Journal für Entwicklungspolitik 3, 1987, S. 73 – 86

István Dobozi

PATTERN AND DETERMINANTS OF EAST-SOUTH ECONOMIC RELATIONS

Introductions

The main aim of this paper is to discern the fundamental forces underlying East-South economic interactions. More specifically, I wish to find out what kind of implicit international division of labour has evolved between the Council for Mutual Economic Assistance (CMEA) (1) and the Third World. Is there any trade model capable to explain the pattern and determinants of East-South trade? Section I addresses these issues.

Although the scope of direct East-South interaction is found to be rather limited from the point of view of both countries, group a rapidly increasing competition has evolved between the East and South on third markets, particularly in the OECD markets for manufactured goods. In this context several issues need to be addressed such as the scope and intensity of mutual competitive threat, the evolution of relative competitiveness over time and the identification of forces underlying the changes in the competitive positions. Section II discusses these issues.

Theory and experience suggest that more developed and economically stronger nations' adjustment to external imbalances often occurs at the expense of less developed or economically weaker nations. In this context the following question comes up: given CMEA's middle position between West and South and the East's serious financial imbalances with the West in the recent period, could the East use its trade with the South as a vehicle of external adjustment? In section III an attempt is made to provide an answer to this question.

Aid ties between East and South constitute a most controversial dimension of overall relations, especially since several CMEA countries have recently gone public about their assistance in quantitative terms. Section IV addresses the question if the East is an underperformer in the provision of economic assistance.

I. The Pattern of East-South Trade: A Replica of East-West Trade?

There are numerous statistical studies regarding the commodity composition of East-South trade. There is considerable agreement that contrary to some past Eastern claims about a "new type" of international division of labour, the commodity pattern of East-South trade reflects a rather old type division of labour similar to that existing in West-South trade, i.e., manufactures from the East in exchange for primary goods from the South. In 1983, the share of manufactures was 49 per cent of the CMEA6 export to the developing countries. (In the USSR, the respective share was only 27 per cent.) With regard to CMEA imports, the predominance of primary goods can be observed: in 1983 the share of these goods was 93 per cent for the CMEA6 and 90 per cent for the Soviet Union (2).

The commodity pattern of East-South trade when compared with that of East-West trade quite clearly reflects the intermediate level of development of the East. As suggested above, the CMEA countries' trade with the South (again with the exception of the USSR whose trade pattern vis-à-vis the South is very similar to the typical South-South pattern) exhibits traditional features of division of labour between a Northern country and a Southern country. This picture, to a considerable extent, repeats itself in the East-West context, where structurally the East plays almost the same role as the South does in the East-South context. One broad key then to an understanding of the underlying forces shaping East-South exchange is the comparative development levels, or more specifically, the intermediate nature of Eastern economies (3).

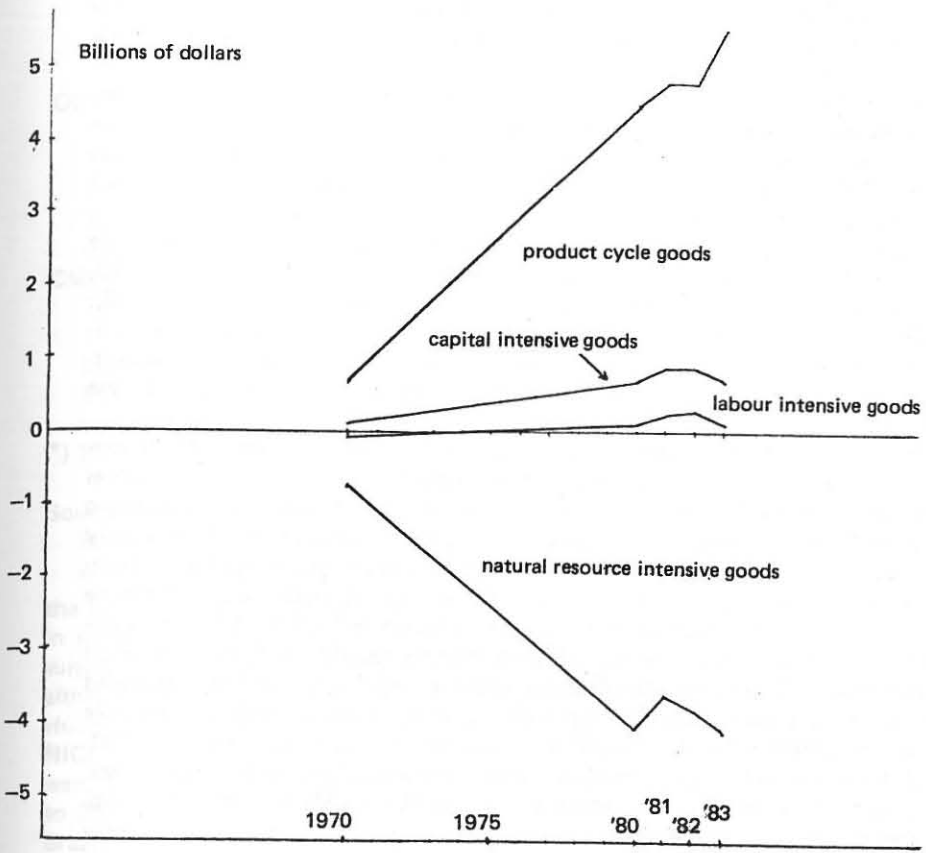
A more disaggregated analysis is required to discern the sources of comparative advantages and thus specialization patterns in East-South trade. Very limited and partial empirical evidence has been generated in this area. When dealing with sources of comparative advantages in East-South trade the literature tends to be rather speculative (4). Due to lack of empirical testing, we do not know if there is any trade theory capable to explain the evolution of specialization patterns over time in the context of the East-South exchanges.

