

CO-OPERATION BETWEEN THE USSR AND DEVELOPING COUNTRIES IN THE PROMOTION OF INDUSTRIAL EXPORTS*

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Co-operation in the Industrial Development Field as a Form of Economic Relations

Co-operation in the industrial field has become an integral part of the multi-faceted economic relations of the Soviet Union with many countries of Asia, Africa and Latin America. These relations began half a century ago as a fundamentally new phenomenon in international life and basic features, which the Soviet Union continually strives to retain, derive from the very essence of the Soviet Union's social structure, where exploitation and the social and economic reasons lying at the root of efforts to oppress other nations have been eliminated. It is perfectly natural, therefore, that the USSR's main aim in its economic relations with recently independent and other developing countries should best be summed up in the following general terms: to assist to the greatest possible extent the development and progress of friendly states and help to solve the problems of partner states through the fullest and most mutually advantageous utilisation of the rational elements of the international division of labour.

This aim also includes the promotion of the development of developing countries' production resources, which are the basis for their national economy; the creation of the most rational structure for various branches of industry; the speeding up of the rate of economic growth; the achievement of economic independence; and the raising of the standard of living of the people. At the same time, it is the function of these

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economic relations to promote the solution of certain problems in the development of the national economy of the USSR and to enable each participating country to save national expenditure of labour by exchanging goods and services in accordance with differences in national production conditions (that is to say, one country may be in a better position to produce certain goods or services than its partner) and consequently in accordance with deviations of national costs from international costs.

These general aims of the USSR's economic links with developing countries also apply in full, of course, to co-operation in the field of industrial development. In this case, however, the aims are made more specific in order to take into account the special features of this branch of the economy and the needs and possibilities of the partner countries. Analysis of Soviet experience shows that among the aims of co-operation in the industrial field are the promotion of the growth of production capacity by the construction of new enterprises and the extension of existing ones, the study and exploitation of natural resources, and the training of skilled personnel - one of the most important of production resources. The logical result of the achievement of these aims is an increase in the general productivity of labour, progressive quantitative and qualitative changes in foreign trade, and increases in employment and in national income.

It is perfectly obvious that the development of fruitful co-operation and the achievement of the desired objectives are possible, given certain conditions, the most important of which, in our view, are the following:

- a. External economic potential;
- b. The observance, in all relations, of principles corresponding to the interests of the participating countries;
- c. The selection of directions and types of co-operation which correspond with the nature and objectives of such co-operation.

Let us see now to what extent conditions existing in the participating countries correspond to the aims of co-operation and promote its development. Normally, there are two sides in such co-operation: one of them the Soviet Union and the other the developing countries, each of which participates in the capacity of an independent partner. It is quite possible, however, and in many cases more advantageous, for co-operation to be on a multilateral basis. In considering the conditions for

co-operation, therefore, it is necessary to draw a distinction which takes into account the roles of the countries in their mutual relationships.

In our view, economic conditions should be placed in the foremost position among these various conditions. This is no arbitrary view, as in the final analysis such conditions determine the possible limits of the exchanges of goods and services and the financial and other forms of relationships. The most important elements in external economic potential, in our view, are those such as the volume of export goods which are of interest to the partner country, or the possibility of increasing or arranging for the production of such goods; a sufficiently high scientific and technical level of the country which is providing economic and technical assistance; readiness on the part of the countries requiring such assistance to accept it on an equal basis and to make use of it effectively; and the existence of transport facilities, communications, and means of moving the goods to be exchanged.

Consequently, what are needed are goods which are of mutual interest to the partners in the exchange and are available in quantities sufficient when added to other means of payment, for the immediate or subsequent (in the case of credit) payment for the goods or services to be provided in return. Experience shows that deliveries of goods and services free of charge should only be resorted to as a temporary measure, if there is no other course, as they cannot form a satisfactory basis for both participants for normal, developing long-term economic relationships.

The scope of co-operation in the industrial field is determined above all by the requirements and possibilities of the developing countries themselves and the policy followed by their governments in this field. At the same time, the Soviet Union's capacity to supply the material elements for enterprises and to provide finance naturally constitutes a limiting factor. It is therefore entirely understandable that, in different countries, different branches of industry, different types of enterprises, and even sometimes work unconnected with industrial enterprises, may be the subject of co-operation. Generally speaking, however, co-operation usually covers the most important extractive and manufacturing branches of industry, which produce both the means of production and consumer goods. These include such branches as electric power generation, the petroleum extraction and refining industry, the gas industry, the coal industry, the chemical industry, ferrous and non-ferrous metals production,

machinery manufacture and metal working, the radio industry, the textile industry, the footwear industry, the canning and food preservation industry, the sugar industry, the pharmaceuticals industry and others. An important part is also played by co-operation in agriculture and transport, in the surveying of natural riches and water power resources, and in the training of national key personnel (specialists and skilled workers). A matter of considerable practical importance in this connection is that of the relations between different spheres and forms of economic co-operation. This question will be considered in the next section of this report.

Selection of Branches for Industrial Co-operation

The question of the selection of the branches and objectives for co-operation is extremely complicated. It is often very difficult to give a definite "simple" answer to the question of what branch is to be selected and what objectives are to be given priority in it, when the developing country in question has so many other important and pressing problems to be solved. For instance the creation of modern national industry; the raising of agriculture to the level necessary to meet not only the growing needs of the population and of industry, but also increasing export requirements; the development of transport, the provision of employment; the improvement of the balance of payments and of the external trade structure; and so forth. In order to solve each of these problems, the developing countries need certain amounts and proportions of financial resources (in national and foreign currency), material resources (means of production), and human resources trained to carry out administrative, organisational and technical duties).

In selecting the branches which it is intended to develop and the enterprises which are to be established or extended, the following criteria are taken into consideration to varying extents:

- (a) The new or extended enterprise must receive its raw material requirements from national resources and must make possible the most effective utilisation of these resources in the national interest;
- (b) There must be an adequate domestic market for the sale of most or at any rate a substantial part of the new enterprise's

- production; the construction of enterprises which are intended to work wholly or predominantly for export can be justified only where production conditions are favourable and there is a steady demand for their products on foreign markets;
- (c) The enterprise (industry) which is to be set up must be of importance to the national economy and must actively promote the growth of other enterprises (branches) by processing their products, supplying them with power, means of production, or raw material, or building up stocks, while at the same time it must assist in developing the national economy as a whole;
 - (d) The enterprise must make a highly effective contribution to the national economy. It must consequently require relatively small specific capital investments (investments per unit of production) and it must cover costs as quickly as possible, while at the same time it must act as a fulcrum and multiply the efforts being made to secure the economic independence of the country.

These criteria are not, of course, of universal application, and a comprehensive survey of conditions and resources of the country in question must be made in each specific case. Thus, in countries with rich and varied natural resources, with a large population and with a relatively high level of development (India, for example) the majority of branches of modern industry can be developed to some extent or another. In countries, however, where there are rich or even unique deposits of specific minerals (such as petroleum, copper, or bauxite) it is most advantageous to give priority to enterprises for the extraction, enrichment and processing of such resources. Such an approach will also be highly effective in building up resources for the development of other branches. In other countries which have particularly favourable conditions for cultivating crops or raising animals and producing commodities based on these resources, there is every justification for giving priority in the initial stages to enterprises for the industrial scale processing of these types of raw materials and commodities, thus improving the possibilities for their export, increasing their value, facilitating transport and reducing expenditure on their production.

It does not follow, however, from this that it is necessary to continue for a long period to give priority in such countries to the

extractive industries, light industry and the food industry. On account of their ability to cover their original costs relatively rapidly, enterprises in these branches are of considerable importance for the solution of the problem of building up resources in the initial stages of industrialisation, but they have relatively little influence on the growth of other branches of industry and of the economy as a whole. Moreover, a certain level of power generation and machinery manufacture is needed for the normal functioning even of enterprises in these branches. Indeed, power generation and machinery manufacture are the most important prerequisites for scientific and technical progress and the comprehensive development of the economy. The ready availability of power and the provision of workers with suitable power-driven equipment exercise a decisive influence on the productivity of labour. As experience shows, the development of power generation in advance of needs creates favourable conditions for the development of other branches of industry. This is why changes in the priority given to the development of the various branches of industry are inevitable as developing countries grow up economically.

