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INTERNATIONAL ECONOMIC RELATIONS

(FOUO 5/81)

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USSR REPORT
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USSR-CEMA TRADE

MANAGING FOREIGN ECONOMIC TIES TO FURTHER ECONOMIC INTEGRATION

Moscow VOPROSY EKONOMIKI in Russian No 8, Aug 81 pp 108-114

[Article by V. Grinev: "Perfecting the Management of USSR Foreign Economic Ties With CEMA Countries"]

[Text] Foreign economic ties play an important role in accelerating scientific and technical progress, in intensifying and increasing the effectiveness of social production. Their importance has grown especially given the development and continuing deepening of the economic mechanism of socialist integration, which conditions presuppose the adaptation of all its elements to serving the effective interaction of all the CEMA-country national economies. This is being effected through perfection both of the various forms of joint planning activity and of the national systems of foreign economic ties management.

All this predetermines the urgency of problems associated with further perfecting the management of foreign economic activity. Changes in USSR foreign economic ties management result directly from the overall task set by the party, that of bringing the economic mechanism into accord with the modern demands of changing the economy over onto an intensive development track, with a higher level of all economic work. The "Basic Directions of USSR Economic and Social Development in 1981-1985 and Up To 1990" approved by the 26th CPSU Congress point out the necessity of "using efficiently ...the possibilities of foreign economic ties to improve the efficiency of social production."

Deepening economic integration is possible only on a base of improving national forms of foreign economic activity management. The most perfect forms of planning cooperation will not be able to function at all if they are not supported by national economic tools.¹

The rates and effectiveness of CEMA-country integration cooperation in the long term will depend on the ability of national mechanisms as a whole and foreign economic activity management systems in particular to ensure conditions for the interaction of CEMA-country national economic complexes. All this necessitates constant improvement in national economic mechanisms and their foreign economic blocks in order that they will not only ensure the effective use of internal resources, but also the better actualization of the advantages of socialist integration.

¹See: "Upravleniye vneshneekonomicheskoy deyatel'nost'yu sotsialisticheskikh stran" [Managing Socialist Country Foreign Economic Activity], Izd-vo Nauka, 1979, p 52.

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Implementing coordinated measures in the course of CEMA-country economic integration must help develop the national foreign economic ties management systems so that optimum opportunities for interaction by the socialist states will be created as a result. Along with this, improvement in the planning mechanism of economic cooperation and the development of new forms of such cooperation (long-range target cooperation programs, bilateral long-term programs of production specialization and cooperation between the USSR and the European socialist countries) create opportunities for improving the national mechanisms. Their development, approval and implementation are very important factors in actualizing the tasks set by the fraternal CEMA-country communist and worker parties on further unifying efforts for solving the pivotal problems of socioeconomic development and the more intelligent use of resources available in the socialist community for increasing economic potential and improving its effectiveness.

The implementation of LTCP [long-range target cooperation programs] and bilateral long-term programs of production specialization and cooperation are creating a solid base for significant improvement in the degree of mutual supplementation of the CEMA-country economies and for carrying out a coordinated policy of further strengthening mutual cooperation. It is precisely these planning forms which facilitate coordinating the joint actions of the countries concerned in the most diverse areas.

At the same time, the degree of development of the integration process at all levels of the national economic mechanism and their actual engagement in this process and the effectiveness of their participation in it depend largely on the aggregate of economic-organizational conditions of the effective implementation of production, trade, scientific and technical contacts among the socialist states. Implementation of the measures planned will obviously be determined largely by the extent to which the national economic mechanisms will turn out to be oriented towards meeting the obligations assumed by each country. In view of the USSR's role in the system of economic integration relations, perfecting the system of foreign economic ties management in our country with a view towards better adapting it to the demands of the socialist integration process is of important significance. In our country, foreign economic ties are being developed rapidly, outstripping production growth. Thus, the gross social product increased 2.3-fold during the 1965-1979 period, which foreign trade turnover volume increased 2.9-fold. The Communist Party of the Soviet Union attaches enormous importance to improving the forms and methods of foreign economic activity management.

CPSU resolutions have worked out a program for perfecting foreign economic ties and have formulated the basic principles and directions of their further development. Thus, the 24th Party Congress pointed out the necessity of increasing the initiative and responsibility of the ministries and enterprises for the effective development of foreign economic ties. The primary directions in which they are to be improved, the party congress determined, are dissemination of cost-accounting principles to this sphere of activity and increasing the material interest of all foreign trade and industry links in meeting international obligations. At the same time, the responsibility of organizations connected with foreign economic activity has grown. The 25th Party Congress focused attention on a number of important questions of further improving planning, management and foreign economic activity, especially in connection with developing long-range target cooperation programs. In particular, the "Basic Directions of USSR National Economic Development for 1976-1980" pointed out the necessity of carrying out measures to continue improving the "planning, management and organization of USSR foreign economic ties."

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A CPSU Central Committee and USSR Council of Ministers decree adopted in 1976 was devoted to perfecting foreign economic activity management. As L. I. Brezhnev noted at the October (1976) CPSU Central Committee Plenum, "It planned a system of measures to overcome existing shortcomings and provided important instructions to central economic agencies. The Central Committee of our party will constantly monitor work on actualizing the indicated measures."

