

tain point of its formative process, the predominant element from a certain stage of the development of the world economy is the global character of the processes.

This stage is connected with the change of position and role of individual regional components in the world economic relations.

From the point of view of this relationship between the world and regional economic relations, the scientific, and technical revolution has a contradictory influence. On one side, it strengthens the processes of the relatively independent movement of the world economic relations through the changes which it causes in the sphere of the world division of labour or in world trade. On the other side, it strengthens and supports processes, leading to the interconnection of the dependencies of global processes on regional processes. For example in the monetary sphere of the contemporary world

economy there exists, as a consequence of the fall of the gold standard in the 1930's, an organic connection between global and regional processes, as is shown by the example of the gold exchange standard in the form of the dollar exchange standard. By supporting the processes which complicate the function of reserves in the monetary sphere of the world economic relations (by stimulating a faster growth of world trade as compared with the growth of world production, including the production of gold, the scientific and technical revolution strengthens the organic interconnection of the function of world money (gold) and the function of regional currencies (for example the dollar).

In consequence of the increasingly complicated movement of the world economy, which was significantly affected by the scientific and technical revolution, new scope is being created for foreign political and economic activities of the regions.

## THE INFLUENCE OF ECONOMIC REFORMS ON FOREIGN ECONOMIC RELATIONS OF THE SOCIALIST COUNTRIES

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I.

The economic reforms, which have been carried out over the past few years in nearly all European socialist countries, have — despite all concrete differences in the principles, on which they are based — one thing in common; the more or less fast and intensive departure from the non-commodity, centralistic model of the socialist economy. Even though in some countries, the final versions of the reforms have not been formulated, their general tendencies are identical: the strengthening of economic instruments of management, and the suppression or restriction of administrative methods, the strengthening of the importance of commodity-money relations and of the operation of the law of value with its mechanism of supply and demand, the strengthening of the independence of enterprises which are actually the basic units of economic activity, the creation of wider scope for their enterprising and

business activities, the application of principles of scientific management in the whole sphere of social economy, and efforts to push through intensive factors of economic development in place of extensive factors.

The economic reforms in the European socialist countries represent the outcome of the rational reaction of the people to the shortcomings inherent in the non-commodity model of the operation of the socialist economy. The non-commodity model of the socialist economy lacked an automatically functioning mechanism which would enable a smooth exchange of activities between individual spheres of the economy and a continuous corrective process in the field of production by the market. The attention of theorists therefore concentrated upon formulating the principles of a commodity model of the socialist economy which would represent a synthesis of social planning and the utilization of the market mechanism, and in which commodity-money relations

would be the only form of the expression of socialist production relations.

Even though a commodity model of the socialist economy has not yet been consistently created in any socialist country — (the Federative People's Republic of Yugoslavia has come very close to it, and the Czechoslovak Socialist Republic and the Hungarian People's Republics have considerably clearer ideas of its ultimate form) — certain new problems are coming up in the sphere of foreign economic relations among the socialist countries. Though some of the problems, to which this study is devoted, are not yet ripe for an immediate solution and are thus far only the subject of initial discussions, they will in the process of the realization of the economic reforms, assume fundamental importance for creating new forms of economic relations among the socialist countries.

## II.

In the past two years, specialized periodicals in the socialist countries carried a number of studies and polemical articles, whose authors analyzed, from various aspects, the situation which is shaping up in the Council for Mutual Economic Assistance. They are concerned primarily with the second marked decrease in the exchange of goods between some socialist countries in 1966 which — together with the culmination of the extensive development of the individual national economies — signals that international socialist division of labour calls for a qualitatively new solution. These qualitatively new solutions require that in the economic cooperation of CMEA countries a greater role must in future be played by economic criteria which is in conformity with the efforts of individual states to increase the effectiveness of their economies and to strengthen the intensive elements of economic growth. Concrete steps towards implementing this generally acceptable solution are, however, hampered by differences of interests of the individual socialist countries, which stem from their different level of economic progress, from the past primarily autarchic development, and consequently also from the homogeneous character

of the commodity structure, from the different structures of foreign trade (exporters of raw materials and exporters of finished products, especially machines) etc. These old obstacles are being now joined by a new factor — the uneven development of the economic reforms.