To fill at least partially the gap in empirical research, I have made a simple test to see if the Heckshер-Ohlin theory of trade is able to explain the pattern of the East-South trade. The theory predicts that an economy will specialize in the production and exportation of commodities that require relatively intensive application of its more aboundant factors of production. Empirical applications of the theory have been moderately successful in explaining the composition of trade of a number of countries.

In trade literature it is customary to categorize goods into three groups: goods that require the relatively intensive use of natural resources (Ricardo goods), goods that require high productions of R & D or fairly intensively employ scientists and engineers (product-cycle or high-technology goods), and goods that use relatively standardized production technologies (Heckshеr-Ohlin goods). For the production characteristics categories I adopt the Ricardo and the product-cycle groupings and divide the Heckshеr-Ohlin group according to relative capital- and labour-intensive categories.

As Figure 1 shows, in a broad sense specialization pattern in East-South trade is consistent with the prediction of the Heckshеr-Ohlin factor proportions theory. The CMEA6 has been developing a growing comparative advantage towards the South in mature product-cycle goods and capital-intensive Heckshеr-Ohlin goods, while the South has been developing increasing comparative advantage towards the East in natural-resource intensive goods. These specialization lines are consistent with relative factor endowments among the two groups of countries as the CMEA6 is better endowed with both R & D resources and physical capital, while the South is better endowed with natural resources. Figure 1 reveals the strength

Figure 1: Factor Intensity Pattern in the CMEA6 Trade Balance vis-a-vis the Third World (Exports minus imports)



Source: United Nations, Monthly Bulletin of Statistics, various issues.

and persistence of trends in the factor content pattern of East-South trade. An unexpected aspect of Figure 1 is the trade surplus of CMEA6 in labour-intensive Heckshеr-Ohlin goods. This is contrary to the prediction of factor-proportions theory as developing countries are much better endowed with labour resources than the CMEA countries and, in fact, labour has become a progressively scarce factor input in most of the CMEA6 countries. This phenomenon seems to indicate „wrong specialization" on the part of the CMEA6 countries and leads us to the critical problem of low share of manufactures in the CMEA import from the South on which more follows below.

The share of manufactured goods in the CMEA countries' total manufactures import from the South is especially low in comparison with South-OECD trade.

As Table 1 shows, the respective share increased from 6.4 per cent in 1970 to 10.5 in 1982 in the case of the OECD countries, while it decreased from 2.5 per cent to 2.0 per cent in the European CMEA countries. Over this period the share of the European CMEA countries in the total manufactured goods exports of the developing countries went down from 3.5 per cent to 1.4 per cent. The contrast between the OECD and the CMEA countries is especially sharp if one compares the share of manufactures in the total non-fuel exports of the developing countries; while this share increased from 34.4 per cent in 1970 to 58.3 per cent in 1982 in the case of the OECD countries, it decreased from 17.2 per cent to 11.7 per cent in the CMEA countries (5).

Even in the case of the relatively open Hungarian economy the share of the South in the total manufactured goods imports was only 2.4 per cent in 1983, considerably lower than the share of the South in total imports (13.0 per cent) (6).

Why is it that CMEA imports of manufactures from the South is so insignificant and the latter – unlike in its trade with the West – is unable to take advantage of its comparative advantage in labour-intensive goods in relation to the CMEA?