New opportunities for systematically improving foreign economic ties management have been opened up by the 1979 adoption of the CPSU Central Committee and USSR Council of Ministers Decree "On Improving Planning and Strengthening the Influence of the Economic Mechanism on Improving Production Efficiency and Work Quality." The system of measures for perfecting planning management contained in it have directly influenced the development of and improvement in the effectiveness of foreign economic ties and strengthening cooperation with CEMA countries. Expansion of the planning time horizon, the demand for strict balance in all the most important proportions, strengthening planning, financial and labor discipline, and improving the organization and smoothness of enterprise, association and branch operation meet these goals. The "Basic Directions of USSR Economic and Social Development for 1981-1985 and Up To 1990" adopted by the 26th CPSU Congress poses the task of "increasing the responsibility of ministries, production associations, enterprises and organizations for meeting obligations in the area of foreign economic relations."

Resolution of the tasks set us has been associated with the transition to qualitatively new content in the processes of the international division of labor, to increasingly linking them to a number of important national economic problems of developing out country's economy. The fact is, as O. Rybakov correctly notes, that the "level of development of USSR foreign economic ties with the socialist countries and the major problems being solved jointly with them have begun influencing in the most direct manner the development of the Soviet Union national economy and the shaping of a number of the most important national economic proportions. Searches for the most effective planning decisions and the development of optimum plans for developing foreign economic ties are therefore among the most important jobs in drawing up the national economic plan for the USSR as a whole."¹

Practical planning and management of foreign economic ties have shown that the effective development of foreign economic operations and growth in their effectiveness are determined foremost in the production sphere. This objectively heightens its role in developing foreign economic ties and causes a search both for optimum forms of relations in the area of industry and foreign trade and for a basic organizational-economic cell in which to concentrate relations concerning production and scientific-technical cooperation with the socialist states.

In a majority of the CEMA countries, the leading role in organizing foreign economic activity belongs to the production associations. They have received substantial powers to develop foreign economic relations with foreign partners. (This does not, however, signify that the production association receives the right, in all instances, to go into foreign markets and set up direct contacts with foreign

¹O. K. Rybakov, "Planovyye osnovy ekonomicheskoy integratsii stran-chlenov SEV" [Planning Foundations of CEMA Member-Nation Economic Integration], Izd-vo Mysl', 1980, p 179.

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contractors. The choice of forms of participation in foreign economic activity depends on the conditions in a given country. Thus, in certain CEMA countries, foreign trade organizations have been transferred to branch ministries and associations (PRB [People's Republic of Bulgaria], SRR [Socialist Republic of Romaina]); granted the right to carry on foreign trade operations to large enterprises and combines (HPR [Hungarian People's Republic], GDR); converted certain foreign trade organizations into joint-stock companies, their members being industrial enterprises and foreign trade enterprises (CSSR [Czechoslovak SSR]). In our country, this agency is the branch industrial ministry, which is entrusted with the responsibility for implementing corresponding long-range and current plans, as well as sections of the Comprehensive Program of Socialist Economic Integration. The branch industrial ministries are developing cooperation with the departments and economic organizations of the socialist countries on a broad range of questions connected foremost with setting up intrabranh production specialization and cooperation.

The branch ministries are being increasingly enlisted in solving such basic problems of foreign economic activity as carrying out five-year and current export and import plans, plans for using commodity markets, broadening the products list and volume of export output, improving the quality and competitiveness of export goods and the effectiveness of foreign trade operations, this being done while the Ministry of Foreign Trade preserves the state foreign trade monopoly.

The continuing strengthening of the role of the industrial ministries as organizers of long-range branch cooperation is associated with their having been transformed into the main agencies for comprehensive foreign economic activity planning and management and granted the necessary rights to set up contacts with foreign partners and use foreign economic information. All this does not signify a weakening of the principle of centralized management of foreign economic ties and will facilitate fuller actualization of the potential opportunities the branch ministries have for deepening cooperation, in particular, in the area of international production specialization and cooperation, in utilizing new and technically improved output, scientific and technical progress, and so on. "Strengthening the principle of centralized foreign economic ties management would at the same time be unthinkable without expansion of the rights and, most importantly, the responsibility of planning and economic agencies."¹

Heightening the role and responsibility of the industrial ministries in foreign economic activity creates prerequisites for developing direct cooperative ties among branch ministries, production associations, enterprises and organizations of the USSR and CEMA member-nations as is anticipated in the "Basic Directions of USSR Economic and Social Development for 1981-1985 and Up To 1990."

Given the expansion of their rights to carry on foreign economic activity, the branch ministries and departments as organizers of production and scientific-technical cooperation play a large role in improving foreign economic ties. In this regard, real prerequisites are created for increasing the effectiveness of foreign economic activity management.

However, in order for these prerequisites to be fully actualized, we need optimum organizational-economic conditions determining the activity of the branch ministry in

¹B. N. Ladygin, O. K. Rybakov and V. I. Sedov, "Sotsialisticheskoye sodruzhestvo na novom etape" [Socialist Cooperation At A New Stage], Izd-vo Mysl', 1976, p 165.