Even though the tendencies of economic reforms in the various socialist countries have the same direction, there exists a substantial difference between the states striving for a change-over to a market-type of socialist economy, and states which concentrate their attention merely on improving the economic instruments of management, while retaining the method of detailing the plans by means of mandatory indices, and which develop economic instruments primarily in the relationship between production and the market. From among the CMEA member states, the first group includes Czechoslovakia and Hungary — (Yugoslavia is not a CMEA member) — the second group includes the GDR, the USSR, Poland and Bulgaria. The different intensity of the economic reforms which are being carried out is reflected in the different status of enterprises as the basic units of the economic sphere in the individual socialist economies.

One of the prerequisites of the economic system of management, whose realization is sought by Czechoslovakia, is that enterprises should have the status of autonomous subjects of socialist enterprising, acting on their own and in their own interests, establishing equivalent relations with other subjects of economic activity, and pursuing in the sphere of economic activity their economic objective, i. e. the achievement of optimum results with minimum outlays. The management centre does not assign obligatory tasks to the enterprises, but seeks above all to influence their activities and decision-making by regulating market conditions, and to guide their economic interests so as to make it more or less conform with the macroeconomic intentions of the planning centre. Every enterprise must maintain its reproduction base, must cover all its expenditure from its receipts, and must by its economic activities secure the necessary means for expanded reproduction either directly, or by means

of credit. In its economic activity, the enterprise should respond to the changing situation in the market, and flexibly adjust its supply to the market demand. The only restrictive factor of this flexibility are the general regulations, by which the centre defines the scope of enterprises for their business activities, and the long-term economic instruments, by which the centre regulates the market and influences the activities of all subjects of the economic sphere.

The enterprises thus behave as producers, whose relations with other enterprises are the relationships of purchases and sales. An inalienable interest of every enterprise should, according to this concept, be the right to freely choose its economic and trade partners, i. e. the right to choose among suppliers, to select those enterprises with which it wants to establish closer cooperation. Finally, the enterprises should be able to freely choose among consumers, who are interested in their products or services.

This new status of the enterprises has for the time being found consistent application only in the socialist economy of Yugoslavia. As regards Czechoslovakia and Hungary, it will obviously take some time before their economic reforms advance to an extent that these programmed objectives are actually realized. Nevertheless some of the rights, which have been given to Czechoslovak enterprises by the first measures of the economic reform in 1967, are changing their attitude to certain foreign trade transactions. Individual enterprises are beginning to show interest in buying only such production means which meet their requirements as to the terms of delivery, technical quality and good performance characteristics, i. e. in purchasing such machines and equipment which increase the effectiveness of their economy, raise their technical standard and contribute to make the products of the enterprise conform by its parameters and price to the demands of the home and foreign market, to make the enterprise capable of competition. In contrast to former usage, Czechoslovak enterprises have now the right to refuse to buy such products which cannot help increase the effectiveness of their economy. However, this right is real only

if they are able to choose from among several suppliers, from among several offers. Wherever this is the case, they behave in a business-like manner, which means that if the imported goods do not meet their demands, they simply refuse to buy them from the import organizations. In other words, the enterprises adopt the same attitude to Czechoslovak and foreign suppliers, and this must be respected by the import organization or the foreign partner.

This new status, and the ensuing new behaviour of the enterprises, is bringing — and will bring proportionately to the realization of the economic reform — a new element into foreign trade transactions. In the past, trade among the CMEA countries was based on principles, typical for the administrative system of management. In the foreign trade within the CMEA, the predominant elements were those of exchanges in kind, the import quotas were for the most part only an expression of the deficit in material or commodity balances, and the export quotas an expression of surpluses in individual commodities. The individual enterprises were not able to choose among domestic or foreign suppliers. They were forced to act in agreement with the directive indices of the plan or the directives of superior bodies, regardless whether this was advantageous for them or not. As the status of the Czechoslovak enterprises is undergoing a change, the first consequences of this change are already appearing: many Czechoslovak enterprises refuse to buy from import organizations such foreign products whose quality, technical parameters or performance characteristics do not meet their economic or technological requirements. If the Czechoslovak enterprises are not to be led into a schizophrenic position, they must be given a steadily growing right to behave in this way to all domestic and to all foreign partners, i. e. to conclude contracts on purchases and sales solely in accordance with the effectiveness and profitability of their economy.