A no less difficult problem is that of defining the optimum size of the enterprise to be constructed. It is well known that large enterprises are usually in the forefront of technical progress, utilise the latest achievements in their branch of industry, and provide the best conditions for high productivity of labour. At the same time, however, large capital investments are required in order to establish them, they need a large market for the sale of their products, and they require highly qualified administrative and technical management staff. Moreover, they use fewer workers, relatively speaking, per unit of capital investment and per unit of production than small enterprises. The establishment of small enterprises therefore has more effect on the solution of the problem of employment for a given volume of production. Out of the host of possible solutions, the basic criteria for the selection of the size of enterprises are usually the desired volume of production of the goods in question, the optimum technical parameters, the supply of raw materials, the market for sales, and the transport services available. Preference is given to large enterprises mainly when this is of decisive significance from the point of view of the introduction of the latest technology, the attainment of high productivity of labour, and the achievement of the greatest

possible effectiveness of capital investment. This is particularly so in the case of iron and steel works, chemical works and hydro-electric power stations. In many branches, however, modern production technology and efficiency are also attainable in relatively small enterprises.

The Soviet Union's co-operation with developing countries stands out as an active factor in the promotion of the growth of the national economy of these countries. This is shown clearly by the fact that such co-operation results in the creation of new production capacity, opens up deposits of minerals, trains production and management staff, and also creates the most favourable conditions for the normal processes of development in the branches involved. These effects of co-operation result from deliveries of means of production, the provision of technical documentation and know-how, the training of staff (both in the USSR and on the spot), the surveying of natural resources, and increased purchases from developing countries of goods produced by them for sale on foreign markets. Of particular importance to a number of countries are purchases of products which, for various reasons, they have had serious difficulties in selling on other foreign markets.

Thus, in 1966 for example, the Soviet Union supplied developing countries with about 2,000 metalworking machine tools, over 8.5 million roubles' worth of power production equipment, 3,600 tractors, 427,000 tons of iron and steel section, and about 1.5 million tons of cement.¹ The USSR's deliveries of machinery and equipment were predominantly to developing countries carrying out a consistent policy of industrialisation. In particular, 90.6 million roubles' worth of such goods were delivered to India and 120.6 roubles worth to the UAR in 1966.²

In the period from 1955 to 1967, over 60,000 Soviet specialists³ were sent out to give technical assistance in the construction of enterprises and to carry out geological and other work in developing countries. Working side by side with national personnel, they eagerly transmitted to the latter their experience and knowledge. Thus, during construction work and during the execution of other types of work, national personnel are trained both in building trades and in the trades needed for the operation

1. "Foreign Trade of the USSR in 1966". *Statistical Survey*, Moscow, 1967.

2. *Ibid.*, pp. 242 and 306.

3. "Foreign Trade", 1967, No. 11, p.21.

of enterprises or the carrying out of geological surveys and planning work. In addition, specialists are also trained directly in appropriate Soviet enterprises.

The growing Soviet purchases of goods in developing countries are considerably extending the latter's possibility of importing goods for their industrial development and for the satisfaction of the needs of their peoples. Thus, imports of cotton into the USSR from developing countries rose from 18.7 thousand tons in 1955 to 166.3 thousand tons in 1966; over the corresponding period imports of wool rose from 12.5 thousand tons to 27.1 thousand tons, imports of natural rubber from 34,000 tons to 311,000 tons, and imports of raw hides from 3.3 million hides to 21.5 million hides.⁴ There were also considerable increases in imports of coffee, cocoa beans, tea and fruit. Moreover, the exports of India, the UAR and many other developing countries to the Soviet Union contain each year an increasing proportion of locally-made manufactured goods such as textiles, footwear and other items. Over 47 million metres of cotton textiles were imported into the USSR from these countries in 1966.⁵

Deliveries of goods from developing countries are also of great importance to the USSR, although their role in satisfying the Soviet Union's total requirements varies considerably. In the case of goods which are produced in large quantities in the USSR itself, such as cotton, wool, raw hides, etc., imports from developing countries only represent a small part of requirements. Thus, for example, almost 6 million tons of raw cotton were produced in the USSR in 1966⁶, which comes to about 2 million tons when converted into cotton fibre. In the same year, the total imports of such material from developing countries did not even amount to 10 per cent of the USSR's own national production; but in evaluating the importance of these imports it must be borne in mind that in this particular case imported raw material is of particular significance in satisfying quality requirements, as a large proportion of the cotton imported is long staple cotton. In the case of a number of commodities which are either not produced at all in the USSR, such as natural rubber, cocoa

4. "Foreign Trade of the Soviet Union in the Post-War Years", Supplement to the Journal *Foreign Trade*, No.11, 1965 and No.8, 1966. 1967, No.8, p.55.

5. *Foreign Trade*, 1967, No.8, p.56.

6. "The USSR in Figures, 1966", Statistics Publishing House, Moscow, 1967, p.57.

beans, coffee, etc., or are only produced in quite small quantities, industrial and consumer requirements for the country are satisfied mainly through imports from developing countries. The main limiting factor in respect of the imports of such commodities into the USSR is not the capacity of Soviet market, but the magnitude of the counterpart purchases by the developing countries of Soviet goods, the proceeds from the sale of which are used entirely for paying for imports from those countries. The overcoming of such a limiting factor is entirely in the interests of the countries co-operating with each other.

Co-operation in the Field of Industrial Development

At the present time, USSR co-operation with developing countries in industrial development is influenced by a number of favourable and unfavourable factors. Among the first factors, in addition to the high technical and economic potential of the USSR already referred to, are such important considerations as the peace-loving and friendly foreign policies of the USSR, which meet with the understanding and support of the governments of many developing countries, the community of objectives of the socialist states in their relations with the developing countries, and the planned nature of the Soviet economy, which enables the queries and suggestions of the developing countries to be taken into account in the interests of all concerned.

Among the unfavourable factors, the most outstanding are the external and internal circles whose interests are not served by co-operation with the USSR, as it does not correspond with their own aims of maintaining their own positions in newly independent states and other developing countries. The development of co-operation is also hindered by such phenomena as the under-development of the economic and social structure of many developing countries, the lack of experience of certain Soviet organisations in the establishment of relations with countries with a different level of development, and disparities between supply and demand as far as the range and technical characteristics of available goods are concerned.

The USSR's experience in co-operation with developing countries in the industrial field gives grounds for asserting that the obsolete

economic and social structure left over from the past in such countries is a serious and protracted hindrance to their industrialisation and to co-operation in this field with countries which are ready to give economic and technical aid. The low level of productive forces and demand, the predominance of a natural and peasant economy, and the remnants of feudal institutions seriously limit the expansion of the internal market and make more difficult the establishment of interconnected (integrated) industry, the effective utilisation of large electric power and hydraulic works (especially irrigation systems), and the comprehensive development of the whole national economy.

Because of this, great efforts are called for from government authorities at all levels in order to achieve, in such still undeveloped economies, full loading and planned and effective operation of the new large and medium scale modern industrial and power-production enterprises so as to ensure that these enterprises do not remain isolated phenomena, but are fully integrated into the structure of the whole economy and serve, as active catalysts for its dynamic development. Failure to solve, or errors in tackling, the mass of problems connected with the need to ensure that these new enterprises are guaranteed the raw materials they need, a constant supply of production workers, and proper outlets for selling their products, create considerable difficulties in the operation of such enterprises and lower their profitability, thus leaving openings for attacks by possible opponents within the state sector against industrial development and co-operation in this field with the Soviet Union.

It should be noted that under-development of the economic and social structures of developing countries has a negative influence on co-operation in the industrial field both at the stage when enterprises are being constructed and when they are being operated. Indeed, in many cases the achievement of normal operation of enterprises is a more difficult matter than their construction, as it calls for much greater organising efforts, co-operation by planning, financing, supply and marketing bodies, and also appropriate experience and co-ordinated work by the entire management, technical and production staff of the enterprises. It is perfectly obvious that the co-operating partner countries cannot turn a blind eye to the existence of an obsolete economic and social structure and the difficulties which arise from this. As the establishment of a properly

developed economic structure is a relatively lengthy process, however, additional measures must be taken by the partners to enable the objectives of their co-operation to be achieved in the existing conditions.

