose Equipment Industry</th>
<th>Equipment for Chemical Industry</th>
<th>Equipment for Textile Industry</th>
<th>Shoemaking Equipment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q-Val</td>
<td>M-Val</td>
<td>Q-Val</td>
<td>M-Val</td>
</tr>
<tr>
<td>1960</td>
<td>20</td>
<td>33</td>
<td>200</td>
<td>167</td>
</tr>
<tr>
<td>1965</td>
<td>42</td>
<td>37</td>
<td>330</td>
<td>187</td>
</tr>
<tr>
<td>1970</td>
<td>84</td>
<td>91</td>
<td>339</td>
<td>219</td>
</tr>
<tr>
<td>1975</td>
<td>135</td>
<td>150</td>
<td>576</td>
<td>636</td>
</tr>
<tr>
<td>1976</td>
<td>144</td>
<td>213</td>
<td>623</td>
<td>1132</td>
</tr>
<tr>
<td>1977</td>
<td>158</td>
<td>250</td>
<td>667</td>
<td>1722</td>
</tr>
</tbody>
</table>

Q = Output in domestic prices.

M = Imports in foreign trade rubles.

Source: Dohan (1979), p. 381.
TABLE (32)

Exports of Selected Goods by Semi-Periphery
to LDCs (in millions of U.S. Dollars) and
their Percentages to Total Imports of these Countries

<table>
<thead>
<tr>
<th></th>
<th>Latin America</th>
<th>East Europe</th>
<th>U.S.S.R.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>1970</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary Goods</td>
<td>1252 (92%)</td>
<td>206 (15%)</td>
<td>469 (17%)</td>
</tr>
<tr>
<td>Manufactured Goods</td>
<td>101 (7%)</td>
<td>1029 (76%)</td>
<td>1226 (45%)</td>
</tr>
<tr>
<td>Total*</td>
<td>1355</td>
<td>1345</td>
<td>2684</td>
</tr>
<tr>
<td>1975</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary Goods</td>
<td>4239 (66%)</td>
<td>709 (24%)</td>
<td>1437 (24%)</td>
</tr>
<tr>
<td>Manufactured Goods</td>
<td>666 (13%)</td>
<td>2941 (80%)</td>
<td>2086 (34%)</td>
</tr>
<tr>
<td>Total*</td>
<td>4906</td>
<td>3657</td>
<td>3523</td>
</tr>
<tr>
<td>1980</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary Goods</td>
<td>9855 (81%)</td>
<td>1749 (21%)</td>
<td>3643 (25%)</td>
</tr>
<tr>
<td>Manufactured Goods</td>
<td>2199 (18%)</td>
<td>6403 (75%)</td>
<td>4086 (29%)</td>
</tr>
<tr>
<td>Total*</td>
<td>12057</td>
<td>8198</td>
<td>14033</td>
</tr>
</tbody>
</table>

*Total does not add up to summation of categories of primary and manufactured goods
due to exclusion of SITC 9.

Source: Calculated from U.N. (1962).
### TABLE (33)

Imports of Selected Goods by Semi-Periphery from LDCs (in million of U.S. Dollars) and their Percentages as Total Exports of these Countries to Semi-Periphery

<table>
<thead>
<tr>
<th>Year</th>
<th>Latin America</th>
<th>East Europe</th>
<th>Soviet Union</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary Goods</td>
<td>354 (60%)</td>
<td>696 (80%)</td>
<td>1356 (82%)</td>
</tr>
<tr>
<td>Manufactured Goods</td>
<td>85 (12%)</td>
<td>164 (18%)</td>
<td>286 (17%)</td>
</tr>
<tr>
<td>Total*</td>
<td>440</td>
<td>867</td>
<td>1648</td>
</tr>
<tr>
<td>1975</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary Goods</td>
<td>3597 (66%)</td>
<td>2470 (87%)</td>
<td>4101 (85%)</td>
</tr>
<tr>
<td>Manufactured Goods</td>
<td>307 (7%)</td>
<td>365 (12%)</td>
<td>717 (14%)</td>
</tr>
<tr>
<td>Total*</td>
<td>4104</td>
<td>2839</td>
<td>4821</td>
</tr>
<tr>
<td>1980</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary Goods</td>
<td>9461 (87%)</td>
<td>4613 (91%)</td>
<td>6347 (87%)</td>
</tr>
<tr>
<td>Manufactured Goods</td>
<td>1214 (12%)</td>
<td>416 (8%)</td>
<td>850 (11%)</td>
</tr>
<tr>
<td>Total*</td>
<td>10675</td>
<td>5055</td>
<td>7237</td>
</tr>
</tbody>
</table>

*Total does not add up to summation of primary and manufactured goods due to exclusion of SITC 9.

Source: Calculated from (U.N. 1982).
### Table (34)

**Commodity Group Breakdown of the East European Countries' and DC's Imports from LDCs**

*(in Percent of Total Imports)*

<table>
<thead>
<tr>
<th></th>
<th>East Europe</th>
<th>Soviet Union</th>
<th>DCs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SITC 0 and 1</td>
<td>20.6</td>
<td>56.0</td>
<td>9.5</td>
</tr>
<tr>
<td>SITC 2 and 4</td>
<td>29.0</td>
<td>14.0</td>
<td>7.0</td>
</tr>
<tr>
<td>SITC 3</td>
<td>37.0</td>
<td>14.0</td>
<td>68.0</td>
</tr>
<tr>
<td>SITC 5</td>
<td>1.0</td>
<td>2.7</td>
<td>1.0</td>
</tr>
<tr>
<td>SITC 7</td>
<td>.6</td>
<td>.5</td>
<td>2.0</td>
</tr>
<tr>
<td>SITC 6 and 8</td>
<td>10.8</td>
<td>11.6</td>
<td>11.0</td>
</tr>
</tbody>
</table>

| 1980     |             |              |     |
| SITC 0 and 1 | 18.4        | 61.0         | 6.0 |
| SITC 2 and 4 | 19.4        | 14.0         | 5.5 |
| SITC 3    | 53.3        | 12.0         | 70.7|
| SITC 5    | .8          | 1.0          | 1.1 |
| SITC 7    | .2          | .4           | 3.5 |
| SITC 6 and 8 | 7.0        | 9.9          | 12.0|

**Note:** Totals do not add up to 100% due to omission of SITC 9.

**Source:** Calculated from U.N. (1982).
## Table (35)

### Commodity Group Breakdown of the East European Countries' and DC's Imports to LDCs
(in Percent of Total Exports)

<table>
<thead>
<tr>
<th></th>
<th>East Europe</th>
<th>Soviet Union</th>
<th>DCs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1975</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SITC 0 and 1</td>
<td>14.2</td>
<td>8.5</td>
<td>11.2</td>
</tr>
<tr>
<td>SITC 2 and 4</td>
<td>3.4</td>
<td>4.5</td>
<td>3.5</td>
</tr>
<tr>
<td>SITC 3</td>
<td>1.6</td>
<td>11.8</td>
<td>1.2</td>
</tr>
<tr>
<td>SITC 5</td>
<td>12.0</td>
<td>3.2</td>
<td>9.2</td>
</tr>
<tr>
<td>SITC 7</td>
<td>39.9</td>
<td>24.5</td>
<td>45.9</td>
</tr>
<tr>
<td>SITC 6 and 8</td>
<td>28.0</td>
<td>7.1</td>
<td>25.8</td>
</tr>
<tr>
<td><strong>1980</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SITC 0 and 1</td>
<td>15.1</td>
<td>4.0</td>
<td>10.8</td>
</tr>
<tr>
<td>SITC 2 and 4</td>
<td>4.4</td>
<td>3.3</td>
<td>4.4</td>
</tr>
<tr>
<td>SITC 3</td>
<td>1.8</td>
<td>18.5</td>
<td>2.5</td>
</tr>
<tr>
<td>SITC 5</td>
<td>11.3</td>
<td>1.9</td>
<td>10.4</td>
</tr>
<tr>
<td>SITC 7</td>
<td>37.7</td>
<td>22.9</td>
<td>42.4</td>
</tr>
<tr>
<td>SITC 6 and 8</td>
<td>29.0</td>
<td>4.2</td>
<td>27.8</td>
</tr>
</tbody>
</table>