The changes in the status of the enterprises, which are taking place proportionately to the realization of the Czechoslovak economic reform, are thus begin-

ning to have a practical influence on the exchange of goods with some other socialist countries, and when the criteria have been made stricter, they may also in the future operate so as to restrict the import of some commodities from the CMEA countries, above all engineering products.

The Czechoslovak economic reform further provides that enterprises which are not capable of effective production and profitable economy, should not be artificially kept in existence to the detriment of the overall effectiveness of the Czechoslovak national economy. This means that if Czechoslovak enterprises are not able to compete with their products on foreign and home markets, and if they do not in this way prove their economic justification, they should either change their production programme or be closed down. It cannot be excluded, theoretically and practically, that some Czechoslovak enterprises will not hold their ground in the confrontation with the world market, nor in the confrontation with the home market, but will be able, for a certain time, to hold their ground in the confrontation with the CMEA market. This possibility cannot be ruled out because certain less advanced socialist countries have lower demands as to quality and technical standard of products than are the current demands on the world market or the Czechoslovak market. It would seem that for Czechoslovakia these possible cases should be nothing but profitable. Facts show, however, that it need not be so. Should Czechoslovak exports to individual socialist countries permanently and markedly exceed Czechoslovak imports from these countries, the Czechoslovak active balance of payments with these states will continue to grow. Should this trend be of a long-term character, this would — since the active balance is untransferable — be essentially tantamount to crediting certain socialist states by Czechoslovakia to a degree exceeding the possibilities of the Czechoslovak national economy, and to tying up a part of the newly created Czechoslovak national income. The growth of Czechoslovak exports to some socialist countries, with a simultaneous decrease of Czecho-

slovak imports from certain socialist countries, operates as a factor which increases inflationary pressure in the Czechoslovak national economy, because the production of the exported goods involved consumption of raw materials, the depreciation of machines and the payment of wages for human labour, without the return of an equivalent in the form of raw materials, machines or consumer goods to Czechoslovakia. This negative consequence of the active balance of payments among the CMEA member countries is universally valid, and need not always apply only to Czechoslovakia. Its fundamental cause is the now already outdated structure of production in the individual socialist countries, and the ensuing imbalance between the mutual relationship of demand and supply on the market within the CMEA. However, if it were possible to draw against the active balance of payments in a freely exchangeable currency both within and outside the CMEA, the situation would be substantially changed. This takes me to the problem of convertibility of currency which — it would seem — will come up sooner or later, with greater or lesser urgency, in every socialist country striving for a consistent application of a commodity model of economy, and in which the share of foreign trade in the national income exceeds 20 per cent.

An excessively favourable balance of payments with the CMEA countries is therefore in present-day conditions, not as advantageous as it would seem at the first sight. However, the difficulty lies in the fact that only some socialist countries are immediately interested in the convertibility of currency, while other socialist countries find the status quo for the time being suitable. The economically advanced countries have a large foreign trade turnover, and strive for the establishment of a planned market-type socialist economy. They are more interested in solving the problem of currency convertibility than the other socialist countries.

### III.

Just as there occur — within each national economy — clashing interests be-

tween individual enterprises, between production and trade, and between the individual spheres of economic activity, there also occur clashing interests between the national economies within the CMEA. These conflicting interests manifest themselves on several levels. Above all, they appear during negotiations on specialization. Since the structure of the industries of a number of CMEA member countries is similar, each agreement on specialization is conditioned by certain concessions on the part of some of the partners involved. It is in the interest of the majority of the countries to retain the manufacture of those products less demanding with respect to raw materials, and more demanding as regards skilled labour. During these negotiations, purely economic aspects, however, come frequently into a conflict with political aspects. Seen solely from the point of view of economic effectiveness, it would be best suited to the purpose, if in the making of decisions concerning specialization, the main criterion were the ability of any one country to manufacture high-quality products with a minimum of costs and in sufficient quantities. Seen from the aspect of mutual assistance and levelling the economic standard of the individual socialist countries, this economic criterion alone is not tenable. While the old system of management was in full force, the profits and losses were brought into balance within the whole national economy of the individual countries. In one case and in one branch, the country registered profits, in another case and in another branch it incurred certain losses. The new system of planned management in Czechoslovakia, however, transfers the consequences of profits and losses directly upon individual enterprises, which are naturally interested in concluding only such agreements on specialization which are from their point of view advantageous. It seems that this new situation requires a new solution. There arises the question whether the situation is not ripening for a fuller application of the mechanism of supply and demand in the CMEA market, which would make it possible for individual enterprises to react — in the making of decisions concerning questions

of specialization and cooperation — directly to real market conditions. The question also comes up whether it would not be possible to consider a more consistent separation of purely commercial activities from the acts of the external economic policy, i. e. to separate the normal economic acts of the enterprises from the granting of economic assistance by state bodies. This question is becoming increasingly topical already at present, and its importance will grow in proportion to the weakening of direct interventions of central state bodies into enterprise affairs in the socialist states, engaged in building up a market-type model of planned socialist economy.