The form which co-operation is to take is determined by the nature of the co-operation, its objectives and the actual conditions in which it is organised. In order to analyse this, let us examine these factors from various points of view under such main headings as: the participants in co-operation relationships, the principles of organisation of such relationships, the status of jointly-constructed facilities, and the utilisation of the results of co-operation.

As far as the nature of the participants is concerned, the basic form of co-operation is co-operation at the government level, where the conduct of negotiations, the drawing up of agreements and the settlement of any problems is effected in the name and on the instructions of the governments of the countries concerned. Relations are also frequently carried on at the level of government institutions, non-government institutions (banks) and commercial organisations (foreign trade corporations and firms). The nature of the participants in co-operation relationships is determined to a considerable extent by the fact that the Soviet Union co-operates with the developing countries predominantly in the field of the establishment of industry in the state sector of the economy. There has not been any extensive establishment of economic links with private firms. Such links are usually established directly between Soviet foreign trade organisations and firms in the partner countries, and in such cases technical assistance in the construction of industrial enterprises and the execution of other work is provided on a commercial basis.

As far as organisational principles are concerned, the predominant form of co-operation is the joint execution of work by personnel from the Soviet Union and from the partner country. Broadly speaking, the following principles are used as a basis for the division of functions between the specialists: the Soviet specialists carry out, for the most part, engineering and technical work calling for a high standard of training and considerable experience, while the local specialists carry out administrative and organising functions. If there are qualified national specialists, they like the Soviet specialists, carry out work of an engineering or technical nature and form part of the technical staff of the various

sections and of enterprises as a whole. As for the necessary manual workers, for the most part they are recruited by the management of enterprises on the spot, and the only manual workers sent from the Soviet Union are skilled tradesmen who cannot be recruited locally.

Another form of co-operation used is the "contract" system, whereby the government or an institution of the partner country acts in the capacity of a purchaser and the contractor is a foreign trade organisation of the USSR. There are two distinct forms of such co-operation: the first form is when the Soviet organisation carries out certain limited work such as prospecting, planning, etc. with its own resources; while the second is when the Soviet organisation undertakes the entire work connected with the execution of the project itself and presents the entire project to the partner country in completed form. Depending on conditions, the Soviet organisation may either carry out the work entirely with its own resources and facilities, or it may bring in local firms as sub-contractors.

Use is also made of a form of co-operation where Soviet organisations act only as executing agents or suppliers of equipment for a project, without actually taking part in the construction work.

A particularly important form of co-operation is the training of cadres. This includes the transmission by Soviet specialists and workers of their own experience and skill to their local colleagues on an individual basis directly at the work place, the group training of workers in various trades by Soviet personnel on building sites; and extensive assistance in the organisation of trade and technical schools, training centres, medium level technical schools, and higher education establishments. The various forms of assisting the training of cadres within the developing country itself are supplemented by in-plant training of citizens of the country in Soviet industrial plants, on-the-job training courses for management and technical personnel in Soviet enterprises and planning organisations, training at courses specially organised for the purpose in the USSR, and also training in Soviet middle and higher educational establishments.

As far as the status of jointly-constructed facilities and the principles of utilisation of their output and of other results of co-operation are concerned, the established practice is that the enterprises

constructed, the goods they produce, and the results of geological prospecting surveys and other work are the entire property of the developing countries to which the USSR extended its co-operation. The assistance of the Soviet organisations usually ends after the completion of the construction process, the starting-up of an enterprise, and the achievement of smooth production operation. The Soviet organisations do not receive any profits or other income from the activities of the enterprises constructed with their assistance. The adoption of such a form of co-operation, of course, does not rule out the possibility of using other forms, particularly those such as mixed enterprises or enterprises operating on the principle of the "division of production". In recent years, increased attention has been paid to such forms of relations, as under certain conditions they have some advantages over other forms.

This classification of forms of co-operation is given only for the purpose of analysis. In practice, however, it is very difficult to isolate any form entirely from the others. They are all closely interwoven and often overlap with or complement each other. A particularly wide variety is to be observed among the forms of co-operation in training cadres.

There is also great variety among the conditions of co-operation as applied to individual countries, although these conditions have many important characteristics in common. We will therefore concentrate primarily on the most important general features. Firstly, Soviet assistance in industrial development is never accompanied by any economic, political or other conditions which infringe on the sovereignty and national interest of the developing country which is a partner in co-operation. The participants in such co-operation take part in it as sovereign and equal partners who voluntarily assume certain specific obligations and responsibilities which are to be carried out in an agreed period of time and to an appropriate standard.

Secondly, the division of the relative extent of participation of each side is carried out according to a scheme which has been perfected in practice. The obligations of the Soviet Union (or Soviet organisations) usually include whatever the developing countries cannot do with their own resources and facilities, namely: the execution of the work connected with the preparation of an industrial project for construction

(investigation of the site where the enterprise is to be built and the source of raw materials, planning, etc.); the supply of materials which cannot be found on the spot, together with the necessary construction machinery; the supply of production and technological equipment; the technical direction of the building and fitting-out work; the starting-up and adjustment of equipment; the introduction of modern production methods together with the transmission in this connection of technical documentation, and the training of the necessary national personnel.

The obligations of the developing countries, for their part, consist primarily of making available the necessary sites; organising the production and delivery of local building materials; carrying out the recruitment of local personnel (specialists and manual workers) and setting up a building collective; administering the work to be carried out, and providing funds to cover all expenditures in local currency as well as payment, at agreed rates, for the materials, machinery and equipment delivered from the USSR and the services of Soviet specialists and manual workers.

A third important general characteristic is the possibility given to the developing countries of repaying Soviet loans with home-produced goods, including the products of enterprises constructed with the participation of the USSR. Finally, a general feature of the conditions of co-operation is that the prices for Soviet equipment and machinery and for the goods produced by the developing countries and delivered by them in payment or as repayment of loans granted by the Soviet Union are established on the base of world prices. In fixing the prices by agreement, however, every effort is made to exclude fluctuations in prices on the world markets which are due solely to competition or to fortuitous causes.

In addition to the general conditions, the two sides may establish, by mutual agreement, single (individual) conditions. In some cases these may be connected with the establishment of enterprises for the extraction and production of building materials or the provision of transport facilities, while in others they may be connected with changes in the make-up of deliveries paid for in national and foreign currency (particularly when the developing country cannot find sufficient money for its share of the expenditure) or may be connected with the entrusting of particular work to local planning and construction organisations, etc.

The conditions for co-operation between the USSR and a given

developing country are the result of bilateral discussions between duly authorised representatives of the partner countries, and they are embodied in the documents (agreements, memoranda and contracts) signed at the conclusion of such discussions. Agreements are normally signed by the duly authorised representatives of governments. The memoranda referred to supplement, enlarge on, or clarify an agreement. Concrete obligations for the supply of equipment, the provision of services and the execution of specific work are contained in contracts which are signed in pursuance of agreements or memoranda prepared jointly by foreign trade organisations of the USSR and authorised organisations or firms of the partner country.

Agreements for economic and technical co-operation may be divided into two types: general agreements and specific agreements. The first type of agreements as a rule cover a number of branches of the economy and many enterprises, while the second type of agreement covers only a single large project. Thus, for example, the Bhilai steelworks was the subject of a Soviet Indian agreement for economic co-operation, signed in 1955, while the Bokaro steelworks is the subject of a similar agreement signed in 1965. Another specific agreement was that signed between the USSR and the UAR and concerned primarily the construction of the Aswan High Dam. Such division of agreements, however, does not significantly modify their intrinsic nature, and we will therefore deal here with the most important features met with in both general and specific agreements.

On the basis of the established aims of the co-operation, agreements normally specify the branches of the economy or the enterprises for which the two sides are to join forces to develop or establish, while each partner country's obligations in order to achieve the desired results are also stated. As well as the above, agreements usually also contain provisions obliging each side to keep the other informed of the progress of work and deliveries, while many agreements contain undertakings to give maximum encouragement to the participation of organisations and firms of the developing country in the execution of the prospecting, planning and construction work and the delivery of machinery and equipment. An important component part of agreements is that specifying the size of the loans to be made by the Soviet Union and the conditions under which they are to be granted, used and repaid.