**Note:** Totals do not add up to 100% due to omission of SITC 9.

**Source:** Calculated from U.N. (1982).
Table (57)
Different Forms of ICAs

<table>
<thead>
<tr>
<th>Type of Contract</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnkey contract</td>
<td>All types of contracts where the supply has significant on-site installation or supervision responsibilities for the supplied</td>
</tr>
<tr>
<td>complete plant.</td>
<td></td>
</tr>
<tr>
<td>Licensing</td>
<td>Supply of technology and/or process for fees or product over a period of time.</td>
</tr>
<tr>
<td>Technical Assistance Contract</td>
<td>Transfer of supplier's patent rights, design &amp; manufacturing techniques for particular product(s).</td>
</tr>
<tr>
<td>Sub-Contracting</td>
<td>When the Western firm usually provides the technical know-how and sometimes machinery to cover its product shortages.</td>
</tr>
<tr>
<td>Production Cooperation (contractual J/Vs)</td>
<td>a. Vertical co-production, with one partner producing relatively simple components or materials and advanced technology are b. Horizontal co-production, where each partner produces components/ of sophistication.</td>
</tr>
<tr>
<td>while those involving more produced</td>
<td></td>
</tr>
<tr>
<td>sub-assemblies of a similar degree</td>
<td></td>
</tr>
<tr>
<td>Joint Venture in a Third World Country and profit in the venture.</td>
<td>Co-owners of capital, co-management, and sharing of risk</td>
</tr>
<tr>
<td>Joint Venture in a Socialist Country</td>
<td>Same as above.</td>
</tr>
</tbody>
</table>

Table (38)

Percentage Breakdown of ICAs in Different Forms

1978

<table>
<thead>
<tr>
<th>Type of Cooperation</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Co-production and specializations</td>
<td>45.2%</td>
</tr>
<tr>
<td>Delivery of plant or equipment</td>
<td>17.4%</td>
</tr>
<tr>
<td>Joint ventures:</td>
<td></td>
</tr>
<tr>
<td>- Involving marketing only (8.6%)</td>
<td>16.9%</td>
</tr>
<tr>
<td>- Involving production, market and R and D (8.3%)</td>
<td></td>
</tr>
<tr>
<td>Tripartite co-operations</td>
<td>6.4%</td>
</tr>
<tr>
<td>Licensing</td>
<td>6.1%</td>
</tr>
<tr>
<td>Joint tending or joint projects</td>
<td>4.2%</td>
</tr>
<tr>
<td>Sub-contracting</td>
<td>3.8%</td>
</tr>
</tbody>
</table>

Table (39)

Component Elements of 218 ICAs Surveyed*
Carleton Study

<table>
<thead>
<tr>
<th>Component Element</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Managerial Services</td>
<td>8.7</td>
</tr>
<tr>
<td>2. Capital equipment sale</td>
<td>28.4</td>
</tr>
<tr>
<td>3. Complete plant sale</td>
<td>20.2</td>
</tr>
<tr>
<td>4. Custom design of plant/equipment</td>
<td>22.9</td>
</tr>
<tr>
<td>5. Training of East personnel</td>
<td>46.8</td>
</tr>
<tr>
<td>6. Technical assistance (know how)</td>
<td>60.1</td>
</tr>
<tr>
<td>7. License</td>
<td>47.2</td>
</tr>
<tr>
<td>8. Supply of parts and components to Eastern Europe</td>
<td>52.6</td>
</tr>
<tr>
<td>9. Supply of parts and components to West for production in West</td>
<td>46.8</td>
</tr>
<tr>
<td>10. Supply of parts and components to West for marketing in West</td>
<td>39.9</td>
</tr>
<tr>
<td>11. Production specialization, same end product</td>
<td>19.3</td>
</tr>
<tr>
<td>12. Production specialization, full line of goods</td>
<td>5.5</td>
</tr>
<tr>
<td>13. Quality control</td>
<td>25.2</td>
</tr>
<tr>
<td>14. Coordination of marketing/servicing</td>
<td>31.2</td>
</tr>
<tr>
<td>15. Joint projects in 3rd country</td>
<td>24.3</td>
</tr>
<tr>
<td>16. Joint research and development</td>
<td>23.9</td>
</tr>
</tbody>
</table>

*Survey conducted in 1975.
Table (40)

Major Western Participants in ICAs (1977)

<table>
<thead>
<tr>
<th>Country</th>
<th>Share in ICAs</th>
</tr>
</thead>
<tbody>
<tr>
<td>West Germany</td>
<td>21.4%</td>
</tr>
<tr>
<td>France</td>
<td>14.4%</td>
</tr>
<tr>
<td>Austria</td>
<td>7.0%</td>
</tr>
<tr>
<td>Japan</td>
<td>7.4%</td>
</tr>
<tr>
<td>Italy</td>
<td>9.1%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>7.0%</td>
</tr>
<tr>
<td>Sweden</td>
<td>6.2%</td>
</tr>
</tbody>
</table>

### Table (41)

**Major Western Participants in ICAs**

**End of 1970s**

<table>
<thead>
<tr>
<th>Country</th>
<th>% Share in ICA</th>
</tr>
</thead>
<tbody>
<tr>
<td>West Germany</td>
<td>more than 25%</td>
</tr>
<tr>
<td>France</td>
<td>more than 10%</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>more than 10%</td>
</tr>
<tr>
<td>Italy</td>
<td>more than 10%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>between 5 - 6%</td>
</tr>
<tr>
<td>Austria</td>
<td>between 5 - 6%</td>
</tr>
<tr>
<td>Japan</td>
<td>between 5 - 6%</td>
</tr>
<tr>
<td>Sweden</td>
<td>between 5 - 6%</td>
</tr>
</tbody>
</table>

### Table 42

**East-West Industrial Cooperation**

**End of 1970s**

<table>
<thead>
<tr>
<th>Estimated Numbers of Agreements Concluded</th>
<th>Percent of Subtotal</th>
</tr>
</thead>
<tbody>
<tr>
<td><em><em>Substantive, non-equity agreements</em> with Western firms</em>*</td>
<td></td>
</tr>
<tr>
<td>Bulgaria</td>
<td>63</td>
</tr>
<tr>
<td>Czechoslovakia</td>
<td>77</td>
</tr>
<tr>
<td>German Democratic Republic</td>
<td>48</td>
</tr>
<tr>
<td>Hungary</td>
<td>455</td>
</tr>
<tr>
<td>Poland</td>
<td>324</td>
</tr>
<tr>
<td>Romania</td>
<td>108</td>
</tr>
<tr>
<td>USSR</td>
<td>292</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1367</strong></td>
</tr>
</tbody>
</table>

| **Agreements with Western Firms for Joint Projects in Third Country** |                      |
| Bulgaria                                                               | 12                  | 5                   |
| Czechoslovakia                                                        | 19                  | 7                   |
| German Democratic Republic                                             | 25                  | 10                  |
| Hungary                                                               | 76                  | 30                  |
| Poland                                                                | 71                  | 28                  |
| Romania                                                               | 28                  | 11                  |
| USSR                                                                   | 26                  | 10                  |
| **Total**                                                              | **257**             | **100**             |

*These agreements fall within two broad types: 1. Compensation agreements; 2. Co-production, product sharing, product specialization and subcontracting.

Table (43)

Joint Ventures Agreement Between East Europe and Western Firms

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Hungary</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Poland</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Romania*</td>
<td>-</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>7</td>
<td>9</td>
<td>7</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
</tbody>
</table>

*Plus one more not further identifiable (General Maritime Co.)