The „wrong specialization" in this commodity group reflects CMEA's persistent internal supply difficulties and slow progress toward selective industrial policy in which the South is assigned a distinct and well-defined role. Developing countries have increasingly been used by the CMEA countries to fill the supply gap resulting from growing internal shortages in primary goods (fuel and food). For example, the growing role of food in Soviet imports from the South can be seen as the result of a succession of bad grain harvests in the late 1970s and early 1980s, combined with a diversion of grain imports toward the South as a result of restrictive U.S. policies. Manufactures imports might have thus been „crowded out" by more pressing demands for higher priority primary goods unobtainable within the CMEA. The objective to maximize hard-currency earnings from East-South trade also acted against massive Eastern imports of Southern manufactures. Also, up to the present in the industrial policies of the CMEA countries no substantive structural role has been assigned to the imports of developing country manufactures as one of the ways to create a more selective and upgraded domestic industrial profile. The highly closed domestic manufactures markets of these countries make a more aggressive market penetration by the Southern suppliers very difficult or impossible. Finally, the relative insignificance of manufactures imports is related to the fact that the CMEA countries were not able to integrate themselves into the dynamically unfolding industrial division of labour between some developing countries and the developed Western countries. I am referring, of course, to the NICs (Newly Industrializing Countries) who have been the prime movers on the part of the South to push manufactures exports to the North.

The CMEA countries did not establish strong and organic relations with the NICs with the partial exception of Brazil. Trading efforts were directed toward lucrative alternative partners (mainly in the Middle East), with primary commodity imports and short-term hard-currency maximization of export earnings being the primary objectives. This situation indicates that the major changes in

Table 1: Share of Developing Countries in the Total Imports of the OECD and CMEA countries (per cent of total imports)

	1970	1975	1980	1981	1982
OECD countries					
Total imports	18.1	25.8	29.2	29.0	26.6
Total non-fuel imports	13.1	12.5	13.1	13.7	13.9
Total manufactures imports*)	6.4	6.9	9.0	10.1	10.5
CMEA countries					
Total imports	9.9	11.1	11.3	12.4	13.2
Total non-fuel imports	10.2	9.8	10.3	11.8	12.1
Total manufactures imports*)	2.5	2.2	2.2	2.2	2.0

*) Manufactures here comprise SITC 5 – 8.

Source: UN, Monthly Bulletin of Statistics, May 1981 and May 1984. In Rozália Bogó, "The CMEA Countries and Imports of Manufactures from the Third World", Budapest 1985 (mimeo).

the manufacturing industrialization which unfolded in the last decade and before in some part of the South went almost unnoticed by the CMEA countries and, surprisingly enough, the share of these countries in NICs' exports declined although it was very insignificant even before. For example, in the case of Hungary's Third-World-related imports the share of the ten well-established NICs (Brazil, Argentina, Mexico, Hong Kong, Singapore, South Korea, Taiwan, Philippines, Malaysia, Thailand) went down from 39.2 per cent in 1977 to 26.2 per cent in 1982. This picture is totally distorted by the dominance of Brazil. All the socialist countries import basically a few important agricultural products from Brazil. So the relatively high share of the NICs in Hungary's overall Third World-related imports is not reflecting Hungary's real involvement in the NIC process. As to the export side: whereas in 1973 the share of the ten NICs in Hungary's exports to the Third World was 10.7 per cent, it dropped to less than 3 per cent in 1982 (7). The situation is no better for other CMEA countries. The CMEA countries' combined share in the foreign trade of many NICs is lower than that of Austria or the Netherlands.

II. An Open East-South Trade Conflict in the Western Markets?

While the scope of East-South trade in manufactured goods is very limited, the CMEA countries have met rapidly increasing competition from the NICs in the Western markets, particularly in labour-intensive goods, but also in some capital-intensive Hecksher-Ohlin goods and even in some mature product-cycle goods with a high income elasticity of demand as a growing number of NICs successfully upgrade the technological content of manufactures export to the West. The empirical evidence shows an increasingly close resemblance between the pattern of CMEA andNICs manufactured goods exports to Western markets. There is also some evidence that the technological content of CMEA manufactures export to the West lags behind that of the most advanced group of NICs (8).

The difficulties posed for the CMEA countries by the competition of NICs can be seen from the fact the CMEA6 was unable to widen its share in the total OECD imports of manufactured goods, which instead dropped from 1.2 per cent in 1970 to 1.1 per cent in 1983, while a group of eight NICs (Argentina, Brazil, Mexico, Singapore, South Korea, Taiwan, HongKong and Malaysia) increased its share from 2.8 per cent to 7.4 per cent over the same period. The gap in export performance has been particularly drastic in the machinery and transport equipment group, technologically the most complex product category, where the CMEA6's share in the total OECD import demand dropped from the very marginal 0.6 per cent in 1970 to 0.4 per cent in 1983, compared with a sharp increase from 1.2 per cent to 6.6 per cent for the NICs (9). In 1984, the exports of machinery from Taiwan exceeded by three-fold, the South Korean exports by two-fold and even the Malaysian export by 20 per cent the combined OCED-directed machinery exports of the European CMEA countries (including the USSR) (10). As a result of declining CMEA competitiveness in technologically more advanced goods, the socialist countries have no choice but to compete increasingly with the NICs in unsophisticated material and energy-intensive products, an arena of competition which contradicts the relative factor endowments of most of the CMEA countries. (For the progressive erosion of market share of the European CMEA countries in the OCED market vis-à-vis the developing countries as a whole in selected categories of manufactured goods, see Table 2.)