As a rule, loans are designed to cover the payment of Soviet

organisations for survey and planning work, delivery of equipment, expenditure on the dispatch of Soviet specialists to developing countries and the cost of maintaining citizens of the developing country sent for training in the USSR. It can easily be seen, therefore, that the funds provided under Soviet loans go to pay those expenditures of the developing countries which must be made in foreign currency. This serves as a starting point for determining the size of the loan, which depends basically on the amount necessary to cover expenditures of foreign currency on the projects to be carried out jointly. This principle is also retained in essence when the two sides, as sometimes happens, first of all decide the amount of the loan and then define the project to be carried out with it.

That Soviet loans are in full accord with developing countries objectives' of establishing their own national industries is shown not only by the extremely low interest on the loans (2.5 per cent per annum) and the relatively long basic repayment period (12 years), but also further favourable conditions, namely, repayment of the loans does not begin immediately from the moment they are used, but usually a year after the completion of all deliveries or the start-up of the enterprises built, while facilities are available for the utilisation of goods produced in the developing country to pay off the loans. In many agreements, repayment is in national currency: loan repayments are paid into a special account of the Bank of the USSR at the national bank of the developing country, where they are used for paying for locally produced goods purchased by Soviet foreign trade organisations. Some agreements specify the goods which are to be delivered to the Soviet Union in repayment of loans.

The participating countries undertake to do everything they can to further the fulfilment of the agreement which has been signed. A major practical step in this direction is the signing of contracts defining the volume of deliveries of equipment, the amount of work to be done on each project or section of a project, the period in which this is to be done, the basic technical requirements, prices and other conditions. Among the measures taken to ensure proper fulfilment of agreements are: the mutual provision of information, systematic meetings of representatives of the partner countries at various levels, the incorporation of guarantees in the agreements, and, in the case of contracts, penalties for the non-fulfilment of agreed conditions of delivery.

Over 70 per cent of the total volume of economic and technical assistance provided by the Soviet Union to developing countries goes on industrial development. Long-term loans (totalling over 4 million roubles)⁷ have become a component part and an important condition of the majority of agreements on industrial development co-operation concluded between the Soviet Union and developing countries. Under a number of agreements, however, co-operation is carried on under normal commercial conditions (i.e. without long-term loans). A careful study of the list of industrial projects carried out in developing countries with the assistance of the Soviet Union enables us to draw the conclusion that many of them could not have been carried out without long-term Soviet loans. Moreover, under present conditions broad economic co-operation with several developing countries at the lowest level of development would be extremely difficult or even practically impossible without such loans.

This state of affairs goes a long way towards shaping the role of Soviet loans in co-operation for development. In actual fact, however, their role is more varied, and Soviet loans fulfil the following functions:

- (a) They are an important source of external financing for programmes of industrial development;
- (b) They mobilise the financial and other national resources of developing countries for industrial development;
- (c) They serve to introduce technically advanced capital equipment and production know-how;
- (d) They promote increases in employment, production and national income;
- (e) They exert an influence on international credit relations, and particularly on the credit policies of Western powers towards developing countries.

Two important methodological conclusions can be drawn from the above. The first of these is that the significance of credit cannot be judged simply by the total amount of loans made. The important thing is obviously the effect which the use of these loans has on the industrial development and the whole economy of a country. The second conclusion is that in evaluating the results of co-operation the whole effect derived from the utilisation of the loans must be taken into account, as the loan given by

7. *Foreign Trade*, No. 11, 1967, p.19.

the country which is providing assistance and the expenditures and efforts of the country which is receiving the loan are essential pre-requisites for attaining the objective of co-operation. The granting of loans stimulates and supports the efforts of the developing country itself, but the effectiveness of loans itself depends to a large extent on the expenditures and efforts made by the receiving country. Therefore, wherever possible the extent of participation by each partner must be specified.

It is not difficult to see that the importance of Soviet loans as a source of foreign currency for industrial development is particularly evident in countries which have quite extensive economic co-operation with the USSR in this field. Thus, for example, Soviet loans provided over 30 per cent of the capital investments and over two-thirds of all the funds received from external sources for the execution of the first five-year plan (1956-1961) in Afghanistan, and according to available estimates they form approximately half of the funds received by Afghanistan in the form of foreign aid in the period covered by the second five-year plan for the country (1962-1967). Soviet loans enabled India to make substantial capital investments in the state sector of industry during the second (1956 - 1957 - 1960/1961) and third (1961/1962 - 1965/1966) five-year plans. Soviet loans enabled the United Arab Republic to cover all its foreign currency requirements in connection with the construction of the Aswan hydroelectric complex and many industrial enterprises, while Soviet loans accounted for approximately 30 per cent of the country's entire expenditures in foreign currency on industrial development during the five-year plan (1960/1961 - 1964/1965)⁸

In the initial stages of industrialisation, the capacity of the internal market frequently lags behind the growth of production because of underdevelopment of connected branches, the competition of foreign goods, and the inadequate purchasing power of the population.

Economic co-operation with the Soviet Union in industrial development not only considerably increases the resources available for satisfying the internal needs of developing countries, but also serves to expand their exports of industrial goods. Thus, the output of the Bhilai steelworks is not only sold on the internal market in India, but is also

8. *Foreign Trade*, 1967, No.9, p. 4, and also D.G. Chertkov, R. N. Andreasyan and Yu. I. Mozhaev, *The USSR and the Developing Countries*, Moscow, 1966, pp. 23-24.

exported to Asian countries (including Japan) and to Europe. Some enterprises, such as factories for the production of canned goods and juices in a number of African countries (Guinea, Mali etc.) produce part of their output with a view to export, as the requirements of the internal market are satisfied mainly by fresh meat, fish, vegetables and fruit.

As a means of promoting the industrial exports of developing countries, increasing significance is being assumed by the provisions contained in many co-operation agreements for the repayment of Soviet loans by means of deliveries of goods produced in the developing country, including finished goods, such as textiles, footwear, clothing and underclothing, handicraft goods, everyday consumer goods produced by cottage industries, and also, in the case of India, electrical goods. Recently concluded agreements on the delivery of goods provide for the range of Soviet imports from the developing countries which are its partners in economic co-operation to be broadened through the inclusion of industrial goods. Purchases by the helper country of part of the production of industrial enterprises constructed with its assistance are becoming an important factor in keeping up levels of production and prices and consequently ensuring the profitability of the enterprises. The Soviet Union is already importing from its partner countries in co-operation iron and steel sections, natural gas and some other goods produced in enterprises constructed with its assistance.

The need to change the position of developing countries in the international division of labour by increasing their share of world exports of finished goods, together with existing difficulties in the sale of such countries' industrial products on their internal and external markets, raises the important question of striking the correct balance between the construction of new enterprises operating primarily for the internal market and enterprises whose output is destined mainly for export. It is necessary to set out in this matter, of course, from the assumption that the capacity of the internal market of developing countries and the part it plays in the demand for the industrial goods produced in those countries will increase during the process of economic growth. The solution of the problem of a limited internal market, however, which for many developing countries is one of the main obstacles, and for some of them the main obstacle to industrialisation, is only possible on the basis of

the comprehensive development of the economy and radical social and economic transformations designed to raise the level of prosperity of large sections of the population at the same time as ensuring economic growth.

These factors largely predetermine the type of co-operation to be used in industrial development especially as regards the form, scope and conditions of participation of the partners, the branches of industry to be developed and the size of the enterprises to be established, and the ensuring of normal functioning of the enterprises, including the sale of their output. Out of the whole range of possible variants, preference is given, as may be seen from analysis of the experience of the USSR in its relations with developing countries, to the variant which corresponds to the greatest extent with the interests and capabilities of the participating countries and ensures that priority is given to achievement of the most efficient utilisation of the resources and efforts of the developing country itself, to the establishment of an adequate internal market or a reliable external one, and to the achievement of high effectiveness of co-operation. This means that the types of co-operation selected are predominantly those where the resources and efforts of the Soviet Union do not replace, but supplement as effectively as possible, those of the developing country and are an essential prerequisite for the solution of the actual industrial development problems of the developing country.