Table (44)
East-West Joint Ventures in the West and LDCs as of the end of the 1970s

<table>
<thead>
<tr>
<th>In the LDCs</th>
<th>Estimated number</th>
<th>Percent of Subtotal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>1</td>
<td>20</td>
</tr>
<tr>
<td>Hungary</td>
<td>2</td>
<td>40</td>
</tr>
<tr>
<td>Poland</td>
<td>1</td>
<td>20</td>
</tr>
<tr>
<td>Romania</td>
<td>1</td>
<td>20</td>
</tr>
<tr>
<td>Soviet Union, Chechoslovakia, GDR</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>In DCs</th>
<th>Estimated number</th>
<th>Percent of Subtotal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>29</td>
<td>9</td>
</tr>
<tr>
<td>Czechoslovakia</td>
<td>24</td>
<td>8</td>
</tr>
<tr>
<td>German Democratic Republic</td>
<td>20</td>
<td>7</td>
</tr>
<tr>
<td>Hungary</td>
<td>51</td>
<td>16</td>
</tr>
<tr>
<td>Poland</td>
<td>75</td>
<td>25</td>
</tr>
<tr>
<td>Romania</td>
<td>32</td>
<td>11</td>
</tr>
<tr>
<td>USSR</td>
<td>73</td>
<td>24</td>
</tr>
</tbody>
</table>

| Total                          | 304              | 100                 |

Breakdown of ICAs between U.S. and East Europe by Different Industries (as of January 1, 1976)

<table>
<thead>
<tr>
<th>Industry</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>6</td>
<td>1.2</td>
</tr>
<tr>
<td>Mining</td>
<td>15</td>
<td>3.1</td>
</tr>
<tr>
<td>Construction</td>
<td>45</td>
<td>9.3</td>
</tr>
<tr>
<td>Manufacturing: (347)</td>
<td></td>
<td>72%</td>
</tr>
<tr>
<td>Food</td>
<td>21</td>
<td>4.3</td>
</tr>
<tr>
<td>Textile, lumber, paper, print</td>
<td>23</td>
<td>4.7</td>
</tr>
<tr>
<td>Chemical, drugs, rubbers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plastic, glass</td>
<td>99</td>
<td>20.5</td>
</tr>
<tr>
<td>Metals</td>
<td>22</td>
<td>4.5</td>
</tr>
<tr>
<td>Machinery excluding electric</td>
<td>90</td>
<td>18.7</td>
</tr>
<tr>
<td>Machinery &amp; equipment electric</td>
<td>68</td>
<td>14.1</td>
</tr>
<tr>
<td>Transport equipment</td>
<td>24</td>
<td>4.9</td>
</tr>
<tr>
<td>Transport, communication</td>
<td>6</td>
<td>1.2</td>
</tr>
<tr>
<td>Finance, hotels and other</td>
<td>27</td>
<td>5.6</td>
</tr>
<tr>
<td>Industry not specified</td>
<td>35</td>
<td>7.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>481</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: from (Marer and Miller 1977, p. 23)

Total does not add up to 100 due to rounding.
### Table (46)

**Percentage Breakdown of ICAs by Industry (1976)**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemical Industry</td>
<td>26.1%</td>
</tr>
<tr>
<td>Mechanical engineering and machine tools</td>
<td>22.3</td>
</tr>
<tr>
<td>Electrical equipment and electronics</td>
<td>17.5</td>
</tr>
<tr>
<td>Transport equipment</td>
<td>9.6</td>
</tr>
<tr>
<td>Metallurgy</td>
<td>8.3</td>
</tr>
<tr>
<td>Light Industry</td>
<td>8.3</td>
</tr>
<tr>
<td>Agricultural and food industries</td>
<td>4.5</td>
</tr>
<tr>
<td>Other industries</td>
<td>3.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

*Source: (U.N. 1979, p. 19).*
Table (47)

Percentage Breakdown of ICAs by Industry (1980)

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemical Industry</td>
<td>24.4%</td>
</tr>
<tr>
<td>Electrical equipment and electronics</td>
<td>18.1</td>
</tr>
<tr>
<td>Mechanical engineering and machine tools</td>
<td>16.5</td>
</tr>
<tr>
<td>Transport equipment</td>
<td>12.8</td>
</tr>
<tr>
<td>Light Industry</td>
<td>9.1</td>
</tr>
<tr>
<td>Metallurgy</td>
<td>7.4</td>
</tr>
<tr>
<td>Food and agriculture</td>
<td>6.1</td>
</tr>
<tr>
<td>Other industries</td>
<td>5.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Table (48)  
Industries’ Shares in the Total Number of ICAs, with Breakdown by Country  
1978 (Percent)  

<table>
<thead>
<tr>
<th>Country</th>
<th>Chemical</th>
<th>Metallurgy</th>
<th>Transport Equipment</th>
<th>Mechanical &amp; Machine Tools</th>
<th>Electrical &amp; Electronic</th>
<th>Agriculture</th>
<th>Light Industry</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td></td>
<td></td>
<td>9.1</td>
<td>45.5</td>
<td>18.2</td>
<td>27.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hungary</td>
<td>14.5</td>
<td>2.6</td>
<td>11.0</td>
<td>17.1</td>
<td>32.9</td>
<td>5.3</td>
<td>11.8</td>
<td>3.9</td>
</tr>
<tr>
<td>Poland</td>
<td>16.7</td>
<td>7.4</td>
<td>9.3</td>
<td>27.0</td>
<td>14.9</td>
<td>5.6</td>
<td>13.5</td>
<td>5.6</td>
</tr>
<tr>
<td>GDR</td>
<td>14.3</td>
<td></td>
<td>14.3</td>
<td>57.2</td>
<td></td>
<td>14.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Romania</td>
<td>39.3</td>
<td>10.7</td>
<td>21.4</td>
<td>10.7</td>
<td>10.7</td>
<td></td>
<td>7.1</td>
<td></td>
</tr>
<tr>
<td>Czechoslovakia</td>
<td>33.3</td>
<td></td>
<td>11.1</td>
<td>44.4</td>
<td>11.1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Soviet Union</td>
<td>36.4</td>
<td>13.2</td>
<td>5.4</td>
<td>20.2</td>
<td>12.4</td>
<td>2.3</td>
<td>6.2</td>
<td>3.9</td>
</tr>
</tbody>
</table>

Source: (U.N. 1979, p. 20).
<table>
<thead>
<tr>
<th>Product</th>
<th>1971-74</th>
<th>1975-80</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nonmetallic minerals</td>
<td>11.6</td>
<td>7.8</td>
</tr>
<tr>
<td>Metal products</td>
<td>7.1</td>
<td>9.9</td>
</tr>
<tr>
<td>Machinery</td>
<td>7.1</td>
<td>7.1</td>
</tr>
<tr>
<td>Electrical machinery</td>
<td>19.6</td>
<td>8.5</td>
</tr>
<tr>
<td>Transport equipment</td>
<td>22.1</td>
<td>4.4</td>
</tr>
<tr>
<td>Paper and products</td>
<td>6.7</td>
<td>7.7</td>
</tr>
<tr>
<td>Rubber</td>
<td>12.0</td>
<td>5.9</td>
</tr>
<tr>
<td>Chemical and pharmaceuticals</td>
<td>15.2</td>
<td>8.7</td>
</tr>
<tr>
<td>Textiles, clothing</td>
<td>3.9</td>
<td>4.5</td>
</tr>
</tbody>
</table>

Source: (Baer (1983), p. 177).
CHAPTER VI

6.1. SOME CONCLUDING REMARKS

Throughout this dissertation, I have attempted to show that none of the schools, approaches, presented here are successful in devising a 'theory' of East-West economic relations. For instance, the dependency school, which criticizes the neo-classical school for not incorporating into its analysis of underdevelopment an account of socio-political differences which exist among LDCs and DCs, when it comes to analysis of East-West economic interaction falls into the same trap. Frank and Wallerstein, for example, lose sight of the fact that the organization institution prone work of trade in the Soviet Union is different from that of the capitalist countries,¹ and this country is, to a large extent, able to protect itself from the harmful effects of economic interactions with the West. The dependency school, however, more than any other schools, approaches, discussed here is successful in pinpointing, and warning against, the problems, or perils, which such economic interactions may entail for the socialist countries.

The Eastern European economists' approach lies at the other end of the spectrum. This approach correctly emphasizes the differences in the socio-economic conditions of capitalist and socialist countries. In contrast to the dependency school, however, it fails to
grasp, or to assign enough weight to the problems associated with the
East-West economic interactions. The Eastern European economists'
approach tends to stress the harmonious aspects of these relations,
and to downplay the areas of potential conflicts. Consequently, in
contrast to the dependency school, it believes East-West economic
relations will be highly beneficial to the socialist countries.

The dependency school and the Eastern European economists'
approach produce some arguments which are plausible in
understanding of East-West economic relations. However, it is more
difficult to evaluate the neo-classical school's contributions to such an
understanding. On the one hand, some of the non-theoretical authors
in this tradition have presented schemes which take into account the
differences in the institutional frameworks of trade in the socialist
and capitalist countries. For example, Franklin D. Holzman\(^2\) perhaps
more than any other orthodox authors, demonstrates a profound
understanding of such institutional differences\(^3\) As a result, his
works are valuable in comprehending East-West economic
interactions. On the other hand, most of the 'theoretical' neo-classical
economists, by employing a pareto optimal marginal analysis in the
investigation of the socialist countries' trade and investment

1 A point which I will discuss further shortly.
2 Although the orthodox economists credit Holzman as the first author who has attempted
to theoretically evaluate the Soviet Union's trade behavior, they also criticize him for
not being 'theoretical' enough. (See Chapter II) Based on my knowledge, however,
Holzman has not so far attempted to employ marginal analysis in the investigation of
East-West economic interaction. Therefore, I do not categorize him as a "theoretical
neo-classical" economist.
3 See in particular Holzman (1983).
behaviors, have produced some of the least relevant theses. Their theses are irrelevant, not because they do not 'fit fact,' but because they violate their own principles. This occurs because the pareto optimal marginal rules are presumably the necessary conditions for the optimum in the perfectly competitive market economy.