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the international socialist market. In this connection, we need to perfect the organizational-economic forms of the interconnection of industry and foreign trade, to create real organizational opportunities for synthesizing production-technical and foreign-trade ties into a unified system.

The reorganization of all-union foreign trade associations, begun in 1978, into all-union cost-accounting foreign trade associations managed by the Ministry of Foreign Trade, with the participation of the branch ministries, has been an important step along this line. Thanks to this organization, real economic-organizational prerequisites ensuring the effective participation and increased responsibility of industry for the end results of marketing the export output being produced have been created. Export-import companies are being organized on a branch or subbranch basis.¹ For example, the "Avtolada," "Avtovolga" and other companies have been created as part of the "Avtoeksport" foreign trade association.

With a view towards attracting branch ministries and departments and the large industrial enterprises and associations more broadly into foreign trade activity, a board formed of representatives of the Ministry of Foreign Trade and corresponding branch ministries and departments on a parity basis is created in the cost-accounting foreign trade association. The foreign trade association board concentrated its activity on questions of implementing export and import plans, improving the effectiveness of foreign trade operations, ensuring that suppliers carry out the export assignments set them, making fuller use of favorable commodity market conditions, taking organizational-technical steps to increase exports, broaden products lists for exports, and improve the quality, competitiveness and technical level of the goods. In other words, the board's work synthesizes the functions of industry and trade, doing some integration of activity on managing export production on a unified organizational basis.

In our opinion, this is a feasible direction in which to improve the organizational-economic ties of production and foreign-economic activity, a direction creating opportunities for its comprehensive management. The efficiency with which an all-union foreign trade association functions as a cost-accounting link will obviously depend directly on how effective its organizational-economic ties with a corresponding group of industrial subdivisions are.

Cost-accounting foreign trade associations linked by organizational-economic relations with corresponding branches of industry are solving a number of pressing problems. First of all, the best conditions are being shaped for further improving ties between production and foreign trade, for increasing flexibility in solving foreign economic problems, for ensuring the comprehensive development of questions of branch cooperation with CEMA and third-party countries, for achieving fuller and more precise recording of aggregate economic results of production, international production specialization and cooperation and foreign trade activity, for evaluating the actual effectiveness of exports and imports of corresponding goods and services for the country's national economy.

The involvement of branch ministries and departments in foreign trade activity, the participation of industry representatives in talks with foreign contractors, the

¹See: "Sobraniye postanovleniy Pravitel'stva Soyuza Sovetskikh Sotsialisticheskikh Respublik" [Collected USSR Decrees], 1978, No 13, Article 91.

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creation of joint documents regulating the activity of production and foreign trade structural subdivisions in a single complex, continuous information from associations, branch ministries and departments on foreign market demands, technical leadership by national economic specialists sent abroad by foreign trade associations, and so forth, strengthening the economic independence and increasing the responsibility of foreign trade associations for the results of their own activity -- all this facilitates shaping effective organizational-economic ties between industry and the foreign economic sphere.

Increasing the role of the branch ministries in foreign economic also entails, in our view, a gradual strengthening of the role of the largest production associations in this cooperation, foremost in solving problems of production specialization and cooperation within the CEMA framework. At the same time, the organizational-economic prerequisites must be created for strengthening their material responsibility for the effectiveness of cooperation with the economic organizations of the socialist countries and for meeting contractual obligations. In this connection, continued improvement in relations between the production sphere and foreign trade so as to ensure their joint economic and cost-accounting interest in improving the effectiveness of foreign economic activity and the active participation of branch ministries, departments and production associations in managing foreign economic relations, and effecting effective economic ties between foreign trade and the production sphere at the industry branch and subbranch level with a view towards better use of the potential opportunities of this cooperation are obviously of important significance.

The institution of cost-accounting relations between industry and foreign trade is possible, in our view, only at the level of links operating on cost-accounting terms. Overall material interest in increasing the effectiveness of foreign trade can exist only where its results influence the criteria and indicators of economic incentives. In particular, economic-agreement relations between production and foreign-trade enterprises remains an open question, foremost with regard to international intrabranch production specialization and cooperation, in which these relations can be set up on a stable planning basis and practically all delivery terms will be known long in advance. It would be possible, when setting up cooperation ties, to examine the question of extending the commission interrelationships between industry and foreign trade operating in the case of imports to cover exports as well.