Under the most frequent type of co-operation for the construction of industrial enterprises, the Soviet organisations undertake the financing of all expenditures in foreign currency (which amount to approximately half of the total expenditures), the delivery of the necessary equipment, and the execution of the work connected with the planning and technical supervision of construction. There are other variants, however, such as the agreement signed with India for the construction of a steelworks at Bokaro, where the country receiving assistance itself undertakes certain additional tasks: in this case the design of certain installations located outside the actual works. On the other hand, under agreements with a number of countries the Soviet organisations themselves carry out all the work connected with the construction and starting-up of the projects concerned. The improvement of the economies of the developing countries and of these countries' technical level inevitably brings changes in the types of co-operation adopted, with a trend towards an increase in the

participation of the developing countries both in the financing of projects and in the actual execution of the construction work and the fitting out of the enterprises built. At the same time, practical considerations call for the introduction of new forms of co-operation corresponding to a greater degree with the conditions and requirements of all-round co-operation.

One such form of co-operation which has, in our view, a sufficiently broad economic basis for its incorporation in the relations of the USSR and other Socialist countries with developing countries is closer co-operation in actual production. What is meant by this is the joining of efforts and resources by two or more countries, or the establishment by them of mutually interlinked industries (firms or enterprises) with the aim of achieving higher quantitative and qualitative economic, production and technical results in the interests of all the participants.

In the practice of international economic relations, various types of co-operation connected to varying degrees with manufacturing have become quite widespread. These types of co-operation, which display the greatest variety in the nature of the relations between the partners and the spheres and objectives of co-operation, can be divided up, very arbitrarily, into co-operation in the wide and in the narrow sense of the word.

The first category ("wide" co-operation) covers not only the joint production of goods and the establishment by each of the partners of mutually complementary enterprises, but also broad exchanges of experience, scientific and technical achievements, and so on. The most important feature of co-operation, which is confined to actual production (the second type), on the other hand, is participation in the production of goods by supplying parts and component units or carrying out operations which amount to a continuation of the production process. Co-operation can take place at various stages of the production process, such as in the preparatory work, the building of enterprises or the organisation of the production process itself. In actual reality, of course, there is close inter-weaving of co-operation proper with primarily productive or commercial functions. It would therefore be more correct, in our view, rather than trying to classify every specific case of co-operation in one of these two categories, to classify it on the fundamental content of the

relationship.

In the practical application of the economic relations between the Soviet Union and developing countries, the predominant role is played by co-operation in the wide sense of the word, with a few limitations in the actual field of activity. Co-operation usually reaches fulfilment with the starting-up of an enterprise and the launching of production on a sound basis, and does not cover activities connected with the actual day-to-day production of goods. Co-operation in the joint production of goods has become more frequent in recent years. Enterprises operating on this basis have been established, in particular, in Afghanistan and Iran. (more details of this are given below). Suitable fields for co-operation in production are the extractive and processing branches of industry, power production, agriculture and transport and communications. An important prerequisite for the advantageous and effective functioning of such co-operation in the extractive branches of industry and in agriculture is the existence of the basic differences in production conditions (climate, location and content of minerals, etc.) between the co-operating countries. In processing industries, however, differences in production conditions may constitute a factor either stimulating co-operation or hindering it. The significance of structural, production and technical factors will increase in proportion as co-operation is developed.

The actual scope of co-operation in production is governed primarily by the economic and technical level and external economic potential of the partners. As the differences in levels of development stand at present, it can scarcely be expected that the nature and extent of participation in co-operation by the Soviet Union and its partners should be equal. Indeed, this is not necessary for the achievement of the desired results. It is perfectly natural that in view of its existing capabilities the USSR should undertake the technical management of the process of establishing enterprises and of their functioning in the initial stages of their activities, as well as a certain proportion of the financing and of the marketing of goods produced in which it has an interest.

The advantages of co-operation in production are obvious. Such a form of co-operation enables the developing country to: (1) speed up the establishment or expansion of the manufacture of products for which local conditions are favourable and also speed up the training of its own

specialists and workers through the wider economic and technical assistance of the USSR and other industrially advanced Socialist countries; (2) increase its export resources and the proceeds from its exports, while at the same time improving its position in the world market through the inclusion among its exports, especially to the stable socialist market, of goods produced under co-operation; (3) somewhat reduce the time needed to pay off external debts, since the goods produced through co-operation can serve not only as a means of repayment of loans connected with the construction of production facilities, but also as a means of repayment of other obligations.

The advantages of co-operation in production for the Soviet Union and other socialist countries are: (1) substantial improvement in the reliability of the supply of certain goods from the developing countries; (2) some reduction in the amount which must be spent on providing economic aid to developing countries, since the goods supplied under co-operation agreements can partially replace goods which, if manufactured by the country providing aid, would call for greater expenditure; (3) increases to some extent in exports of machinery, industrial equipment and materials through the despatch of such items for the construction and operation of enterprises set up under co-operation agreements.

The effective utilisation of the above-mentioned advantages of co-operation in production is a factor in increasing the effectiveness of external economic links and, through them, the effectiveness of the manufacturing industry of each of the participating countries. However, such a form of economic relations between countries also has its problems and unsatisfactory aspects. These are, in our view, the fact that co-operation in production presupposes accompanying economic assistance whose objective must naturally be the establishment of a given enterprise, so that to some extent this restricts the developing countries' freedom of movement in the utilisation of assistance, and the fact that certain difficulties also arise in the establishment of conditions mutually acceptable and advantageous to each partner country regarding their respective participation in the establishment of the enterprise, the ensurance of a normal level of production, and the sale of the goods produced. These difficulties can, however, certainly be overcome. They simply show the need for comprehensive and careful preparatory work in the course of which a

real evaluation must be made of the effectiveness of the proposed co-operation and the way it affects the solution of each partner's problems.

Out of the many examples of the Soviet Union's co-operation with developing countries in industry, all of which contain features of joint operation to some extent, we would like to single out the relations established with Afghanistan and Iran. We are selecting these examples because they show production co-operation proper, clear assistance in the expansion of exports, the satisfaction of mutual interest in the products produced, and finally a comprehensive approach to the utilisation of natural resources and conditions.

Thus, with Soviet assistance, large deposits of natural gas have been found in northern Afghanistan, the extraction of the gas has begun, and a factory is being built for the production of nitrogenous fertilizers, for which this gas is the raw material. Such part of the extracted gas as cannot be used in Afghanistan for industrial processing or as fuel is delivered to the Soviet Union, for which purpose a gas pipeline has been built. In the USSR, too, part of the gas will be delivered to a plant for the production of nitrogenous fertilizers. Deliveries of gas and fertilizers to the USSR will not only serve to pay off the loans made for the construction of the various enterprises, but will at the same time permit an expansion of normal exports. After the loans have been paid off deliveries of these goods will form an important means of obtaining export earnings to pay for imports of Soviet goods.

In Iran, projects for the construction of a steelwork, a machinery manufacturing factory with a capacity of 25 to 30 thousand tons of machinery per year, a main gas pipeline, a hydroelectric complex on the river Araxes and a number of other facilities are being carried out in co-operation with the Soviet Union. In our view, two of the above projects are of particular interest from the point of view of co-operation. The Soviet Union is giving assistance in the construction of the northern part of a large main gas pipeline with a total length of 1,100 kilometres which will run from south to north (the northern section, which includes a branch to Tehran, will be about 600 kilometres long; the other sections are being built with the participation of French and English firms).

The construction of this gas pipeline will enable gas to be supplied not only to the central areas of Iran, but also to the Soviet border, thus

ensuring its constant export to the USSR. Gas deliveries to the USSR for 1970 are set at 6 billion cubic metres, while for 1974 the figure is set at 10 billion cubic metres per annum. Earnings from the export of this gas will go mainly to pay off long-term loans received from the USSR for the construction of industrial enterprises and other projects, as well as for the purchase of needed Soviet goods.

A special feature of the co-operation in the construction of this gas pipeline is that the Soviet organisation concerned is acting as general contractor with full responsibility to the client (National Iranian Oil Company). As general contractor, it is responsible for bringing Iranian firms into the construction work on an agreed basis in the capacity of sub-contractors responsible to the general contractor for the completion of their work on time and to given standards. Financial transactions with Iranian firms acting as sub-contractors are carried out in national currency from the funds contributed by the Iranian National Oil Company to cover the general contractor's expenses in the country, while the sums payable to Soviet organisations for the supply of equipment, the cost of providing specialists, etc., are covered from a long-term Soviet loan. Conditions have thus been created for co-operation in production, with organisations from the two countries operating together under unified technical direction and supervision on an agreed basis.