Although analyzing the causes behind the eroding Eastern competitiveness and the slow structural transformation of the Eastern export pattern toward technologically more advanced manufactures would go beyond the scope of this paper, a few broad contributing factors can be indicated: (a) a considerable time lag, as compared with the core group of NICs, can be observed in the East's switch toward export-oriented growth strategy; (b) very limited scope of export-oriented foreign direct investments in the socialist economies; (c) too much reliance on inflexible and unattractive trade arrangements such as buy-back agreements; (d) too heavy CMEA reliance on the Western European market which shows a lower propensity to import manufactured goods from all newcomers than does the United States (11); (e) some well-known, disfunctional systemic features of the Eastern economies which act against export orientation and technological-structural transformation at the level of enterprises.

Table 2: Market Shares of the European CMEA Countries and the Developing Countries in the OECD Total Imports of Major Manufactured Goods, 1973, 1980, 1984 (in per cent)

	European CMEA Countries			Developing Countries		
	1973	1980	1984	1973	1980	1984
Manufactures total	1.7	1.8	1.3	8.4	10.9	15.2
Chemicals	2.1	2.9	2.6	4.7	5.5	7.2
Manufacturesclassifiedchieflybymaterial	2.3	2.1	2.0	11.2	12.6	17.2
Machinery and transport equipment	1.0	1.0	0.6	3.6	5.8	9.8
Miscellaneous manufactures	2.5	2.2	1.6	17.9	25.1	32.7
Organic and inorganic chemicals	3.9	4.6	3.7	6.5	8.2	10.5
Medicinal and pharmaceutical products	1.0	0.7	0.6	4.6	4.8	4.4
Fertilizers	8.1	8.3	10.9	7.1	6.7	8.4
Plastic materials	0.6	1.5	1.6	0.7	1.6	3.8
Textiles	2.1	1.9	1.5	18.3	21.3	24.7
Leather goods	1.8	1.5	1.0	32.4	31.2	35.4
Rubber manufactures	2.5	2.8	2.8	31.5	26.8	31.3
Iron and steel	3.7	3.2	3.5	5.1	8.1	13.9
Manufactures of metal	1.6	1.3	1.0	4.2	8.8	14.9
Power generating machinery	0.5	1.5	1.2	2.2	5.3	10.3
Office machines and automatic data processing equipment	0.2	0.2	0.0	4.4	4.7	11.4
Telecommunications and sound recording and reproducing apparatus and equipment	0.5	0.3	0.2	16.6	22.7	24.9
Electrical machinery	1.2	0.9	0.6	8.4	15.3	23.6
Clothing	4.0	3.5	2.6	37.2	45.5	57.0
Footwear	3.5	3.3	2.0	21.1	32.5	45.9
Professional, scientific and controlling instruments	0.9	0.5	0.4	2.7	8.4	9.4

Source: Calculated from: Trade by Commodities, Serie C, Imports, 1973, 1980, 1984, Paris, OECD. Table taken from Inotai Andras, "Új irányzatok a nemzetközi ipari munkamegosztásban: magyar szemszögből" (New Trends in the International Industrial Division of Labour), Közgazdasági Szemle, Budapest, No. 9, 1986, p. 1036.

III. Is the East Using East-South Trade as Balance-of-Payments Correction Device?

The foregoing observations suggest a very limited direct role for the South in the manufacturing structural adjustment of the CMEA countries other than residual supplier of *ad hoc* nature.

More structural seems to be the role of the South in the balance-of-payments adjustment of the CMEA countries. Such institutional characteristics of the CMEA countries as central planning and the monopoly of foreign trade allow them to take an integrated view of their foreign trade flows and use trade with developing countries as a potential vehicle of overall balance-of-payment adjustment. There is empirical evidence that, in addition to conventional gains, the CMEA countries derive special hard-currency gains from trade with the South, though the precise magnitude of such gains cannot be determined due to data limitations with regard to payment arrangements among the socialist and developing countries.