Strengthening interactions between the production and foreign economic spheres presupposes a strengthening of the cost-accounting mechanism. The existing system of cost-accounting relations does not anticipate a direct influence by foreign trade results on the financial indicators of industrial enterprises and does not interest them in lowering expenditures connected with producing exports or in improving product quality. Contract and domestic wholesale prices are set independently of each other, based on different price-formation principles. The foreign trade association buys from an enterprise output manufactured by it according to a job-authorization order and pays all outlays incurred in its production. In marketing this output in a foreign market, the association receives either a profit or a loss. In both instances, the financial results of going into a foreign market are regulated by the state budget. The basic task of the "industry - foreign trade" cost-accounting chain is to increase the national economic effectiveness of exports and imports, which depends on optimizing the foreign trade structure, on the one hand, and the relationship of expenditures to foreign trade prices, on the other. These two requirements are interconnected and contradictory. Thus, the interconnection is manifested when examining and recording the relationships of foreign trade prices to

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domestic expenditures when optimizing the export-import structure, and the contradiction is manifested in the limited nature of export resources. It is known that export production is a significant proportion of all production at only a few enterprises, that the ratio of exported to imported output favors imports in machine building, and that there are large differences in the levels and dynamics of change in domestic wholesale and foreign trade prices.

A system of cost-accounting levers and stimuli aimed at increasing the effectiveness of foreign economic ties must first of all ensure a correlation between domestic wholesale and foreign trade prices and stimulate an increase in the difference between expenditures and foreign trade prices for exports.

The level of expenditures on producing exports in the USSR is defined as the level of wholesale prices for basic raw and other materials, which differ from world prices. World and contract prices constantly increase, but domestic wholesale prices are generally characterized by stability. If domestic wholesale prices for exported and imported output are set on the basis of domestic, objective expenditures, then exports generate revenues and imports generate losses. In both instances, this difference in prices results economically from the fact that foreign trade prices are based on world prices, whose levels and relationships do not coincide with the levels and relationships of domestic wholesale prices.

Strengthening economic ties between industry and foreign trade regarding exports could be ensured by stimulating an increase in profit from selling output in a foreign market, which depends on the level of producer expenditures and on an agreed-to level of foreign trade prices. A system of incentives aimed at increasing this profit could be built either by recording it in indicators of producer financial activity as additional profit or by dividing it between production and foreign trade as a function of their actual contribution to the formation of that profit.

Things are somewhat different with regard to imports. It seems that imported items whose prices influence producer current outlays (parts, subassemblies and various kinds of elements), as well as items with no centralized consumers (electric motors, for example), must, as is presently the case, reach the domestic consumer at wholesale prices set on the basis of price levels and relationships for analogous output produced domestically. Transferring the above-indicated output at its import cost would create unstable conditions for running industrial enterprise cost accounting and a multiplicity of prices for analogous items.

Organizing economic ties between industry and foreign trade on the basis of linking export revenues to "losses" generated when transferring an imported item to a domestic consumer at wholesale prices set below foreign trade prices seems to be the most promising. This would, in turn, lead to a locking of the results of branch ministry exports to imports to meet its own needs, would facilitate the development of intra-branch cooperation, and would remove the problem of imports "subsidizing."

Another method of generating unified material interest on the part of industry and foreign trade would be to establish special normative calculation coefficients for individual branch ministries, defining them as the ratio of export receipts to expenditures on manufacturing export output. Selling output with an above-norm coefficient would yield additional profit, which would be shared between industry and foreign trade as a function of the degree of their direct participation in obtaining it. The reverse situation would lead to a distribution of losses.

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Of course, other methods of organizing cost accounting in foreign economic ties are also possible, such as ones based on determining the calculated and actual impacts of implementing foreign economic cooperation measures, subsequently linking the economic results of industrial and foreign trade association activity with the value obtained. However, it seems certain that this measure, along with others in this area, would facilitate the creation of real prerequisites for effecting effective interaction between the production and foreign economic spheres, developing foreign economic ties in our country and strengthening its comprehensive interaction with other socialist states in the economic integration process.

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TRADE WITH LDC'S

BOOK ON CEMA COOPERATION WITH SOCIALIST-ORIENTED DEVELOPING STATES

Moscow STRANY SEV I RAZVIVAYUSHCHIYESYA GOSUDARSTVA SOTSIALISTICHESKOY ORIYENTATSII in Russian 1980 (signed to press 27 Oct 80) pp 2-5, 143-153, 177-178

[Annotation, introduction, portion of chapter 3 dealing with Afghanistan and tables 4 and 5 from the book "CEMA Countries and Developing States With A Socialist Orientation" by Natal'ya Aleksandrovna Ushakova, USSR Academy of Sciences' Institute of Economics of the World Socialist System, Izdatel'stvo "Nauka", 4450 copies, 182 pages]

[Excerpts] Annotation. This monograph illuminates CEMA-country economic cooperation with developing states which have chosen a path of noncapitalist development; it examines the basic directions and forms of economic ties between the USSR and other CEMA member-nations and countries of a socialist orientation and possible ways of increasing the effectiveness and mutual advantage of this cooperation.

Introduction. Over the past two decades, the socialist orientation of the liberated states has become an historical reality and an integral part of the world revolutionary process, and countries which have chosen this new form of progressive social development are "the advance detachment of the modern national-liberation movement."⁽¹⁾ [Footnotes are consolidated at the end of this report.]