The second level, on which differences of interest occur between individual socialist countries, concerns the form of the exchange of scientific and technical information. Up to the present, relations within the CMEA were guided by the principle of granting licences and making available documentation free of charge. This was advantageous for the less developed socialist states, but constituted disadvantage for the economically more advanced countries. The strengthening of economic and commercial aspect in economic cooperation has resulted in the fact that even within the CMEA, trading is being introduced in licences and patents according to principles prevailing throughout the world. Relations between individual socialist states are thus even in this sphere being normalized on the basis of the market which — as it seems — is creating good conditions for eliminating various points of friction and the inception of the feeling that cooperation is more advantageous for one of the parties involved than for the other.

The third level, where manifestations of conflicting interests are apparent, is the heterogeneous structure of the exports and imports of the individual socialist countries. Some socialist countries export principally finished products, while other socialist countries export mostly raw materials. There is no doubt that raw material exports are not so effective as the exports of finished products, and that investments into the development of the raw material base take considerably longer to return back than investments

allocated for expanding the processing branches. Added to this is the fact that the accumulation sources of the countries which export raw materials are considerably limited. It is natural that the exporters of raw materials do not want to carry the whole burden of the development of the raw material base, especially with view to the prevailing world prices of raw materials. On the other hand, the interests of the countries which import raw materials cannot be disregarded. This is because some of these countries have in the past been building and expanding branches very demanding as regards the consumption of raw materials not so much from the point of view of their economic effectiveness, but above all because of wider political and economic interests of the whole world socialist system. These branches were also demanding as regards investments, and the returnability of the investments was of a long-term character.

Several variants of solving these clashes of interests might be considered. One of the possibilities, which is being already applied, are investment credits granted by raw materials importers to exporting countries, repayable in the form of raw material supplies. In taking advantage of this possibility there are, however, differences of opinion whether investment credit should be granted according to world market relations or according to relations prevalent on the home markets of the countries exporting raw materials. If the expenditure necessary for expanding the raw material base in the socialist countries exceeds the costs prevalent in other countries exporting raw materials, the difference should not be borne by the importing countries in the form of high credits. It is naturally possible that the partners reach an agreement on the conditions of the investment credits, without regard to relations on the world market. It would seem, however, that such agreements should constitute exceptions rather than rules, if the principle of economic calculations is to find increasing application in mutual economic relations of the socialist states.

It seems that there are presenting themselves also other possibilities for solving the raw material problem. The

countries which import raw materials will — by means of technological progress and the intensification of technological processes — reduce the norms of raw material consumption, and will change the structure of their industries so as to cut down more markedly the share of branches with a large consumption of raw materials in the overall volume of their industrial production, or they will try to import raw materials of superior quality, enabling higher utilization of the same weight and volume. This second solution also necessitates high investments made by the importing countries. It must be also taken into consideration that if certain socialist countries export machines and equipment, they must sell them at prices corresponding to world prices even though the national value of these products exceeds their world value. It seems that a more consistent implementation of the economic reforms will increase the pressure on the confrontation of national production costs with the world production costs so strongly that every country will have to begin to exert great efforts aimed at greater effectiveness of its entire production, and especially of the production in the export branches. I belong to those economists who see the main source of a more effective production in the creation of a rational system of planned management, and especially in the incorporation of the market mechanism and the methods of economic regulation into the model of the socialist economy.

#### IV.

One of the prerequisites for raising the effectiveness of production is cooperation between enterprises of one or several branches, a cooperation not only within the national economy of individual states, but also on an international scale. Cooperation is of importance both from the technological and production aspects, as well as from the commercial aspect: through the intermediary of its partners, enterprises can with their products penetrate the domestic markets of the other country, or even may — through their partners — get into the markets of the third countries. The degree of the indi-

vidual countries participation in the world division of labour can be indirectly expressed also by the intensity of international cooperation agreements between enterprises.