The hydroelectric complex being built on the river Araxes, which runs along the Soviet-Iranian frontier, is unique from the point of view of co-operation. It comprises a hydroelectric power generating scheme and a water storage dam. The hydroelectric power system on the river Araxes consists of a dam 38 metres high and 920 metres long with a 42,000 kilowatt capacity hydroelectric generating station, while the water storage dam is designed for irrigation purposes and forms a reservoir planned to contain 1,150 billion cubic metres of water. The cost of construction of the hydroelectric system and the dam is divided between the two countries on a 50-50 basis. On completion of construction, each side will become proprietor of its own part (half) of each project, which has been constructed with this in view. Thus, the hydroelectric station has 4 turbo-generators, each of 10.5 thousand kilowatt capacity (2 units for each side), but electric power will be exchanged as necessary. Water will also be drawn from the reservoir for irrigation on an equal basis.

In order to improve the quality of the construction work, a technical inspection service and laboratory manned by Soviet and Irānian specialists has been set up. The Soviet side is paying the expenses in connection with its share of the cost of this item out of its own resources, while the Irānian share is being covered from a long-term made by the Soviet Union. Irānian firms are being brought into the construction work. The cost of the work carried out by them will be paid by the Irānian side and allowances will be made for this when calculating the repayment of the Soviet loan. The advantage of this type of co-operation, to our mind, lies primarily in the complete identity of interests of the two sides, each of which receives an equal share of the output in the form of electric power and irrigation water, so that not only complete equality, but also obviously equal mutual advantage is assured.

For all the advantages of specialised production, there are substantial obstacles in the way of its wide incorporation in the enterprises set up in co-operation with the USSR. The main limiting factor acting against such specialisation is the market: the internal market of developing countries calls for many goods, but only in small quantities, while there are difficulties standing in the way of the sale of the industrial products of such countries on external markets. The evolution of a new division of labour between the Soviet Union and the developing countries which are its partners in co-operation is a complicated process wherein the gradually developing specialisation of such countries is closely inter-linked with the changes taking place in their economies.

In the process of co-operation, several ways and means of developing the division of labour among participating countries have appeared, among them:

- (a) The conclusion of long-term agreements for the mutual delivery of goods;
- (b) The more rational utilisation of the existing universal division of labour, primarily through increasing the degree of processing of the traditional exports of the developing countries;
- (c) The establishment of enterprises producing goods in which the co-operating partner countries are interested and the expansion of construction of enterprises for the conversion or subsequent processing of goods supplied under co-operation agreements;

- (d) The establishment in the partner countries of enterprises for the production of supplementary or mutually complementary products;
- (e) The improvement of transport conditions by the establishment of joint regular steamship lines and other measures to ensure reliable communications.

Let us take as an example just a few of the practical steps which have already been taken in this direction. Thus, a substantial increase in the degree of processing of traditional export goods, with a corresponding increase in export earnings, is given by on-the-spot canning of fruit, meat and fish. The output of the canning factories built with Soviet assistance in Iraq, the Republic of Guinea and the Sudan is intended for sale on both the internal and external markets. The same sort of thing has taken place as a result of the construction in Ceylon of a factory for the production of automobile tyres and tubes. Natural rubber can now be exported not only in the raw form, but also as finished articles.

Side by side with this, in a number of countries the nature of production is being altered to suit market demand. In India, for example, the output of wagon building plants used to be intended primarily for the internal market, but because of cuts in the volume of new railway construction and difficulties in the modernisation of rolling stock, more importance is now attached to the external market. In accordance with the wishes of the Indian government, the Soviet Union has agreed to make substantial purchases of railway wagons in India. A draft agreement on measures to be taken for co-operation in this field was signed in 1968 during the second session of UNCTAD. These large Soviet orders for wagons will help the Indian wagon building industry to maintain its increase in production and make full use of existing production capacity. According to a survey by the Indian Institute of Public Opinion, the Soviet orders will enable India to reach its 1970/1971 target for the export of products of the machinery manufacturing and metal-working industries two years ahead of time.⁹

Great attention is paid to the problem of prices in economic co-operation between the USSR and the developing countries. A special feature this problem is that it cannot be solved for any long period, as constant

9. *Foreign Trade*, 1968, No.5, pp. 8 and 16.

changes are taking place in the factors influencing the levels and trends of prices. The economic basis of prices in international relations is international costs, which serve as an expression of the generally required expenditure of labour (either human labour or labour embodied in capital and materials) for a given level of production. Under the influence of a number of factors (the relationship between supply and demand, the degree of monopolisation of production and demand, sharpening of the international situation, natural shortages, etc.) however, prices constantly deviate from the international level.

The level and period of validity of prices for goods which are to be exchanged by countries in the process of co-operation are determined by agreement between the two sides and are specified in the agreements and contracts. The starting point for fixing of these prices is the price level on the main trading markets over a relatively lengthy period or the prices charged over a period for similar goods by their largest exporters. In this connection the two sides make every effort to eliminate any substantial influence of factors of a speculative character or connected with monopolisation of the market or short-term phenomena in the world economy. The prices agreed are fixed for a year or longer, thus eliminating any dependence of them on events which may take place during the agreed period.

As frequent fluctuations and movements of prices on the world market have a negative influence on the economics of many developing countries and not frequently cause them additional difficulties, it is entirely natural that they should try to find some stable basis for prices in their relations with the socialist countries. As the past two sessions of UNCTAD have convincingly shown, the Soviet Union consistently advocates the taking of measures on a broad international basis to stabilise commodity prices, primarily by the conclusion of international stabilising trade agreements. Analysis of the various questions connected with movements of prices on world markets gives grounds for concluding that under present conditions it is not artificial commodity prices based on some higher level, but rather the diversification of the exports of developing countries, the increase of the proportion of those exports accounted for by finished goods and other goods with a higher degree of processing and consequently higher value, and the conclusion of long-term trade agreements, which are the real ways to improve the trading conditions of the

developing countries. The readiness of the Soviet Union to ensure in its co-operation with the developing countries a further expansion of imports of the latter's finished and semi-finished goods, including processed agricultural commodities¹⁰ is entirely in accordance with this approach.

The considerable expansion and deepening of economic relations between the socialist countries and the developing countries is, in our view, an extremely effective way of radically reducing the negative influence of world market trends on the establishment of prices for use in co-operation between the Soviet Union and these countries, and it is also a very effective means for the further improvement of the economically justified levels of prices. It would be wrong, however, to consider the problems of prices in international economic relationships only from the point of view of trade exchanges, as these exchanges themselves are a (secondary) derivative of production. It is really this latter which contains the material basis for price relationships on the external market. It should be noted, in this connection, that by promoting the improvement of the general productivity of labour in the developing countries which are its partners in co-operation, the Soviet Union at the same time exerts an influence on the formation of prices which is in the interests of the developing countries.

Another extremely important problem - that of the effectiveness of co-operation is closely interlinked with the problem of prices. Correct, economically justified prices for goods and services are, of course, one of the conditions determining whether each partner receives the advantages he should from co-operation and whether such co-operation gives good results or not, and this is naturally reflected in the degree of effectiveness of proper co-operation. We will deal below with some questions of the evaluation of such effectiveness.

The effectiveness of co-operation at the inter-state level is the result of the interaction of economic, political and social factors. It depends in particular on the objectives of the participating countries, the correctness of their choice of branches and enterprises to be developed, the form and methods of implementation of the co-operation, and other conditions. As not less than two countries participate in co-operation, the

10. From the statement by N.S. Patolichev, head of the Soviet delegation, on the results achieved at the second session of UNCTAD; *Foreign Trade*, 1968, No.5, p. 7.

effectiveness of such co-operation must be viewed both as a whole and from the point of view of each of the partners in it. Thus, for developing countries the effectiveness of co-operation manifests itself primarily in the growth of their economic potential. It follows from this that the only objective criterion for the evaluation of assistance rendered is the extent of the latter's influence on the development of the productive capabilities of the countries receiving assistance and on their economic and social progress.

In many-sided co-operation, the effectiveness of such co-operation cannot be expressed by any such single index. For this purpose, it is necessary to have a whole system of indices which express, when taken together, the changes brought about by co-operation and the results achieved. In order to evaluate the results of trade, the USSR, for example, uses such indices as the relative effectiveness of exports and imports. The relative effectiveness of exports means the relation between the pure export earnings for the goods sold on the external market and the total expenditure on their production in the country. The relative effectiveness of imports consequently means the relation between the expenditure necessary in the country itself for the production of goods similar to those imported or their export equivalent (i.e. goods going to pay for imports) and the total expenditure in foreign currency on the purchase of imported goods and their delivery to the country. The product of the first and the second co-efficients gives the index of the effectiveness of foreign trade.