From the beginning I have stated that my goal is by bringing these schools together and pinpointing their problems, to contribute to both a better understanding of East-West economic relations and to devising a possible 'theory' of such interaction. My research indicates that such a theory should consider at least the following points.

Historically, one motive for establishment of state foreign monopoly and the emergence of the autarkic model of development in countries of Eastern Europe was to insulate the domestic economy and the planning process from the uncertainties of the world market. Accordingly, it seems valid to ask whether or not the increased contact between these countries and the West has increased their vulnerability to the changes in the capitalist world. Surely, the economic crisis, inflation, and monetary problems of the capitalist world are not without effect on the economies of the East European countries, as was the case during the stagflation of the early 1970s which certainly contributed to the balance of payments difficulties of some East European countries.4 Beyond its impact upon the balance

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4 See Chapter 3 for a more detailed discussion. For a study of the effects of stagflation on the Eastern Europe see Portes (1980).
of payment, with expanded economic relations, changes in the world market prices (e.g. oil) will to some degree influence indirectly the investment and consumption decisions of these countries. (Portes 1980) The overall impact of such price changes would be further enhanced inasmuch as world prices are employed in intra-CMEA trade. (Bornstein 1979, pp. 304-5) More importantly, however, the increased East-West economic interaction makes the process of planning more difficult, because foreign trade becomes less amenable to prediction and planning. (Nyiri 1982, p. 23)

There exist, however, varying degrees of vulnerability among the centrally planned economies to the changes in the capitalist world market. While a large, resource rich country such as the Soviet Union enjoys the option of autarky and the ability to maintain a high degree of independence, the smaller countries of Eastern Europe are much more in need of economic relations with the West. As Pasztor (1980)'s calculation indicates, whereas Hungary, for instance, in 1978 imported about 28% if its national income from the non-Socialist countries, the highest percent among East European countries, the Soviet Union imported 3.3% of its national income from the non-socialist countries. Hence, the degree of susceptibility of Hungary to the changes of the world market is much higher than that of the Soviet Union.

The admission that East European countries are to some degree vulnerable to the changes in the capitalist world market is not synonymous with accepting the dependency schools' argument that
these countries are a functional part of the capitalist world market and their logic of development is determined by the forces of the capitalist market. To accept the dependency school's contention and to place Eastern European countries within the confines of the capitalist world economy means overlooking the differences in goals and institutions of these two different economics systems. It furthermore means ignoring the tension which exists between the logic of market and the logic of plan. It is a mistake, for instance, to believe that the Soviet import of Western technology and machinery is for the purpose of producing commodities which are competitive on the world market and then exporting them in order to make profit. The Soviet Union acquires Western technology, equipment and machinery all as factors accelerating the development of the domestic forces of production and "spurring the imagination of designers," even if after a few years or decades Soviet products appear on the Western markets. (Kozma 1982, p. 30)

In short, while the foreign trade of East European countries is subject to external influences, it cannot be understood in terms of the logic of the capitalist world market. In addition to the fact that East-West economic relations only account for a small percentage of social products in majority of these countries,5 because of the foreign trade monopoly and central planning nature of these societies, the impacts originating outside cannot assert themselves directly,

5 With the exception of Hungary and probably Romania.
immediately and particularly without limitations in the domestic economic process. In contrast to the capitalist countries, rising foreign price levels in East Europe do not penetrate immediately into domestic producer and consumer prices, hence affecting the level of incomes and demand. At the same time, changes in export prices do not affect branches producing for exports and consequently affect the level of income and employment. (Simai 1977, p. 3 and Portes, 1980) The inability of external forces to directly and immediately affect the domestic process of East European countries should be sought in the organization of foreign trade in these countries. For example, in the Soviet Union, foreign trade is conducted by state trading corporations, each specializing in import and export of a particular product over which they have a complete monopoly. Profitability plays no role in the conduct of these corporations whose operations are tightly controlled by the ministry of foreign trade. Such control is exerted through detailed plans for volume and prices of imports and exports. The trading corporations based on plan specifications purchase goods at prevailing domestic prices and then export them at the prevailing world market price. Similarly, these corporations purchase goods for import at world market prices and then sell them to domestic enterprises at the prevailing internal prices. The differences between either comes or goes to the Soviet state reserves. Neither the enterprises whose products end up in the world market, nor those who receive goods produced outside the country, have any interest in or knowledge of world market prices,
because these prices in no way directly affect the income or employment levels of these enterprises. (Szymanski 1981, p. 522, Szymanski 1982, p. 64 and Holzman 1983) Therefore, the application of government economic policy enables mitigation of external effects. (Simai 1977, p. 3)

The state plan for foreign trade determines the amount and kind of goods which are necessary to "domestic production beyond expected domestic resources." (Szymanski 1981, p. 522) The role of export, then, is simply to cover the costs of imports. The planners examine domestic production to locate these products that "are either likely to be produced in excess of domestic requirements, or can easily be expanded" in order to choose goods for exports. (Ibid., p. 522) Although as was mentioned previously, most items which are imported from the West are machinery and equipment, and imports in a way are used as a "vehicle of expansion drive," foreign trade is not carried on based on the principles of comparative advantages. Moreover, any attempt by the Western powers to completely isolate the East European countries at worst will lead to slightly deaccelerating the economic development of these countries, because they mainly rely on their own collective and individual economic resources and reciprocal trade of CMEA countries accounts for approximately three-fifths of their external trade turnover. (Stepanov 1981) The employment of government policies enables these countries to distribute losses due to the change in international economic conditions in accordance with the hierarchy of economic
policy objectives. (Simai 1977, p. 3) Such action may lead to abandonment or postponement of an economic policy, but does not imply the "dependency" of these countries to international economic development.

The examination of the recent trends in the East European countries rejects Stalin's contention that these countries are isolated from the capitalist market is no longer valid. Eastern Europe is not isolated from the world market and is in fact to some degree vulnerable to its effects. More importantly, these countries may respond to the capitalist market forces, but they are not governed by them. In their interaction with the capitalist countries, Eastern Europe's trade and investment decisions are not determined by the logic of world market, though to some extent they may be affected; their products are not produced for the sake of making profit, but as a means for obtaining desired use values. Moreover, although one can concede that the Eastern European economies are weaker than those of DCs, they do not exhibit the characteristics of the dependency school's semi-peripheral states, because the state foreign trade monopoly and centralized economic planning mediate the adverse effects of the world market. In other words, they eliminate or reduce "dependency." (p. 35)

At this point one may wonder, given the problem of vulnerability, what is the best foreign trade strategy for the transitional societies in general? This is a difficult question and I do not feel in a position to even attempt to answer it, but there are
some points that I would like to outline. While autarky was historically necessary in the context of "construction of socialism" in one country industrialization, it has become more evident that the continuation of that policy for smaller, less resources abundant countries of Eastern Europe is not possible. Until these societies become technologically in pace with the DCs and intra-bloc trade expands to a point that meets all their requirements, trade with capitalist countries will continue. If this is true, the challenge faced by East European countries is to devise a foreign trade model which can increase their export capacity, reduce their vulnerability to external forces, and at the same time enhance economic development. Any particular approach, export-oriented model, import led growth, etc. must be evaluated in terms of its relative costs and benefits with respect to the above criteria. There is no one path, because there exists a great diversity of resources, potentialities, and level of development among these countries. It is precisely the recognition and emphasis on the specificity of economic and institutional conditions of Eastern European countries which is missing in the discussion of the schools presented here. Any attempt to construct a 'theory' of economic relations between the East and the West must recognize these specificities. Such a 'theory' by placing economic analysis within the social and political contexts

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6 In a now classic article, Palma (1978) raises the same criticism of some of the dependency school's authors.
of these societies will be able to explain with more precision the mechanism of the East-West interaction.
Another group of neo-classical economists who have emphasized the organizational aspect of the socialist countries' foreign trade. Brada and Jackson (1978) for example, employ the "normative theory of organization" in their study of foreign trade organizations of the Council for Mutual Economic Assistance (CMEA). They start by arguing that "traditional theory of foreign trade under capitalism explains the behavior of firms as the result of interplay between" the character of competition among firms, prices and profits. (Brada and Jackson 1978, P. 294) What they believe is lacking in the traditional approach is "an analysis of the internal organization of trading unit." (Brada and Jackson 1978, P. 295) This, they believe, is true for the organizations performing under conditions of planned economy. "(A)n organization facing a given competitive environment, price or planning information, and incentive system will perform its assigned tasks differently under differing forms of internal organization." Furthermore, "if the internal organization is appropriate to one type of environment, it may prove to be inappropriate should the organization seek to operate in a different environment." This latter point, they argue, is a problem facing both "capitalist and socialist organizations" which have extended their operations to the international sphere. (Brada

1 Hewett (1974) has also studied the effect of organization on the behavior of centrally planned economies.
and Jackson 1978, P. 295) They then proceed to survey the forms of organization employed by large American firms, Japanese trading companies and the countries of Eastern Europe, and try to evaluate their development based on the "normative theory of organization."