Though some analysts are sceptical about the CMEA countries' ability to reduce their debt towards the West in a significant way by earning hard currency surplus in their trade with developing countries (12), the newly emerging view attributes considerable role to Eastern hard currency surplus vis-à-vis the South in offsetting the CMEA countries' hard currency deficits with the West, and in servicing their foreign debts (13). A shifting combination of export drive, sharp import reduction and re-exports of Middle East and North African oil to the West was consciously used especially in the first half of the 1980s to maximize hard currency earnings from trade with the South, particularly the oil producing countries of the Middle East and North Africa. As Table 3 shows, the estimated cumulative trade surplus of CMEA6 for the period 1980 – 1986 is 13.2 billion dollars against 9.1 billion dollars earned in trade with the West. The contribution of surplus with the South is considerable by any measure, but it is especially so given the comparatively marginal share of developing countries in the CMEA6's overall trade. With the recent collapse of oil prices and the resulting weakness of import capacity of the OPEC countries, the CMEA countries are no longer able to use trade with the Middle East and North Africa as effectively as earlier as an instrument to offset financial imbalances with the West.

Before prematurely jumping to the conclusion that the South has fallen victim to the balance-of-payments adjustment of the CMEA, it must be seen that in the first half of the 1980s there emerged an interrelated triangle of international payments whose importance, however, has declined in the most recent period: "Middle East purchases of East bloc goods are paid partly by deliveries of oil and partly by surplus cash earned from oil sales in the developed West. East bloc re-exports of Middle Eastern oil to the developed West augment cash surplus and the entire trade surplus of the East bloc in the Middle East is used to offset the East bloc payments deficit in the developed West; the surplus the developed West earns in its payments transactions with the East bloc is then used to offset its own trade deficit in the Middle East." (14)

Table 3: Convertible Currency Trade Balances of CMEA6 (in billion dollars)

Year	Market Economies	Developed Market Economies	Developing Market Economies
1980	–2.9	–2.3	–0.6
1981	1.4	–2.0	3.4
1982	5.2	1.7	3.5
1983	6.0	3.7	2.3
1984	7.3	4.7	2.6
1985	4.6	2.7	1.9
1986	0.7	0.6	0.1

Sources: For 1980 – 81, estimates of the Vienna Institute for Comparative Economic Systems and for trade balances of German Democratic Republic derived from data in UN, Monthly Bulletin of Statistics, July 1986; for 1982 – 86, estimates of UN ECE secretariat (Economic Bulletin for Europe, Vol. 38, United Nations, 1986). The table is taken from Bartlomiej Kaminski, "External Dimension of Balance of Payments Adjustment in Eastern Europe", University of Maryland, College Park, MD (mimeo).

IV. Is the East an Underperformer in Providing Economic Assistance to the South?

Perhaps the most controversial element of East-South economic relations is the aid provided by the CMEA countries to the Third World. As is well known, in their official statements the socialist countries invariably disclaim any responsibility for the existing conditions in the South and consequently reject all demands for targeted and automatic resource transfer. Since there is no systematic reporting in the socialist countries on aid flows, it has become customary to rely on Western estimates, which are based on highly unsatisfactory and insufficient data. Nevertheless, Western estimates consistently show the CMEA countries as underperformers in aid provision relative to the Western countries and that the overwhelming portion of the aid goes to a few socialist developing countries.

The evaluation of CMEA's aid is made difficult not only by the critical nature of data problem, but also by the fact that the CMEA countries provide assistance in more complex forms than usual in the OECD countries. In addition to the established transfer mechanisms, the CMEA countries, particularly the USSR, provide resource transfer to the socialist developing countries in a variety of ways such as pricing arrangements (i.e., price subsidy in the form of selling Soviet oil at lower than the world price or purchasing goods at higher than the prevailing world market price), concessionary terms in the payment for technical assistance provided by the socialist countries, training of Third World students free of charge or at concessionary terms, the provision of favourable maritime transport rates, the permission of trade deficits to accumulate, be cancelled or transferred into concessional loans, etc. Of course, various advantages are sometimes obtained by CMEA countries also when, for instance, they re-sell on the world market developing country products imported under bilateral agreements, or acquire fishing rights, etc. (15).

When also accounting for these forms of aid, the CMEA countries' performance is quite comparable with that of the West. According to recent official Soviet announcements, the USSR's aid from 1976 to 1980 amounted to 30 billion roubles, allegedly corresponding to 1 per cent of the country's GNP over this period. Another official announcement put the 1983 Soviet development assistance at 1.2 per cent of the country's GNP. At the 1983 UNCTAD VI session official statements were made by several small CMEA countries: the German Democratic Republic (claiming for 1982 total economic assistance equal to 0.79 per cent of its national income); Czechoslovakia (0.74 per cent) and Bulgaria (0.79 per cent). Unfortunately, it is not known how these figures were calculated and what they exactly include, which leaves much room for speculation (16).