The group of countries of socialist orientation which have rejected capitalism as a system and which are carrying out fundamental socioeconomic transformations which are creating the prerequisites for a possible transition to socialism, which are implementing an anti-imperialist policy of peace, democracy and social progress, includes more than two dozen states in the developing world, and their number is constantly growing. Profound socioeconomic transformations have long since been carried out in such countries as the Algerian People's Democratic Republic, Socialist Republic of the Union of Burma, Guinea Republic, People's Democratic Republic of Yemen, People's Republic of the Congo, Syrian Arab Republic and United Republic of Tanzania. In a number of countries, progressive transformations along a line of socialist orientation began only recently -- the People's Republic of Angola, Socialist Ethiopia, Democratic Republic of Madagascar, People's Republic of Mozambique and others. Afghanistan is one of the youngest countries of socialist orientation.

The emergence of a whole series of new states onto the path of noncapitalist development in recent years and the deepening social content of revolutionary-democratic transformations in such countries as Ethiopia, Mozambique and others testify to quantitative and qualitative development of the process of socialist orientation.

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The effectiveness of the socioeconomic transformations in these countries and in their political course makes a socialist orientation increasingly attractive to the liberated states.

At the same time, the experience of such states as Ghana, Mali, Egypt and Somalia demonstrates that, given an overall consistent character of progress, fluctuations, deviations and even a retreat from noncapitalist development are possible in individual countries. Soviet scientist R. A. Ul'yamovskiy links this possibility to the specific contradictory nature of the noncapitalist path under present conditions, which is caused by the "class-political instability of petty-bourgeois democracy..., by pressure on it by the major bourgeois and neocolonialist strata..., by the extensive use of private entrepreneurial activity and foreign capital"; by retention of a strong dependence on the world capitalist market, by the subversive activity of foreign and local reaction which has not been promptly repulsed; by the absence of a strong vanguard party and by subjective mistakes by the leadership ⁽²⁾. However, it must be noted that even in these countries, the sociopolitical legacy of the revolutionary democrats reveals considerable durability, testifying to the vitality of the tendencies towards noncapitalist development. "The path of freedom fighters is not easy," said L. I. Brezhnev. "We need persistent labor to create the foundations of a public economy needed for socialism. Bitter skirmishes with exploiter elements and their foreign patrons are unavoidable. They sometimes lead to zig-zags in the policies of young states and sometimes even cause the movement to regress. But the general direction of development is indisputable" ⁽³⁾.

The rise and establishment of a socialist orientation is a new phenomenon in the development of the national-liberation movement, one with important significance not only for the destinies of the liberated states, but for the world revolutionary process. The nature of the progressive socioeconomic transformations in these countries and the concentration of power in the hands of vanguard-type revolutionary-democratic parties enables us to view countries of socialist orientation now as a real reserve for expanding the zone of socialism, for establishing socialist production relations in new geographic regions of the globe. Therefore, unswervingly adhering to the principle of noninterference in internal affairs and peaceful coexistence, the USSR and other countries of socialism at the same time consider it their international duty to do everything possible to broaden comprehensive fraternal assistance to states which have chosen a path of noncapitalist development. "As everywhere else, in the developing countries we are on the side of the forces of progress, democracy and national independence and treat them as our friends and comrades in arms," said L. I. Brezhnev at the 25th CPSU Congress ⁽⁴⁾.

The growing influence of the world socialist system and its transformation into a decisive factor in developing contemporary society make it possible, given appropriate internal prerequisites, for the liberated states to choose a noncapitalist path of development. At present, cooperation with socialist countries is becoming one of the most important external factors in deepening progressive revolutionary-democratic transformations in the liberated states, in strengthening their socialist orientation and attaching a stable, irreversible character to it in order that these countries will in the future be able to change over to building the foundations of a socialist society.

Cooperation with socialist countries can perform this role most successfully when it is of a comprehensive nature, by turning it into a unified system of broad and

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diverse mutually advantageous trade, economic, scientific-technical, party-political, defense and cultural relations developing among the partner countries on a long-term basis. The effort to harmonize relations with states of a socialist orientation and to make them comprehensive in nature which has been observed in CEMA countries in recent years is manifested in the fact that cooperation is beginning to encompass the most diverse areas of economic and superstructure relations and in the fact that cooperation agreements are increasingly being concluded not only at the intergovernmental level, but also at the level of individual ministries, departments, party and state institutions.

Change in the foreign-policy situation in the world and the establishment of progressive principles and norms in international relations, which has become possible thanks to the rise and consolidation of the world socialist system, have permitted the revolutionary-democratic forces of the developing countries to effect progressive socioeconomic transformations independently in the interests of the broad masses of people. Soviet scientist K. N. Brutents writes: "Whereas the decisive role in the entire revolutionary process, meaning in the fates of the liberation forces of the world as a whole as well, belongs to the socialist system, the national liberation forces are called upon to play the decisive role in transforming society at the level of each country" (5). It follows from this (and this has been confirmed by experience) that a particular developing country can choose a path of socialist orientation and move along it, up to certain limits, while retaining basic economic and cultural, as well as quite significant political and ideological, ties with the world capitalist system. But successful completion of the process is possible only with the gradual reorientation of the primary ties of the corresponding developing country towards the world of socialism. Economic cooperation, individual aspects of which are examined in this work, will play an increasingly important role in the system of ties at the present stage.