In the case of centrally planned economies, Brada and Jackson distinguish three distinct developments in the foreign trade organization of these countries. They argue that until the reforms of the 1960's, the Ministry of Foreign Trade purchased products from branch ministries for export. This organizational structure was quite appropriate for the needs of these countries at the time. Because the bulk of foreign trade of Eastern European countries was with each other. In this form of trade, the volume and composition of commodities were determined through bilateral agreement between the Foreign Trade Ministries of the countries. Moreover, the agreed upon prices were maintained for a period of a year or longer. "Since prices are fixed and trade flows determined by protocol, there is no marketing for the Ministry of Foreign Trade" (Brada and Jackson 1978, P. 311) and noneed to make any attempt to establish a direct line between producers and exporters.

Brada and Jackson believe that although the traditional form of organization of trade in Eastern Europe "may have been appropriate for the conduct of intra-CMEA trade, it precluded optimal responsiveness to, and export performance on, Western markets." (Brada and Jackson 1978, P. 312) Nevertheless they argue for the following reasons such form of organization was the most appropriate even in dealing with Western countries. First of all, not only the volume of exports to the West was low, but the exports
mainly consisted of raw materials and foodstuff, for which few interactions between direct producers and exports are required. Moreover, "linking the activity of domestic enterprises directly and automatically to world-market developments is inconsistent with detailed central planning of domestic economic activity, to say nothing of the planning of foreign trade and the balance of payments." (Brada and Jackson 1978, P. 312) Furthermore, the shortage of experts who have direct knowledge of Western markets and business practice was another factor in the endurance of the traditional form of foreign trade organization which was viewed as the best way of "making full use of the existing cadres of foreign trade officials." (Brada and Jackson 1978, P. 313)

Despite these considerations in the favor of the traditional form, by the late 1960's a series of reforms in the organization of foreign trade was conducted. According to Brada and Jackson, there had been some economic developments which demanded some changes in the foreign trade organizations. More specifically, there was an increase in trade with the West, and the share of manufacturing in exports was growing. In the new system a number of large integrated production units called associations were established. Domestically, these associations were given greater freedom in making production and investment decisions. Globally, the industrial association and sometimes individual enterprises were granted the right to engage directly in foreign trade departments were established within associations and individual enterprises. Brada and Jackson believe that such a pattern of organizational change is consistent with their theory that: "Global
structures arose exactly in those areas where the net benefit of the new structure appeared to be greatest and where the deficiencies of the old form of organization appeared to be the most conspicuous." (Bradaa and Jackson 1978, P. 315)

In Brada and Jackson's account, despite the "conceptual correctness" of foreign trade reforms in the late 1960's and the establishment of a global form of organization, in the early 1970's there was a move toward reenacting greater centralization of foreign trade. The reasons for such a move, according to Brada and Jackson, must be mainly sought in the development in the West. In the late 1960's when the foreign trade reforms were implemented, the international markets for both goods and currency had been stable for some time. Consequently, for the architect of reforms the linking of international markets to the domestic enterprises might have appeared quite simple. In the early 1970's the situation on the international markets changed. The collapse of the Bretton Woods system, and the problems of recycling OPEC foreign-exchange earnings led to a chaotic international monetary situation. Also worldwide inflation and recession in much of the capitalish world created disorder in the international product market. These situations severely limited the abilities of the newly-established foreign trade departments and associations to keep up with the developments in the West. "The rapid and automatic response to external developments that characterizes the global organization

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2 According to Brada and Jackson: "The greatest increase occurred in the number of export organizations dealing with machinery, transport equipment, and manufactured consumer goods, the total of such organization doubling between 1968 and 1972." (Ibid., P. 315)
turned from an advantage to a liability in these unsettled circumstances." (Brada and Jackson 1978, P. 36) No wonder that the idea of increasing the role of the Ministry of Foreign Trade gained so much support among the central authorities.

Brada and Jackson conclude that the organizational response to the problem of creating a direct link between exporters of certain products such as machinery to consumer has been similar in all economic systems. The actual benefits and costs of such organizational changes have been different in these economic systems. In the socialist counties, for example, the world-wide inflation and shortages of the early seventies resulted in large windfall profits and losses for individual exporting enterprises with consequent pressure on domestic equilibrium, particularly because the change in organization had been accompanied by granting more autonomy to these enterprises in regards to such domestic affairs as pricing and investment decisions.
APPENDIX II

Mathematical Explanation of Brada's Model

Let's start with Brada's general model, in which a joint venture is located in an Eastern European country and produces one output Q, with the use of m inputs (X) provided by the Western partner: \( X = (X_1, \ldots, X_m) \), and n inputs (Y) purchased domestically: \( Y = (Y_1, \ldots, Y_n) \). The production function is then: \( Q = F(X_1, \ldots, X_m, Y_1, \ldots, Y_n) \). The output is sold at fixed price \( P \). The inputs X and Y are acquired by the respective partners at constant per unit costs \( C_j (j=1, \ldots, m) \) and \( C_j (j=1, \ldots, n) \). The price actually paid by the joint venture for input (Y) is \( W_j = C_j \) (j=1,\ldots,n). Furthermore, the host government allows the Western partner to appropriate a fixed share \( S \) of the firm's accounting profit, which is

\[
\Pi = P \cdot Q - VX - WY
\]

where \( VX = \sum_{i=1}^{m} V_i \cdot X_i \) and \( WY = \sum_{j=1}^{n} W_j \cdot Y_j \)

In the case of Rumania, Brada argues that the Rumanian government as the owner of all factors of production derives its profits not only from its share of joint venture profits but also from sales of inputs to the joint venture. As a result in the country the profit of joint ventures dominated by the Rumanian government can be shown by the following:
\[ \Pi_{j.v.} = \sum_{j \neq k} (W_j - C_j) Y_j + PQ - VX - WY \]

The maximization of total profit under this condition requires:

1. differentiating with respect to \( X \).

\[ PQX = V \]

2. differentiating with respect to \( Y \).

\[ (W_j - C_j) + PQY \]

The joint venture's maximizing conditions are clearly different from those desired by either partner in maximizing its own profit.\(^1\) Thus Brada concludes "to the extent that each \---------

\[ \text{The Western partner wants to maximize} \]
\[ \Pi = \sum_{i=1}^{n} (V_i - C_i) X_i + S(PQ - VX - WY) \]

where \( \Pi^* \) is the total profit accruing to the Eastern partner. The first order condition for (1) is to differentiate it with respect to \( X_i \) and \( Y_i \) (profit maximizing conditions) imply:

\[ PQX_i = V_i - (V_i - C_i / S) \text{ and } PQY_i = W_j \]

with \( QX_i \) and \( QY_j \) representing the partial derivatives of \( Q \) with respect to \( X_i \) and \( Y_j \) respectively.