Specific indices of the effectiveness of co-operation in the industrial field are the growth of production capacity and output for the basic types of products, growth in the productivity of labour, and increases in the number of persons employed, the gross product and the national income thanks to enterprises established or expanded through co-operation. These enterprises, in their turn, give rise to other enterprises supplying raw materials for them or using products produced by them. The use of the products of new enterprises in industrial production has an influence on the development of the various branches of industry involved. In order, therefore, to make a full evaluation of the effectiveness of co-operation it is necessary, as far as possible, to take into account also the results achieved in connected branches.

The above are some indices for the evaluation of the effectiveness of co-operation as far as the country receiving assistance is concerned. If we accept the principle of mutual advantage, however, this presupposes the existence of corresponding advantages of co-operation for the Soviet Union as the donor country. From the point of view of the Soviet Union such effectiveness can be expressed, in particular, by such indices as: increase in exports of goods for which production conditions are most favourable in the Soviet Union; improvement in the supply of certain consumer goods for the Soviet population and the supply of certain types of raw material for industry through consignments of such goods from developing countries both as normal imports and in repayment of loans granted, and economies as a result of the exchange of goods for which production conditions are different in the Soviet Union and in the partner country.

In practice, both the relative effectiveness of external economic relations (in the form of co-efficients) and their absolute effectiveness, calculated on the basis of the entire trade exchanges or the total loans provided, are worked out. The fact that both partners have every interest in making their co-operation as effective as possible is one of the most active stimulants for the further development of such co-operation.

Some Results and Prospects of Co-operation

A little more than ten years have passed since the Soviet Union began really wide co-operation with developing countries in the industrial field in the post-war period. It is perfectly obvious that such a short period of time is completely insufficient for any complete evaluation of the influence of co-operation on the industrial development of the countries to which the Soviet Union is giving economic and technical assistance in this field.

The main results of Soviet co-operation with developing countries in the industrial field in its widest sense consists, in our view, of the fact that in the developing countries which are partners in such co-operation there has been a substantial expansion in the material and technical basis of industry and the training of local inhabitants as specialists and manual workers, there has been a rise in industrial production, the state sectors have been strengthened (with the overall result of making

possible the consolidation of national independence), and the volume of mutually advantageous trade has increased. The effective assistance given in the establishment of the material and technical basis for industry and other branches of the economy of developing countries gives every ground for considering co-operation as an important factor in the development of these countries' productive capacity.

In considering the results of co-operation in the industrial field, attention was drawn primarily to what has been done or is being done now to set up enterprises producing the means of production. This is explained by the special role of such enterprises in the development of the national economy, and also by the fact that more than two-thirds of the total volume of economic and technical assistance from the Soviet Union is expended on the construction of such enterprises. It would be wrong, however, to draw the conclusion from this that insufficient attention is being paid in co-operation with the development of the branches of industry producing consumer goods. Such an approach would be wrong because, firstly, in many developing countries, particularly the smaller and more backward countries, the possibilities for the construction of enterprises in the sphere of heavy industry are limited, while there are very favourable conditions for the establishment of enterprises in the sphere of light industry and the food industry; secondly, the national interests of these countries call for comprehensive development of their economies, and thirdly, in the final analysis industry must culminate in the production of goods required or used by the population.

It is perfectly natural, therefore, that an important place should be occupied, in the list of projects carried out in developing countries with Soviet assistance, by the construction of enterprises for the production of consumer goods for the population (over 80 such enterprises). It must also be borne in mind that the power production, iron and steel, machinery manufacturing and extractive enterprises set up, some of which were described above, are an extremely important prerequisite for the development of various branches of light industry. The textile and footwear factories, sugar refineries, canneries, bakeries, grain elevators, cold stores and other similar enterprises which have been built or are in process of construction through co-operation will make possible the increased production of goods and supplies to satisfy the domestic requirements of

developing countries as well as for export.

There is every justification for placing the results obtained in the training of qualified national personnel high on the list of the achievements of co-operation. Experience shows that without such training it is impossible to make effective use of the material and technical basis of industry created by the joint efforts of the co-operating countries. The role of human beings as the foremost of all productive resources is confirmed by the whole history of development of human society.

Let us consider some of the large number of data showing what has been done in this field of work. Thus, in the mass training institutions now being established with Soviet assistance and in similar institutions set up over the last ten years, some 150,000 citizens¹¹ of developing countries have received vocational training as builders, fitters, mechanics, production workers, etc., and have become skilled workers and specialists in industry and other branches.

In evaluating this co-operation we must obviously take account not only of what has already been achieved or is being achieved in the form of actual projects and other concrete results, but also of what is being done to create conditions for the subsequent development of internal processes and mutual economic relations. In this connection we would like to point out that it is characteristic of co-operation that it should itself give rise to certain prerequisites for its further expansion and development. Among these, we may single out such factors as the establishment or extension of enterprises designed to satisfy the requirements of partner countries or designed to process commodities and semi-finished goods to the economic advantage of both countries; contributions to the solution of problems; familiarisation with the conditions and requirements of partner countries, and the establishment of direct links between the organisations and firms of partner countries.

The tendency and structure of co-operation in the industrial field does not depend only on the capabilities of the Soviet Union, however, but also—and indeed to a greater extent — on the situation in the developing countries themselves. The most important factors determining the limits of relations in the field are, in our view, the following:

- (a) The level of development and rate of growth achieved by industry

11. *Foreign Trade*, 1967, No. 9, p.9.

- in the developing countries;
- (b) The economic policy of their governments and the place given to industry as a whole and its separate branches in their long-term programmes;
 - (c) The financial and foreign exchange position of the developing countries and their ability to finance expenditures in national currency;
 - (d) The planned projects' chances of normal functioning from the point of view of the supply of skilled personnel, market demand and raw material supplies;
 - (e) The foreign trade policy of the developing countries and their willingness to strive to achieve effective co-operation with the Soviet Union in the development of their national industry.

A factor which cannot fail to have its influence in the future on the tendencies and structure of co-operation by the Soviet Union with developing countries is the fact that in many of these countries there is considerable under-utilisation of available production capacity, even sometimes in enterprises constructed only recently. The main reason for this is lack of demand for the goods produced because of the extremely strong competition of the Western monopolies and the great difficulty of selling developing countries' products on external markets. The difficulty of selling their own goods on the markets of Western countries and paying for goods imported in return strengthens the tendency in many developing countries to set up new industries in order to replace imported goods, even when the construction of such enterprises is not justified from the economic point of view. In addition, it cannot be omitted from view that for a number of reasons, and primarily because of faults in the organisation of production and technical shortcomings, some newly-established enterprises are not giving the results (including the profits) forecast at the project stage.

Taking these prerequisites and conditions into account, and also bearing in mind the evaluations by United Nations experts of the possible rates of growth of the economy and the external trade of the countries of Asia, Africa and Latin America, it may be assumed that the co-operation of the Soviet Union with these countries in the industrial field will develop relatively quickly in the near future. In this connection, some

changes are possible in the structure of co-operation, such as increases in the proportion of funds and efforts expended on the construction of enterprises producing consumer goods and goods intended for export to the large and stable markets of the Soviet Union and other socialist countries, greater efforts to ensure proper conditions for the normal production functioning of enterprises which have been already set up (through the raising of the level of training of the personnel, the establishment of servicing and overhaul departments, etc.), and so on.

The construction of individual industrial enterprises is a typical feature of the initial stage of co-operation, but it is our view that in later stages of the development of co-operation a considerably larger role will be played by joint action to set up industrial complexes operating on a vertical or horizontal basis to ensure the most effective utilisation of the natural resources of developing countries and the sale of the manufactured goods produced.

In order to extend co-operation as widely as possible and secure maximum effectiveness, it is essential to make constant improvements in existing forms of relationships and to introduce new ones. Practical measures to improve co-operation in the industrial field include, in particular, such measures as the shortening of the time taken to complete preparatory work, to deliver equipment, to construct enterprises and to bring them into production, the improvement of the qualitative characteristics and competitiveness of the goods produced in such enterprises, the achievement of greater stability in the labour force and the improvement of its level of training, the establishment of a system of skilled technical servicing and overhaul, etc.