As Table 4 shows, according the OECD estimate (based on Development Assistance Committee (DAC) definition) total CMEA aid amounted to some 3 billion dollars a year since the early 1980s which corresponded to about 0.20 per cent of the combined GNP of the member countries. The report of the OECD Development Assistance Committee mentions the possibility of underestimation of the CMEA aid flows as the non-conventional forms of resource transfer are ignored. Thus it is quite reasonable to assume that the realistic measure of CMEA aid performance lies somewhere between the downward-biased OECD estimates and the upward-biased official CMEA estimates. On this assumption, CMEA's aid performance does not appear inferior. Even the OECD's downward-biased figure of 0.20 per cent compares quite well with the United States (0.24 per cent, as 1983 – 84 average), Italy (0.28 per cent) or Austria (0.26 per cent) (17), especially if one takes into consideration the considerable development and welfare gap between the CMEA and the OECD countries, the smaller economic potential and persistent domestic economic difficulties of the CMEA countries, the fact of having its own "Third World" (Soviet Central Asia), the resource requirements of East-West system competition and confrontation, as well as the fact that the CMEA countries do not obtain such profit income in their transactions with the South which could be comparable in any meaningful way with that of the OECD countries.

Summary and Conclusions

In the foregoing analysis an attempt has been made to discern the underlying forces shaping the East-South exchange and to identify the nature of implicit division of labour between the two groups of countries. It was found that the East's middle position between West and South is an important key to explain the pattern of East-South trade. The latter is, to a considerable extent, a replica of

Table 4: CMEA Countries' Net Disbursements to Developing Countries and Multilateral Agencies (million dollars, current prices and exchange rates)

	1975	1980	1981	1982	1983	1984 (p)
A. Bilateral assistance, net of which						
1. LDCs members of CMEA	1,220	1,822	2,212	2,297	2,347	2,347
2. Other socialist countries	65	456	389	275	411	217
3. Other developing countries	146	97	18	27	–15	– 9
4. Scholarship	71	310	360	417	415	415
Total	1,502	2,685	2,979	3,016	3,158	3,024
B. Multilateral contributions	10	14	12	10	9	9
C. Overall total	1,512	2,699	2,991	3,026	3,167	3,033
As % of GNP	0.14	0.17	0.21	0.21	0.21	0.21

p = provisional

Source: OECD/DAC, Development Cooperation: 1985 Review, Paris, OECD, 1985, p. 115.

East-West trade where the East structurally plays basically the same role as the West does in the East-West context. East-South trade shows surprisingly rigid pattern over time and currently reflects a more traditional centre-periphery type division of labour than West-South trade.

A simple Hecksher-Ohlin framework was applied to discern the sources of comparative advantages in East-South trade and it is found that specialization pattern is broadly consistent with the prediction of the factor proportions theory of trade: the CMEA6 has developed a growing comparative advantage towards the South in mature product-cycle goods and capital-intensive Hecksher-Ohlin goods, while the South has revealed increasing comparative advantage towards the East in natural-resource intensive commodities. An anomaly has been detected, however, in terms of Eastern trade surplus in labour-intensive Hecksher-Ohlin goods. This area of "wrong specialization" or under-trading reflects such factors as slow progress toward selective industrial policy in the East in accordance with comparative advantage; manufactures import being consistently "crowded out" by higher priority primary goods imports; the Eastern objective of hard-currency maximization and lack of involvement in the export-oriented industrialization drive of the NICs.

While the CMEA maintains its "Northern" structural profile towards the South as a whole in direct trade relations, it faces a steady erosion of its competitiveness on the Western markets for manufactured goods to the advantage of a small number of NICs. There is evidence that the CMEA countries have started to lose their earlier established technological edge over the most advanced group of NICs, and thus they are being progressively outmatched even in the category of technology-intensive goods. This East-NICs competitive interface in the OECD markets for manufactures, with obvious damaging consequences for the East in terms of potential benefits from trade with the West, constitutes a most significant dimension of overall East-South interactions in the recent period. This open trade conflict underlies Eastern reservations against West-South trade preferences (not applied in the East-West trade) and the East's motives for keeping trade concessions to the South down to a minimum. There are indications that East-South competition has become more generalized and it appears in Western markets for food products, for credit and for technology transfer and the favourable attention of the Western multinational corporations in the area of foreign direct investments.

There is reasonably strong evidence that despite the relatively limited scope of overall East-South exchanges, in the first half of the 1980s, the CMEA countries have been able to take advantage of an East-West-South payments triangle through which the East has used its hard-currency surplus towards the South to offset a considerable part of its financial imbalances with the West. The particular circumstances which gave rise to this possibility have by now largely disappeared, and thus the ability of the CMEA countries to use the East-South trade as an important vehicle of overall balance-of-payments adjustment has become rather limited.