A similar exercise with respect to (2) generates the resource conditions desired by the Eastern Partner.

\[ PQX_i = V_i \]

\[ PQY_j = W_j - \frac{W_j - C_j}{1 - S} \]

The two sets of conditions for factor allocation are clearly different and are different from those of joint ventures (see Svejan and Smith 1982)
partner seeks to negotiate the resource allocation which maximizes his profits, the joint venture will have a lower level of total profits to share between the partners." (Brada 1977, P. 173)

The Hungarian situation is different. Most joint ventures in Hungary engage in trade activities, exporting a product manufactured in Hungary. According to Brada, since in Hungary there are at least partly functioning markets, there is no reason "to anticipate that Hungarian inputs to joint venture will be excessively over priced. Furthermore, the Hungarian partner has no particular interest in the benefits that over payment for such inputs could provide to the Hungarian suppliers of inputs." (Brada 1977, P. 174) Brada assumes the price at which the Hungarian partner supplies the product to the joint venture will be fixed at the contract price of $P$; the joint venture sells the product at fixed price $P$. The Western partner also accrues some costs as a result of distribution and sales of the product which is a function of the volume of sales:

$$D = D(Q)$$

where $D$ is the distribution cost. The Western partner's profit is then:

$$\Pi = X \left( (P - P') Q - D(Q) \right)$$

This profit is maximized when:

$$P - P' = D_a$$

The volume of sales, according to him must also be the volume of production of the Hungarian partner, whose profit comes not only from a share of joint venture profits but also from producing the product sold by the venture. Assum-
production depend on $Q$, then $C = C(Q)$. The Hungarian partner's profit is:

$$
\Pi^* = (1 - S) \{(P - p')Q - d(Q)\} + P'Q - C(Q)
$$

The profit will be maximized when:

$$
\frac{\partial \Pi^*}{\partial Q} = (1 - S)(P - P' - D) + P' - C = 0 \quad (3)
$$

Brada argues that if the price at which the joint venture sells the product $P'$ is set by negotiation at $C$, the marginal cost of production, the equation (3) will reduce to: $P - P' = DQ$

Then, there is no disagreement between the partners regarding the operation of joint venture. Consequently Brada believes there exists the possibility that Hungarian joint venture will be a "relatively efficient user of resources and untroubled by conflicts over resource allocation between two parties." (Brada 1977, P. 175)

In Yugoslavia the situation is different. The Western partner wants the joint venture to maximize the following profit function:

$$
\Pi = S (PQ - VX - WY)^2
$$

Because in Yugoslavia markets exist, Brada believes that as in the case of Hungary, there is little possibility for Yugoslav partner or for any other source in Yugoslavia to distort the prices of

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2 The first order profit maximizing conditions are $PQ_x = V_i$ and $PQ_y = W_y$. 
inputs utilized by the joint venture. He assumes that prices of such inputs are held constant at their cost of production. Thus he argues "the existence of markets for inputs of both partners resolve one of the fundamental conflicts evident in the Rumanian joint venture." (Brada 1977, P. 177)

He however argues that the conflicts between partners continue to exist due to the "differences in property right." In contrast to the capitalist firms which seek to maximize profits, the Yugoslav firm is interested in maximizing income per worker. The income per worker is equal to wage rate plus profit per worker. Let's assume \( L \) represents the Yugoslavia labor input to the joint venture, \( W_1 \) the wage rate and the joint venture total profits; the income per worker is:

\[
I = \left[\frac{1-S}{L}\right] + W_1 \quad (4)
\]

It is the Yugoslavia intention to maximize equation (4). The first order profit maximizing conditions are:

\[
\frac{\partial I}{\partial X_i} = \left[\frac{1-S}{L}\right] (PQ \times - W_1) = 0 \quad \text{PQ}_x = W_i
\]

\[
\frac{\partial I}{\partial Y_j} = (1-S) (PL \times - W_1) - \left[\frac{(1-S)}{L}\right] (PQ \times VX - WY) = 0
\]

\[\text{Where } \Pi = PQ - VX - WY.\]
\[ PQL = W_1 + (PQ - VX - WY)/L \]

Brada argues the Yugoslav workers utilize the same rules as the Western partner for determining the employment of non-labor input. However they seek different levels of employment for the labor input. It is at this point that the conflicts between two partners arise.4

Brada, after presenting his models, arrives at the following conclusions: "In all three cases, differences in property rights between the two participants in the East-West joint venture may create conflicts of interest. The narrowest the scope of property rights of the socialist partner, the greater the availability of market-generated information on the true value of socialist inputs, the more circumscribed this area of conflict appears to be." (Brada 1977, P. 180)

**Sveinar and Smith’s Model:**
In their model, the parties act as if maximizing the weighted product of their utilities:

\[ \text{Max } U = U^w D^D \]

where \( U^w \) and \( U^D \) are the utility functions of the Western and domestic partner, respectively, \( X^w \) is the bargaining power of the Western partner and \( X^D \) the bargaining power of the domestic

---

4 The Yugoslav worker-managers wish to allocate non-labor input so that the value of the marginal product equals the input price. But in the case of labor input they wish to equate the value of the marginal product of labor to the actual income per worker.
partner. As they believe it is the relative power which matters, it is convenient to assume $X_d = 1 - X$ where $0 \leq X \leq 1$ and $X_d = 1 - X$. The utility function then can be written as:

$$U = U^X U^{(1-X)} \quad (1)$$

In the case of Rumania they take each partner's utility to be identical with their profit function. Assuming the Western partner's profit function to be:

$$\Pi = \sum (V_i - C_i) X_i + S(PQ - V_i X_i - W_j Y_j)$$

(using the same notations which were used in analysis of Brada's model)

The Rumanian partner's profit function is:

$$\Pi^* = \sum (W_j - C_j) Y_j + (1 - S)(PQ - V_i X_i - W_j Y_j)$$

Substituting $\Pi$ and $\Pi^*$ in equation (1) we get the following:

$$U = \Pi^Y \Pi^*^{(1-Y)} = (V_i - c_i)X_i + S(PQ - V_iX_i - W_j Y_j)$$

$$((W_j - C_j)Y_j + (PQ - V_i X_i - W_j Y_j))^{(1-Y)}$$

---

5 This equation differs slightly from what they have actually used in their article.
The maximization of the above equation will lead according to their calculations:

\[ PQ_{xi} = C_i \]
\[ PQ_{yj} = C_j \]

which means that 'marginal value' of each input equals the corresponding per unit cost of input. (Svejnar and Smith 1982, P. 159)
APPENDIX III

Export-Oriented Model of Development

The cornerstone of the export-oriented model is intensification of the socialist countries' participation in the international division of labor and adamant opposition to the policy of inward-looking development. About the latter point, the proponents of the model in fact argue what makes the export-oriented development topical in CMEA countries today is the concept of import substitution, more exactly, the conception which declares the fundamental task of economic policy is to satisfy the need of these countries primarily from internal resources. This conception dominated the Eastern European countries' economic policy for decades and proved to be unsuccessful under the condition where the sources of extensive growth had been exhausted. Under this condition, there remain no other sources of development than to increasing productivity and improving efficiency. The Eastern European economists argue that the import-substitution policy in practice never was limited to only imports of machinery from capitalist countries. It indeed usually entailed a growing need for material imports; in other words the import-substitution development turned out to be in fact very import-intensive. (Koves 1978, P.P. 115-117) All this would be no problem, if there were enough exports to counterbalance them, but these countries have never paid enough attention to development of exports aimed at the Western markets. It is this lack of attention that the export-oriented model of development intends to overcome.

"The Eastern European countries give up their long lasting tradition
of import-substitution, and switch over to the export-oriented growth model, all other factors of economic policy must be subordinate to this task." (Csaba 1983, P. 69)

The proponents of the export-oriented model of development believe that the Eastern European countries must realize that at a time when the improvement of efficiency is the only way of economic development, to manufacture everything economically domestically is neither possible nor necessary even within the framework of a large community. (Csaba 1983, P. 117) In this context the domestic productive factors must be engaged only in selected areas, where the volume of production in each of these areas is large. The goods are then produced not only for the domestic market but also sometimes mainly for the foreign markets. (Rosati 1979, P. 55)

Therefore the proponents of the model suggest an intensive participation in the international division of labor. They argue such a participation is not a passive process but it involves a series of consciously directed, continuous activities: It means the formation of an export structure in accordance with the natural advantage of the country, while considering the tendencies of the international markets. (Veress 1974, P. 342) According to the Eastern European economists, the specialization in the selected areas alone will not bring any advantage if "the relations of prices (costs)" internally and externally are identical, and if the costs of production are proportional to the scale of output. Fortunately, they maintain that because of differences in "productive factors, natural conditions, and historical processes of development" in particular countries there
exist consideration "different relations of prices and costs." Thanks to this phenomenon, "rational specialization makes it possible to achieve significant advantages" from participation in the international division of labor. (Rosati 1979, P. 55)