Even though the number of instances of international cooperation between enterprises of the CMEA member countries has increased in the past few years, the present state is not in accord with the urgent interests and requirements of the individual socialist countries. The administrative system of planned management did not stimulate too much cooperation agreements stemming from the economic interests of individual enterprises. Cooperation in production and the association of enterprises within the national economies was carried out by means of administrative methods and directives. The ultimate form of the Czechoslovak economic reform envisages that the enterprises will be given freedom — regulated only by general rules — as regards concluding cooperation agreements both within the national economy and within the framework of international division of labour. If the Czechoslovak enterprises are given a free hand, in the course of the next period, to conclude cooperation agreements with foreign partners, it will of course require certain institutional and legal adjustments. It seems, however, that one-sided lifting of restrictions of the initiative of the enterprises will not be sufficient. If socialist enterprises of one country are to conclude cooperation agreements with socialist enterprises of other countries, it will be necessary to lift restrictions of the initiative of the enterprises bilaterally, and to unify legal regulations governing foreign economic relations of individual enterprises. As long as similarly favourable conditions are not created for super-national cooperation of enterprises as for the cooperation within the national economy, the interest of individual enterprises to initiative cooperation with foreign partners will not be promoted. Under the term 'favourable conditions' I understand the right of the enterprises to make independent decisions on all questions related to agreements with foreign partners, to solve all problems arising from everyday cooperation without

interference of superior authorities, the right to send as a matter of course members of their own staff flexibly to the foreign partner to the cooperation agreement to solve general problems in an operational way, etc. Even though the strengthening of the authority and independence of the enterprises in all socialist countries is creating better conditions for the development of cooperation than those which existed in the past, there are still certain obstacles, slowing down this economically inevitable process. In addition to certain restrictions of administratively legal character, I see the main obstacle hindering the development of cooperation in the fact that the currency of the socialist countries is not even convertible within the CMEA, and that individual enterprises cannot freely purchase, for their own means, the currencies of other socialist countries. Complicated conversion coefficients, valid in various socialist countries, tie the hands of the enterprises and restrict their initiative in concluding economically advantageous cooperation agreements. The enterprises cannot, for the time being, enter into direct negotiations, but only through various superior economic or even administration agencies, cannot freely convert their profits from one currency to another, cannot directly conclude mutual trade agreements, cannot grant each other trade credits, etc. All these restrictions are products of the old system of administrative management, of the old non-commodity centralized model of the socialist economy. It seems that the economic reforms in Czechoslovakia and Hungary make it already possible to open negotiations, at least bilateral, on the lifting of the harsh restrictions which are surviving from the previous period. It should be noted that this is the second case when the economic reality becomes inconsistent with the existing monetary relations within the CMEA, and poses the problem of convertibility of the socialist currencies.

The problem of a comparatively or entirely free movement of manpower within the CMEA is also closely connected with the problems of cooperation. Some socialist countries have large manpower reserves, and have consequently also dif-

difficulties with creating new opportunities for work. In some countries, there exists hidden or even overt unemployment. Other socialist countries have, on the contrary, a shortage of manpower, especially in branches important for the achievement of an economic equilibrium (the building industry). It seems that the restrictions precluding a fuller development of cooperation also prevent a freer movement of manpower between individual socialist states. Another factor which should not be disregarded is the problem of not quite realistic exchange rates for non-commercial payments, inconvertibility of currencies, restrictions concerning the exports of national monetary tokens abroad, considerable differences of the price levels in individual socialist states, etc. Moreover, it is becoming ever more apparent that it is not possible to strive for an integration movement within the CMEA without a fundamental solution of these questions, which have been recognized for some time, but which are be-

coming ever more urgent mainly as a consequence of the economic reforms.

## V.

The development of theoretical views on the problems of economic integration of the socialist economies does not proceed at a uniform rate in the individual socialist countries. Individual economic reforms also do not proceed uniformly, but the conviction begins to assert itself that the road towards improving the economic situation in the individual socialist countries is not intensified autarky, but the development of international division of labour and participation of the national economies in the wider context of the whole world economy on the basis of economic calculation and the utilization of commodity-money relations. This also creates conditions for the qualitatively new situation in the international socialist division of labour to be appraised and solved by qualitatively new measures.