In the evaluation of Eastern aid performance the necessity of complex approach is emphasized which takes into consideration East-South resource transfer effected through non-traditional channels. It is concluded that Eastern aid performance is comparable with that of the West, particularly if one takes into account the East-West development gap, the resource requirements of East-West confrontation and the differences in net financial income derived from relations with the South.

Perhaps the most significant generalization that emerges from this paper is the surprisingly little autonomous economic content and rationale behind East-South economic relations. It is suggested that these relations are basically of residuum character and importance for both the East and the South and can be understood in good part only by reference to the disequilibria occuring in relations with other groups of countries and to domestic and regional supply constraints prevailing in CMEA.

NOTES

(1) Bulgaria, Czechoslovakia, German Democratic Republic, Hungary, Poland, Romania, Soviet Union. We distinguish a separate group, CMEA6, which excludes the Soviet Union. For convenience the European CMEA countries are frequently referred to as East and the developing countries as South.

(2) United Nations (1986).

(3) This characteristic of the Eastern economies is emphasized, inter alia, in Adler-Karlsson (1968); Lavigne (1983, pp. 129 – 143); Dobozi (1985, pp. 27 – 39).

(4) See especially Donges (1978) and Portes (1978).

(5) Bogó (1985).

(6) Bogó (1985).

(7) Külkereskedelmi Statisztikai Évkönyv 1983 (1984).

(8) Lavigne (1983, p. 141); Palócz-Németh (1981, p. 105) and Poznanski (1986, pp. 62 – 90).

(9) Poznanski (1986, pp. 65 – 66). Besides the evolution of relative market shares for the CMEA6 and the NICs in the OECD manufactures import market, Poznanski uses export-unit values (i.e., prices per kilogram) to indicate the eroding technological and product quality edge of the CMEA6 over the NICs. His figures reveal that the NICs very rarely sell manufactures of lowest relative price (calculated per kilogram), whereas CMEA does it quite often. In the ten product categories the lowest export unit price was usually paid to one of the CMEA countries. For instance, Poland obtained only $ 1.98 per kilogram of its textile and leather machinery, as compared with the $ 6.25 per kilogram paid on the OECD-Europe market to Taiwan (pp. 70 – 71). The above implies that at least in some product categories, relative competiveness between the East and NICs is increasingly determined by non-price factors such as product quality and technological sophistication.

(10) Inotai (1986, p. 1028).

(11) In 1980, for instance, the European Community imported 54.8 per cent of all manufactured goods purchased by the OECD countries, but only 39.7 per cent of those coming from CMEA6 and NICs combined. In contrast, the share of the U.S. in total OECD manufactured imports was 17.6 per cent, but the respective share in the imports from CMEA6 and the NICs was 50.6 per cent (Poznanski 1986, p. 72). The most successful Asian NICs are extremely reliant on the U.S. for their manufactured goods export trade.

(12) Lavigne (1983, p. 139); Pineye and Sokoloff (1986).

(13) Desprès (1985); Kaminski (1987); Mehrotra (1987) und Dobozi (1985, pp. 29 – 30).

(14) Vanous (1985, p. 95).

(15) OECD/DAC (1985, p. 116).

(16) Schultz and Machowski (1986, p. 197); Lavigne (1986, p. 45).

(17) OECD/DAC (1985, p. 295).

BIBLIOGRAPHY

Adler-Karlsson, G., Western Economic Warfare 1947 – 1967, Stockholm, Almqvist and Wiksell, 1968.

Bogó, Rozália, "The CMEA Countries and Imports of Manufactures from the Third World", Budapest 1985 (mimeo).

Desprès, Laure, "Eastern Europe and the Third World: Economic Interactions and Policies", paper presented at the Third World Congress for Soviet and East European Studies, Washington, October 30 – November 4, 1985.

Dobozi, István, "Prospects for East-South Economic Interaction in the Changing International Environment", in: Jackson, Marvin R. (ed.), East-South Trade. Economics and Political Economics. A special issue of Soviet and Eastern European Foreign Trade, Armonk, N.Y. 1985.

Donges, Jürgen B., "The North-South-East Competition in the Market for Industrial Products", paper prepared for a GERPI sponsored Symposium on "The Future of North-South-East Economic Relations", at Maison des Sciences de l'Homme, Paris, January 20 – 21, 1978.

Inotai, András, "Új irányzatok a nemzetközi ipari munkamegosztásban: magyar szemszögből" (New Trends in the International Industrial Division of Labour: A Hungarian Perspective), Közgazdasági Szemle, Budapest, No. 9, 1986.