As a result of the "rational specialization," a country participating in the international division of labor can gain more goods and services than it can gain by using its resources within a closed economy. The country's needs are satisfied by products that are less expensive and of better quality. Low costs result from the fact that goods are produced where the costs of production are the lowest and also from an appropriately large scale of activity. The large scale of production in turn allows the use of the latest technology, and consequently production of goods of high quality. Another factor contributing to production of goods of high quality is the fact that specialization enables the country to concentrate its research and development only on selected areas and obtain the better results. (Rosati 1979, P.P. 55-56)

Specialization and the export oriented model of course entails an active import policy, because in the case of products that a country can't profitably produce, whose development is constrained by limited resources or markets, it must follow a deliberate strategy of imports. (Veress 1974, P. 342) The increase in imports from the West is important also for two other reasons: 1. Because of requirements of periods of intensive development; 2. Because of requirements of integration of the CMEA countries. Therefore both

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1 The argument is similar to what was presented earlier in the chapter three.
the domestic development in individual Eastern European countries and cooperation plans among them necessitates increased Western imports. (Koves 1978, P. 118)

On the latter point, it is argued that due to the high import contents of exports of some Eastern European countries (i.e. Hungary) to other socialist countries, even those socialist countries that have so far tried to orient themselves only to the socialist markets, have been forced to import considerably from the West, although indirectly. (Koves 1978, P. 118),(Koves 1981, P. 56) There are two alternative ways to meet the increased import requirement, either by a rapid growth of exports or by running more deeply into debts. (Veress 1974, P. 347) The proponents of the export-oriented model, however, prefer the first alternative, partly because the credit relations between East and West are primarily motivated by political and ideological views, which make reliance upon Western credits undesirable. (Czerkawski 1982, P. 77) Furthermore it is believed that the imports can not be financed by credits for ever; consequently there must be a considerable acceleration of exports to the West as a basic condition for maintaining a high rate of imports. (Tabaczynski 1981, P. 99)

The CMEA countries must however rationalize their imports and increase the efficiency of their use. For example N. Shomelev (1979) argues that according to some estimates not less than 15 percent of the imports of the Eastern European countries belong to the category of forced imports. These are first of all imports of machines which are produced at acceptable technological standards in CMGA countries. But which, due to the overstrained domestic plan
an insufficient consideration of mutual requirements, are chronically underproduced in these countries. In addition, in the CMEA countries reserves of uninstalled important equipment are increasing. Such reserves naturally do not yield any export returns. (Shmelev 1979, P. 319) Eastern European countries' endeavours to overcome these shortcomings will be of tremendous benefit to their balance of payments.

The basic problem is recognized to be the fact that for a long time too wide a range of products has been produced in and exported from CMEA countries. (Veress 1974, P. 345) The export-oriented model therefore suggests that the economic policy decisions must be supported that select on the basis of external economic requirements those industries, plants and activities which produce efficient products saleable on the world markets. At the same time those industries which are 'only' capable of imports substitution, and those which produce costly goods or obsolete goods must be given less support, or their production must be totally terminated. Furthermore the enterprises which export more at advantageous conditions must receive more investment resources, and be encouraged. (Bognar 1976, P. 231), (Simai 1977, P. 9) and (Kozma 1972, P.P. 26-7)

The specialization and export-oriented model is recommended for all the Eastern European countries, but it is considered a must policy for the medium and the smaller countries of Eastern Europe. It is believed that in the medium and small countries, an effective development of forces of production without a dynamic foreign trade and more intensive participation in the international division of labor
is impossible. (Veress 1974, P. 336) A. Koves (Koves 1975) for instance argues that the small Eastern European countries are highly foreign trade sensitive; imports are needed not only for the development of the economy but also for the mere operation of the economy. 2 For this reason Koves argues that the growth must be export-oriented. (Koves 1975, P. 317) Similarly E. Tabaczynski (1981, P. 108) argues that a medium sized country like Poland also needs to specialize and adopt the export-oriented model, because it cannot afford to produce all kinds of different products either for the Eastern or for the Western markets.

There is however a group of the export-oriented model's supporters who strongly believes that this model will be successful only if it is implemented within the framework of CMEA countries' integration. (Bogomolov 1979c, P. 307) "No doubt, the problem number one in the field of economic connection with the non-socialist world is the extent of our 'export expansion'. Here we are facing common tasks, and combination of efforts on a collective basis right in this field is the most important and, what is more, an indispensable precondition for common success." (Bognar 1979, P. 307) And, under the present conditions, and particularly in the long run, a more and more active participation of CMEA countries in the international division of labor by way of specialization and cooperation of production acquires special importance for their

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2 The import elasticity of the Hungarian economy according to Bognar (1976) is very high. Assuming the planned growth rate to be 5 - 6 percent per year, imports must increase by at least 9 - 10 percent annually. (Ibid., p. 238)
accelerated and intensive economic growth. (Bogomolov 1979c, P. 308) and (Shmelev 1979, P. 317)

They argue the significance of specialization and export-expansion within the framework of CMEA cooperation is further enhanced when one considers the difficulties which emerge as a result of intensification of the economic relations with the West. The difficulties include a growing technical and technological dependence of a number of important branches of industry, appearance of a double standard of quality in the economic exchange in different geographic directions, creation of stocks of equipment with different characteristics, parallel development of some production, etc. (Bogomolov 1979c, P. 309) It is argued however that such difficulties will be considerably reduced when the collaboration with the West takes place under the conditions and requirements of long-term CMEA cooperation. "Experience indicates that cooperative collaboration with the capitalist countries brings on the whole the necessary results only in cases when it is carried out in a purposeful and close coordination with the tasks of expanding socialist economic integration." (Bogomolov 1979c, P.309) In terms of imports from the West, it is argued that "our import pattern [must] be changed in favour of buying complete equipments, manufacturing licenses and technological know how, concentrating at the same time on those fields where there are domestic production and development traditions and where advantageous participation in the CMEA division of labour is feasible." (Kozma 1974, P. 23) It is further argued that even today there exists the possibility of taking over advanced Western technology, adapting it and exchanging it between
countries within the CMEA region. (Kozma 1974, P. 24) Such action is in particular important as far as the rationalization of imports is concerned.

Some of the export-oriented model of development's adherents believe not only that Eastern European countries must be specialized in production of selected products, but that they also must concentrate their exports on selected markets. When the products are exported to too many markets, it is not possible to put substantial forces either on marketing or to consumers' services which would ensure Eastern European countries' competitiveness. (Veress 1974, P. 346) The market concentration is especially significant for those products such as automobiles for which the question of service and spare parts is of paramount importance. (Tabaczynski 1981, P. 108) There are those economists who on the other hand believe that Eastern European countries must produce those kinds of goods which can be sold on every market; and they suggest that the level of technology in the socialist countries must reach a level which can produce goods capable of satisfying the specific needs of different markets. (Mandel and Muller 1974, P. 40) Regardless of whether the target must be a selected market or many markets, the importance of marketing activities must be recognized. It is generally believed that getting better access to Western markets is necessary to promote Eastern Europe's exports; and the better access to Western market can only be achieved through sophisticated marketing activities. (Bognar 1979, P. 13) It is further argued that since Eastern European countries for a long period of time have ignored marketing, they must now put a considerable effort into
improving their marketing activities including organization, distribution and promotional aspects of selling on the Western markets. They must also enlarge their distributional networks, and expand their advertisements, (Kossut 1981, P.P. 112-113) and encourage those types of investments which attempt to improve "the esteem" of Eastern European products on the world markets. (Bognar 1976, P. 230)

The export-oriented model does not lose sight of the importance of agricultural exports. The proponents of the model admit "an old truth in economics" that after a country has attained a certain nutritional level, the elasticity of demand for agricultural products in that country is lower than that for industrial products. However, they argue that the Eastern European countries must take advantage of the fact that elasticities of agricultural products are different in various regions of the world. (Bognar 1979, P. 239) Or as B. Kadar argues the development of agriculture in Eastern Europe should be directed towards special products instead of mass products, because the market for mass products is practically saturated in the non-socialist countries, and their price is low. On the other hand Kadar asserts that the internationalization "of nourishment" and the shift in demand of "social groups in the higher income brackets" in the DCs towards the special products of other countries; along with the intensification of income differentiation in DCs have created an excellent opportunity for production and exports of special products (Kadar 1983, P.P. 306-7) At any rate, the export-oriented model does not limit specialization and export concentration only to the realm of industry; rather it is a comprehensive program
which covers every aspect of economic activities; and it supports every policy which helps to improve export potential of the Eastern European economies.