Chapter 3. Problems of CEMA-Country Cooperation With Individual States of Socialist Orientation and Ways of Increasing Its Effectiveness

Democratic Republic of Afghanistan

The revolution of April 1978 sharply altered the development path of this ancient country. The People's Democratic Party of Afghanistan, which led the revolution, has systematically implemented a policy of noncapitalist transformations, of building a society without exploitation and oppression. CEMA countries, and foremost the Soviet Union, its neighbor to the North, have rendered a great deal of assistance to this, one of the youngest states to have chosen a noncapitalist path of development, in resolving the very important tasks of the April revolution, which tasks were formulated in the 9 May 1978 government declaration on "Basic Directions of the Revolutionary Tasks of the Government of the Democratic Republic of Afghanistan" -- a democratic land reform in the interests of the working peasantry and with their active participation, eliminating old social relations, democratizing public life, an industrialization program, strengthening the state sector of the economy, raising the standard of living of the populace, eliminating unemployment, eliminating the influence of imperialism and neocolonialism in the economy, and so on.

The Soviet Union and Afghanistan are linked by a traditional friendship and good-neighbor relations whose foundations were laid by V. I. Lenin and which date from the proclamation of an independent Afghan state in February 1919. After World War

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II, these relations continued to grow. The Soviet Union and other CEMA countries were among the mainstays of Afghanistan foreign economic ties. Some 60-65 percent of all the foreign aid received by Afghanistan comes from these countries, foremost from the USSR ⁽¹⁾. The Soviet Union accounts for approximately 30 percent of all Afghanistan foreign trade turnover ⁽²⁾. Among the other socialist states, the Czechoslovak SSR and Poland have the most well-developed relations with the DRA [Democratic Republic of Afghanistan], but the scale of their cooperation with this country has thus far been small. After the April revolution, Bulgaria increased its ties with the DRA. In 1978, trade turnover volume between Bulgaria and Afghanistan increased approximately 10-fold as compared with preceding years ⁽³⁾.

The fact that the USSR and Afghanistan border each other, which has created opportunities for a considerable reduction in transport expenditures, the joint development of minerals and the construction of individual enterprises and industrial and agricultural territorial-production complexes oriented towards meeting the needs of the partner countries in border regions, the joint use of water and energy resources of boundary rivers and the extensive implementation of joint measures to protect the environment, combat agricultural pests and develop border trade, and so forth, has done much to determine the specifics of cooperation between the two countries and its structure. Soviet-Afghani cooperation is distinguished by dynamism and stability. It is especially important to stress the effort by the partner countries to shift economic relations onto a long-term basis, which has been increasingly manifest in recent years.

Soviet-Afghani economic relations are regulated by a 10-12 year economic and technical cooperation agreement concluded in February 1975 and a 12-year Soviet-Afghani economic cooperation development agreement of 14 April 1977 on whose basis a number of agreements and contracts have been concluded on specific projects. The April 1978 revolution laid the foundation for a qualitatively new stage in the 60-year history of Soviet-Afghani relations, which has found expression in the 20-year Agreement on Friendship, Good-Neighborliness and Cooperation Between the Soviet Union and the Democratic Republic of Afghanistan of 5 December 1978 ⁽⁴⁾.

Economic and technical cooperation between the USSR and other socialist countries and Afghanistan is broad and diverse and is aimed at helping shape a national economic complex based on mastering and using the rich raw material resources of the country as a base for creating national industry and as a stable source of foreign exchange receipts for the purpose of economic development, for increasing agricultural production with a view towards raising the standard of living of broad strata of the population and expanding the country's export potential, for creating an appropriate infrastructure for industry and agriculture. The national economic agro-industrial complex beginning to be created in Afghanistan in cooperation with CEMA countries is integrated in nature and is highly complementary with the world socialist economy.

Some 147 projects, upwards of 70 of which were already in operation at the end of 1979, have been built or are being built in Afghanistan with USSR assistance ⁽⁵⁾.

Assistance in geological surveying work and in utilizing Afghanistan's natural resources, which have heretofore been incompletely studied, occupies a central place in this cooperation. Considerable prospecting for gas, petroleum, copper, barite and other minerals has been done with the assistance of Soviet geologists. Total

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natural gas reserves at the Hoja-Gugerdag deposit, prospected by Soviet specialists, are estimated to be 50 billion cubic meters. In October 1963, an agreement was concluded on Soviet assistance in setting up the extraction and use of natural gas from deposits of the northern region of Afghanistan on a compensatory basis. Under this agreement, the Soviet Union helped provide the deposit with worker settlements, developed Sheberghan (annual production of up to three billion cubic meters of gas) and helped build a gas pipeline to the USSR border (101 km, throughput capacity of four billion cubic meters per year) and to Mazar-e Sharif ⁽⁶⁾.

By early 1980, the USSR has received 29.4 billion cubic meters of natural gas at prices set based on world market prices in repayment of loans made (since 1975, export prices of Afghani gas have risen 10-fold in connection with world price movements) ⁽⁷⁾. Natural gas exports to the USSR are a stable source of considerable revenue for Afghanistan. At the same time, purchases of Afghani gas enable the USSR to improve gas supplies to a number of Central Asian regions.