Kaminski, Bartlomiej, "External Dimension of Balance of Payments Adjustment in Eastern Europe", University of Maryland, College Park, MD, 1987 (mimeo).
Külkereskedelmi Statisztikai Évkönyv 1983 (Foreign Trade Statistical Yearbook 1983), Budapest, Hungarian Statistical Office, 1984.
Lavigne, Marie, "Consequences of Economic Developments in Eastern Europe for East-West and East-South Relations", Trade and Development, No. 4, 1983.
Lavigne, Marie, "Eastern Europe – LDC Economic Relations in the Eighties", in: Joint Economic Committee, Congress of the United States, East European Economies: Slow Growth in 1980's, Volume 2, Washington, U.S. Government Printing Office, 1986.
OECD/DAC, Development Cooperation: 1985 Review, Paris, OECD, 1985.
Palocz-Nemeth, E., "Exports of Manufactures of CMEA and Developing Countries to Developed Industrial Countries", Acta Oeconomica, No. 12, 1981.
Pineye, Daniel, and Georges Sokoloff, "Les échanges Est-Sud", Economie Prospective Internationale, No. 1, 1986.
Portes, Richard, "East, West, and South: The Role of the Centrally Planned Economies in the International Economy", Discussion Paper Number 630, Harvard Institute of Economic Research, Harvard University, Cambridge, Massachusetts, June 1978.
Poznanski, Kazimierz, "Competition between Eastern Europe and Developing Countries in the Western Market for Manufactured Goods", in: Joint Economic Committee, Congress of the United States, East European Economies:Slow Growth in the 1980's, Volume 2, Washington, U.S. Government Printing Office, 1986.
Schultz, Siegfried, and Heinrich Machowski, "CMEA Countries. Economic Relations with the Third World", Intereconomics, No. 4, 1986.
United Nations, Monthly Bulletin of Statistics, New York, May 1986.
Vanous, Jan, "Soviet and Vinancial Relations with the Middle East", in: Jackson, Marvin R. (ed.), East-South Trade. Economics and Political Economics. A Special issue of Soviet and East European Foreign Trade, Armonk, N.Y. 1985.

István Dobzi, Institute for World Economics of the Hungarian Academy of Sciences, P.O.Box 36, H-1531 Budapest

Journal für Entwicklungspolitik 3, 1987, S. 87 – 92

André Gunder Frank

DEBT WHERE CREDIT IS DUE

"The discovery of America, and that of the passage to the East Indies by the Cape of Good Hope, are the two greatest events recorded in the history of mankind ... To the natives, however, both of the East and West Indies, all the commercial benefits which can have resulted from those events have been sunk and lost in the dreadful misfortunes which they have occasioned... It is impossible that the whole extent of their consequences can have been seen ... What benefits, or what misfortunes to mankind may hereafter result from those great events, no human wisdom can forsee ...

All European nations have given such extraordinary privileges to bills of exchange, that money is more readily advanced upon them, than upon any other species of obligation ... Many vast and extensive projects, however, were undertaken, and for several years carried on without any other fund to support them besides what was raised at this enormous expense. The projectors, no doubt, had in their golden dreams the most distinct vision of this great profit. Upon their awakening however ... they very seldom, I believe, had the good fortune to find it ... Each endorser becomes in turn liable to the owner of the bill for those contents, and, if he fails to pay, he becomes too from that moment bankrupt." (Adam Smith, The Wealth of Nations, 1776)

The real Adam Smith, like his contemporary copy, wrote during a period of long economic crisis. He made the two above cited observations, which afford us important historical perspective on the contemporary debt crisis.

One of Smith's observations reflects the drain of resources from poor peripheral countries to rich metropolitan ones, which is generated during periods of economic crisis. The "Rape of Bengal" and the drain from the Caribbean slave colonies during the economic crisis of the 1760s and 1770s observed by Smith is an example. Another is "The Drain" from India and other newer colonies during the period of imperialism and colonialism in the crisis after 1873. The exploitation of Central Europe by Germany and the "Greater East Asian Co-Prosperity Sphere" of Japan in the 1930s are other examples. The contemporary "perverse" flow of capital from poor Third World debtor countries to rich creditor ones is therefore not exceptional but normal for periods of economic crisis.

Smith's other observation reflects on a normal crisis response, which has also become a mechanism to effect this "perverse" resource transfer: the excessive creation of credit by drawing and re-drawing bills of exchange, "to which the unfortunate traders have sometimes recourse when they are on the brink of bankruptcy". Smith observed how the Banks of England and Scotland issued "too great a quantity of paper" in the preceding years. In the centuries before Smith as well as in those after him, speculative credit creation and use has characterized