For instance E. Tabaczynski believes the Industrial Cooperation agreements between East and West are important insofar as they help Eastern European countries on the choice and marketing of specialized products, because ICAs enable these countries to concentrate on research and investment outlays on specific products and to rely on the technical experiences and subdeliveries of the Western partner. A. Voinov (1975) also advocates ICA, which encourages specialization which in turn promotes product quality. Tabaczynski also highly regards joint ventures because "[t]his is the new direction of promising development for the future specialization of our industry. It should stimulate our managers to take further steps toward concentration and specialization of production and the further elimination of unnecessary production items." (Tabaczynski 1981, P. 103) Because the joint-venture operations depend on the quality of joint-managements (including the Eastern European management), and in the cases where products are produced for the Western markets such operations depend on how quickly they react to the changes in market situation. This condition provides excellent learning possibility for the Eastern European managers, and prepares them for the task of export specialization because one of the most important factors for the success of the export-oriented model is considered to be the capability of adaptation to the requirements of market demands. The importance of the adaptation to differentiated demands is further enhanced, when the weight of
manufactured goods in particular consumer goods in the structure of exports is considerable.

The ICAs are in general praised not only because their long-run and self-financing character make them profitable from the point of view of balance of payments, but also because they stimulate the expansion of trade of individual commodity groups and consequently contribute to raising the level of specialization. (Bogomolov 1979c, P.P. 308-309)

The export-oriented model's adherents furthermore believe that only a thoroughgoing reform in the system and central planning of the Eastern European countries will guarantee the success of their policy.³ It is not possible to be integrated into the world economy with an economic system "which was devised to an applied for implementing an inward-looking strategy in a huge country with vast extensive resources." (Csaba 1983, P. 20)⁴ The export-oriented model requires decision making and freedom of action at the enterprise level.⁵ The improvement of the export structure should start with a better utilization of existing production equipment, improvement of the quality of products for export, and the widening or narrowing down the assortment of goods; in addition it cannot be separated from a better organization of sales and the assessment of

³ The details of their suggested reforms are far beyond the scope of this chapter. For an indication about such reforms see (Mandel and Muller 1974) for example.

⁴ Even the Soviet Union, they argue, today is not in a position of enjoying possession of unlimited natural resources.

⁵ Such freedom of action must be accompanied by linking the activities of these enterprises to the world market. For most enterprises incentive alone is not enough to encourage them to take necessary actions; in most cases pressure, in the form of world market effects, is needed to provoke action. (Bognar 1979, p. 14)
market demand, which all require decision making at the enterprise level. (Koves 1979, P.P. 334-35) It is believed that the enterprises, if permitted, can more efficiently study Western consumer's habits, their consumption structure and their way of life and consequently show quick reaction to any changes which they may observe. Furthermore, it is argued that historically in Eastern Europe the centrally decided productive investments have almost exclusively been made with the aim of import substitution or of increasing exports to other socialist countries. "It follows from their character that in most cases they could contribute only a little to exports to capitalist countries that require a high degree of flexibility from producers." (cited in Koves 1978, P. 113) It is for a combination of the above reasons that the export-oriented model demands a thoroughgoing reform in the system of centrally planned economy.

The supporters of the export-oriented model are aware of the problem which may arise as a result of the adoption of their model, that is the problem of increasing the vulnerability of Eastern Europe to the changes in the world economy. However they believe the advantages of their model will prevail, and outweigh its disadvantages. In principle, they maintain that Eastern Europe can continue to plan production on the basis of the size and needs of the home market, and try to export the surplus only for the purpose of acquiring the indispensable imports. Such a policy, however, is a dangerous road to follow, because it "restrains the development of the forces of production to the dimensions of one country and through it renounces the advantageous of the economies of scale and also exploitation of possibilities of stemming from the division of
labor." (Veress 1974, P.P. 342-43) Furthermore, it may state that without specialization and narrowing down the structure of production, giving up autarky, the economic development of Eastern European countries will basically remain extensive. Since the sources of extensive development in these countries have been exhausted, the continuation of the policy of extensive development will cause Eastern Europe to lag behind the advanced capitalist countries, and in the hierarchy of the international division of labor they will have to be satisfied with an even more modest place than that of the present. (Pasztor 1980, P. 91)

A. Koves asserts that if the export-oriented development is discarded, Eastern European countries have to give up the boosting of their imports from the West. Without funds provided by the export of goods it is unrealistic to believe that Eastern Europe can continue to import from the West, and the West will continue to provide additional financial means to support Eastern Europe's demands for imports. Without Western imports of machinery the desire to reduce technological backwardness is hardly realistic, and the increase of internal CMEA trade will also be in jeopardy.6 "If Eastern Europe renounces the export-oriented development, then sooner or later, the implementation of all the economic plans and tasks in which Western

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6 M. Mandel and J. Muller (1974, p. 37) raise the same issue: "the necessity of implementing an export-oriented economic policy is first of all justified by the fact that this is the only way to bring about a more intensive cooperation between the economies of the socialist countries. In the long run, we can develop the socialist relations vitally important for us only if the economy is able to produce—in accordance with the requirements of export orientation—competitive goods willingly bought by our most important natural partners, the socialist countries."
imports play a considerable role would be endangered. The consequences would be slow technological and economic development, stagnation of the standard of living, preservation or widening of the technological gap separating the CMEA countries from the more advanced countries, and the long-range production of the current export pattern." (Koves 1981, P. 130) and (Krasznai and Laki 1982, P. 57)

The export-oriented model on the other hand on the basis of expedient specialization and the requirements of the international division of labor will guarantee the raising of technological standards, economic efficiency, and the [raising of] standard of living in the CMEA countries. (Krasznai and Laki 1982, P 31) However, the export-oriented development, some argue, is not a smooth process and "can be approached only in the long run and gradually. . . ." (Mandel and Muller 1974, P. 39) Consequently, in general export specialization in engineering and in other branches of manufacturing is considered to be highly desirable. (Shmelev 1979, P. 38) It is realized such a task is a prolonged process and its completion is beyond the 1980s. Meanwhile in order to provide enough resources and contribute to achieving such a task the volume and efficiency of traditional exports of CMEA countries must be increased. (Shmelev

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7 Koves believes 'the probability of such type of withdrawal cannot be completely precluded today if the world political conditions of East-West trade change unfavorably—especially if the deterioration in the international situation were accompanied by worsening balance-of-payment difficulties. But we must be aware that this would be a step backward, which beside being unjustifiable from the point of view of economic development, would throw back the economic and social development of CMEA countries enormously." (Koves 1981, p. 130) also (Krasznai and Laki 1982, p. 62)
However it is emphasized that the concentration on traditional exports is only of short-term nature, partly because internally it is impossible to continue with the traditional pattern of trade, i.e. to import the finished products and to export the raw materials. The structure of production in the socialist countries has changed drastically and they manufacture a growing volume of finished products and consume an increasing share of their own raw materials and energy; consequently it is becoming increasingly difficult to export raw materials. (Nyiri 1982, P. 19) In the case of the Soviet Union for instance Koves (1979, P. 333) argues it is important for this country to find ways and methods enabling it to export manufacturing goods, because the Soviet Union, one of the major exporters of oil and raw materials, these days finds it difficult to increase the production of these products to a sufficient amount to cover both the domestic needs and allocate some for exports. In the short-run however Koves argues that it has no choice but to sell to the Western countries raw materials and in particular oil and natural gas in order to increase its receipts from its exports, and support the restructuring of the economy towards production and exports of manufacturing goods.

There are some Eastern European economists who believe that the export specialization on manufacturing goods is not sufficient. They speak of exports of "technical cultures." By [the] "technical cultures" they imply undertaking "the development of complete systems and their introduction into the economies of our partners. For this frees them not only from production but also from the whole or a great part of systems design and organization." (Kozma 1974, P.
25) For example in Hungary they speak of development of health culture which includes: the organization system of health network; health systems; development, design and production of medical instruments; design and furnishing of hospitals and sanatoria, etc. It is argued that "'selling' of the technical cultural multiplies the efficiency of external economic connections, be it the whole culture or some larger interrelated parts of it, precisely because they relieve the importing partners of organization and adaptation troubles." (Kozma 1974, P.P. 25-26)
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