The next step in developing cooperation among the two countries in gas industry on a compensatory basis was the construction, with USSR assistance, of the Jarkuduk gasfield in northern Afghanistan at a deposit also opened by Soviet geologists. Its capacity is up to two billion cubic meters of gas per year, intended basically for export to the Soviet Union. A complex to remove sulfur from the gas has been built here ⁽⁸⁾. The Juminskoye and other natural gas deposits which, in the opinion of Soviet economists V. V. Yefanov and T. V. Teodorovich, could also be projects for cooperation on a compensatory basis ⁽⁹⁾, have also been prospected with USSR help.

In 1977, Soviet geologists discovered petroleum in northern Afghanistan at a depth of 970 meters. Prior to that, no petroleum deposits suitable for commercial exploitation had been discovered in the country ⁽¹⁰⁾. In 1979, an agreement was signed with the Soviet Union on assistance in developing and outfitting petroleum deposits, as well as on building an oil refinery with a capacity of up to 500,000 tons annually ⁽¹¹⁾. A new branch of the Afghani economy, petroleum industry, was thus created in cooperation with the USSR.

Soviet organizations have prospected for copper in the Aynak deposit (Logar Province) which, according to preliminary estimates, is among the largest in the world ⁽¹²⁾. Under a 1 March 1979 agreement, the USSR is helping Afghanistan install a copper enrichment combine, acting as the general contractor. Credit granted for building the combine will be paid back by deliveries of copper concentrate or copper to the USSR, as well as by deliveries of output from other cooperative Soviet-Afghani facilities ⁽¹³⁾.

Soviet specialists have also uncovered deposits of barite, gold, flux raw material and iron ore and have re-evaluated the lazurite deposit at Sar-e Sing, which has permitted an increase in the extraction and export of this raw material ⁽¹⁴⁾. Cooperation in geological surveying for solid minerals continues.

A great deal of geological work involving solid minerals has been done with the help of the Czechoslovak SSR, which has also helped build the coal mine at Pol-e Khomri, with a capacity of 600,000 tons of coal per year ⁽¹⁵⁾.

Polish specialists are working under a UN contract at Kabul Institute of Cartography, created in 1973. They are consulting with Afghani specialists in the area of geodesic and gravimetric measurements, aerial photography, cartographic work, compiling

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cadasters, and so on. In 1979, they trained more than 400 specialists, including several Afghani associates at the institute, who were sent to Poland for on-the-job training. Polish specialists have drawn up a detailed atlas of Afghanistan within the bilateral Polish-Afghani cooperation framework ⁽¹⁶⁾.

Assistance in prospecting for and utilizing natural resources is currently one of the most promising lines of CEMA-country cooperation with Afghanistan. It was noted at the first meeting of the permanent, joint intergovernmental commission on economic cooperation between the USSR and the DRA in the fall of 1979 that geological surveying and prospecting would be the main lines of cooperation between these countries in the years ahead. Particular attention will be paid to searching for gas, petroleum and solid minerals, to creating new production capacities for extracting and processing them and expanding existing ones ⁽¹⁷⁾.

Assistance in prospecting for and utilizing natural resources which is being done for a broad range of interrelated branches and along a number of lines will lead to significant expansion and diversification of Afghanistan's export opportunities and is laying the foundation for developing a modern multibranch industrial complex.

Cooperation in agriculture, the main branch of the Afghani economy, has other traditions. Assistance in developing agricultural production is the second major "block" in the system of CEMA-country foreign economic ties with Afghanistan. It includes both a broad program of irrigation construction and assistance in utilizing new land, in creating state agricultural enterprises on it. The largest Soviet-Afghani agricultural project is the Jalalabad irrigation complex, which permits the irrigation of 24,000 ha ⁽¹⁸⁾. This complex plays an important role in the economic and social development of the country's eastern regions. Two state farms have been created on irrigated land, Gaziabad (1969) and Khadda (1970); they are thus far the only multibranch agricultural enterprises in the country with a high level of agricultural job mechanization. The farms are specialized for growing citrus, olives, wheat, barley and other crops. Moreover, mechanized stockraising farms supplying Jalalabad and Kabul with milk and meat have been in operation here for several years now. In the mid-1970's, more than 9,000 people were employed at various facilities of the complex ⁽¹⁹⁾.

These farms became a school for disseminating advanced experience; they render the peasants of outlying villages much assistance, supplying them with purebred beef and plantings and conducting consultations with skilled specialists. The fact that citrus production has increased more than three-fold and olive -- 4.4-fold over the past five years testifies to the efficiency of operation of these enterprises. Their output is not only for domestic consumption, but is also exported, primarily to the USSR. In 1977, the Soviet Union imported 799 tons of olives from Afghanistan, and in 1978 -- 1,050 tons ⁽²⁰⁾. Construction of a packing plant in Jalalabad was begun in 1978 to process olives produced by the state farms. In the course of operating various facilities of the complex, Soviet specialists have trained more than 13,000 agricultural workers, construction workers and machine operators ⁽²¹⁾. Creation of the complex has spurred activity throughout the Jalalabad Valley. After its construction, trade, local industry and crafts began developing here and the population grew significantly. This project demonstrates graphically the advantages of a comprehensive approach to cooperation in developing agriculture.