In co-operation, as in any other dynamic process, improvement of the established forms is closely interlinked with the introduction of new ones. Among these forms of co-operation, together with the long-term economic agreements covering trade exchanges and co-operation in the construction of industrial enterprises, use is now being made of such forms as the setting up of enterprises operating on the principle of progressive assembly, the establishment of technical advisory and planning bureaux, the training of local personnel to be technicians and instructors, the organisation of planning and construction firms operating as sub-contractors, and the establishment of joint and other enterprises on the

basis of co-operation. The essence of these forms of co-operation, in our view, is quite obvious and the only thing which calls for explanation is the principle of progressive assembly. This is a term used to designate enterprises which begin the production of machinery and equipment by assembling it from parts and components delivered from the country providing assistance. The proportion of parts and components manufactured in the developing country itself, however, is gradually increased until the machinery or equipment produced consists entirely or predominantly of locally made parts.

It appears to us that, generally speaking, the present principle of the organisation of co-operation on a bilateral basis will be maintained in the future, although it is to be expected that the part played by multilateral co-operation with the participation of several socialist and developing countries will increase considerably. As far as co-operation on a broad international basis (within the framework of the United Nations and other representative organisations) is concerned, this does indeed have its advantages, as in such a case it is possible to build up large funds by relatively substantial contributions by each participant. The experience of international economic organisations shows, however, that the absence of specific interest in the industrialisation of developing countries on the part of countries which play a prominent role in such organisations greatly detracts from the possible advantages and influences the utilisation of the funds which have been built up in a manner which is not to the benefit of industrial development. The most active efforts are therefore necessary by all member states of the United Nations to transform co-operation on a broad international basis into a really effective means of assisting the industrial development of the countries of Asia, Africa and Latin America.

The above brings up to the question of the selection of the most appropriate branches for production co-operation between the Soviet Union and the developing countries. The branches or enterprises singled out for co-operation of this type must obviously satisfy at least the following conditions: firstly, they must produce goods which are of interest both to the Soviet Union and the developing country (for satisfying the home demand of the latter or for sale on the markets of other countries). Secondly, the developing country must have natural resources and other

conditions which make possible both the economically profitable production of goods and also effective participation as a partner. Thirdly, the economic, production and technical capabilities of the Soviet Union must be such as to enable it to undertake the obligations of co-operation. Fourthly, the goods produced under such co-operation must not be more expensive, comparatively speaking than similar goods on the world market.

On the basis of mutual interest in the goods produced and the other conditions listed above, a suitable sphere for co-operation in production between the Soviet Union and developing countries in the extractive field of industry could be primarily those branches (enterprises) concerned with the extraction of tin, copper and other non-ferrous metals, petroleum, and the production of cotton and natural rubber. In manufacturing industry, suitable enterprises for establishment could be those producing cotton textiles, knitted goods, footwear, refrigerators and other household goods, and fruit juices and canned goods. More specific details of suitable branches or enterprises for co-operation in production can of course only be worked out by the representatives of the countries involved, in the light of their interests and capabilities.

The selection of the forms of co-operation to be used depends to a large extent on the economic level of the developing countries. Bearing this in mind, the most advantageous forms of co-operation, in our view, are the following:

- (a) In co-operation with developing countries with the highest levels of economic development, it is perfectly justified to retain the principle of dividing up obligations so as to bring about increasing participation by national firms in the execution of the planning and construction work;
- (b) In co-operation with countries with a less developed economic structure it is advantageous to increase the extent of participation by Soviet organisations to ensure the normal functioning of the enterprises constructed;
- (c) In co-operation with the most backward countries it is desirable to extend the use of the sub-contracting form of co-operation and to hand over the project in completed form;
- (d) Co-operation in actual production is possible with the most highly developed countries in the fields of extractive and

manufacturing industry, while in the case of the less developed countries it is possible mainly in the extractive branches of industry;

- (e) In certain circumstances it is advantageous to carry on co-operation in the form of joint enterprises, subject, however, to the operation of these joint enterprises in accordance with the laws of the countries where they are located, the preservation of complete equality in the management of the enterprises and the just distribution of the results of their operation, and also the preferential right of the government of the developing country to acquire the share of the foreign partner.

We consider that the establishment of joint enterprises can help the establishment or extension of modern industrial enterprises in developing countries through the more active use of the economic and technical capabilities of the partner when the developing country does not have enough resources of its own and lacks assistance in other forms. Co-operation in the form of joint enterprises has the advantage that in such cases the foreign partner has an interest in building up such enterprises as more reliable sources of the products it needs and in reducing the risk of losing the investments it has made. At the same time, good technical management of the enterprises is assured and the training of national personnel is facilitated.

The difficulties in setting up joint undertakings are connected mainly with the fact that the interests and capabilities of the partners often do not coincide and the success of the operations of the joint enterprise depends to a great extent on the general economic and political situation in the developing country and the inter-state relations between the partners. The opposition in developing countries frequently uses criticism of joint enterprises for its own political ends. Joint enterprises should therefore only be set up after due consideration of the prevailing conditions and the possible positive and negative factors. The form of joint enterprises which is to be preferred, in our view, is participation in the production section.

It seems to us that at the present stage of economic co-operation, there is likely to be an increase in the importance of technical assistance in the phased training of national personnel, whereby the developed

country trains for the most part personnel who are later to train their compatriots. There is a need for considerable expansion of technical assistance in the establishment of offices and firms to carry out surveying and planning work and the setting up of centres for the training of technical instructors as well as of administrative and technical personnel for all levels of management, from the shop floor and enterprise level up to the level of government institutions.

Actual experience confirms the need for industrial specialisation, in co-operation between industrially developed and developing countries, in the production of various types of goods. The position of the Soviet Union on this matter is that, as already stated at the first United Nation's Conference on Trade and Development (1964), it is "ready to co-operate with interested developing countries in the matter of specialisation and co-operation in the production of specific types of goods, particularly through the conclusion of long-term agreements and contracts, and is also ready to give the necessary technical assistance for this". In order to achieve the desired results in production specialisation and co-operation, it is necessary first of all to take practical steps to eliminate disparities in standards, technical conditions and specifications. Co-ordination of the activities of the partner countries in their joint production activities must play an important role in this. Co-ordination may cover the bringing into line of the industries and types of products which are to be specialised in, the conducting of joint research work, exchanges of experience and of technical standards, and agreements to produce specialised types of goods for exchange. Long-term (8-10 year) agreements defining the scope of technical co-operation and mutual deliveries of products are of great importance for specialisation and co-operation in industry as a whole.

The role of UNIDO in these matters should be developed. In the view of the author, UNIDO could give very effective assistance to the expansion of co-operation in the industrialisation of developing countries. UNIDO's activities in this field should be directed primarily towards the following objectives:

- (a) Active assistance in the surveying and utilisation for industrial development of the national resources of developing countries, and the establishment in such countries of administrative

financial, credit and other institutions to facilitate their fruitful co-operation with other states in the industrial field, particularly in the operation of enterprises constructed with external assistance;

- (b) The conduct of special investigations and the exchange of information in order to help partner countries to select the branches, enterprises and forms of co-operation in the field of industrial development which will be of greatest mutual interest;
- (c) The undertaking of continuous efforts, in conjunction with the United Nations Conference on Trade and Development (UNCTAD), to increase the industrial exports of developing countries;
- (d) Promotion of the expansion of multilateral assistance in the industrialisation of developing countries on an equal and mutually advantageous basis under conditions which are in accordance with the interests of developing countries and their economic and social progress.

It is our view that the main obstacle in the way of possible joint action by the socialist countries and the developed countries of the West to assist the developing countries is the different approach by these two groups to the problems of the latter countries and the interests of their peoples. There are some examples of joint measures by certain socialist and Western countries in this field which are in the interests of all the participants.

We would like to make the following general summing-up: there are at present considerable possibilities for the further development of economic co-operation between the Soviet Union and developing countries, and such co-operation actively assists not only the solution of the problems and desire for progress of the developing partner countries, but also the improvement of mutual understanding between peoples and political relations between states; practical steps towards the development of such co-operation therefore serve to promote the achievement of the high ideals of the United Nations and of its numerous organisations and agencies.