In 1977, "Sel'khozpromeksport" V/O finished building another large irrigation system, the Sarde on Jilga River; its construction will make it possible to irrigate

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upwards of 17,000 ha of new land in Ghazni Province ⁽²²⁾. Soviet organizations have also worked out technical plans for a dam and main canal on Kokcha River and are planning the construction of "Kelagay" hydroelectric project on Surkhab (Qonduz) River, the "Khosh-Tepe" canal and pump dam, and a dam and reservoir on Balkhab River in the vicinity of Chashmayi-Shafo ⁽²³⁾.

The Soviet Union renders Afghanistan systematic assistance in combatting locusts and infectious and parasitic diseases of livestock and poultry. With USSR participation, seven veterinary clinics and four veterinary laboratories dealing with both treatment and prevention have been created in Afghanistan ⁽²⁴⁾. An agreement on Soviet assistance to Afghanistan in creating machinery-tractory stations was signed in 1979 ⁽²⁵⁾.

The foundations are being laid for comprehensive cooperation with Bulgaria in agricultural production. An agreement on cooperation in agriculture, food industry and reclamation was signed by the two countries in August 1979 ⁽²⁶⁾.

Good results have been achieved in industrial cooperation. The CEMA countries are long-standing partners with Afghanistan in developing traditional branches of industry: food, textile and building materials. The Czechoslovak SSR has supplied modern equipment for modernizing a packing plant in Kabul, a creamery in Mazar-e Sharif and a cannery in Qandahar. Czechoslovak industrial enterprises have trained skilled workers for these branches ⁽²⁷⁾. Cooperation with the Czechoslovak SSR in developing food industry continued. Soviet organizations are also rendering a great deal of assistance. In 1957, Afghanistan's first grain combine, including a 20,000-ton elevator, a mill to grind 60 tons of grain per day and a bakery with a capacity of 70 tons of bread and rolls per day, was built in Kabul with USSR assistance. An elevator was built in Pol-e Khomri, as were a number of other projects ⁽²⁸⁾. The Kabul grain combine has been expanded with the assistance of Soviet organizations, and in 1979, construction of a mill in Pol-e Khomri and a bakery, mill and elevator in Mazar-e Sharif was begun, also with Soviet assistance ⁽²⁹⁾. Cooperation with Bulgaria in food industry is planned.

Several cotton gins and textile enterprises have been created in Afghanistan with the assistance of CEMA countries, a majority of which are now being modernized.

The expanding cooperation in building materials production is helping meet Afghanistan's top-priority needs. Two cement plants have been built with Czechoslovak SSR assistance, one in Jabal os Saraj (100 tons per day) and one in Pol-e Khomri (400 tons per day) ⁽³⁰⁾. The first cooperative Soviet-Afghani project built in the post-war years was an asphalt-concrete plant in Kabul, which began operating in 1955. The Kabul house-building combine, the one enterprise in the country capable of large-panel construction, was built with USSR assistance and has been in operation since 1965. More than 3,000 apartments, 17 schools, stores, kindergartens, movie theaters and academic institutions have already been built in the Afghani capital using parts and materials manufactured by this combine. Soviet organizations have also renovated the house-building combine, which has permitted a considerable increase in the amount of output produced ⁽³¹⁾. The combine, with its more than 2,000 Afghani workers and employees, has become not only a forge for training skilled personnel, but also a school for their development as citizens. Combine workers are active participants in the movement for voluntary labor outside of working hours. Agreement in principle has been reached with Bulgaria on supplying Afghanistan with six brick plants and one house-building combine ⁽³²⁾.

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Along with cooperation in traditional branches, assistance is being rendered in creating modern, new branches of processing industry. The first automotive repair enterprise in Afghanistan, Jangalak Service and Machine Shop in Kabul, was created with USSR participation. The shop can make nearly 1,400 repairs a year. Moreover, it produces pumps, plows, cultivators and other agricultural implements ⁽³³⁾.

Soon, the combine plans on switching from vehicle maintenance to assembling trucks from parts supplied from the Soviet Union and some manufactured locally ⁽³⁴⁾. There are also two vehicle repair shops organized with USSR assistance, one in Pol-e Khomri and one in Herat.

The first-born of Afghani chemistry, the nitrogen fertilizers plant in Mazar-e Sharif, built to produce 105,000 tons of carbamide a year, is one of the largest cooperative Soviet-Afghani projects ⁽³⁵⁾. Start-up of this plant in 1974 was of enormous importance to developing the country's agriculture, which was suffering from a shortage of chemical fertilizers. In the late 1970's, the demand for them was estimated to be 200,000 tons, and approximately 25 percent of it was met exclusively through imports prior to the start-up of the plant ⁽³⁶⁾. Construction was on a compensatory basis. A portion of the carbamide produced by the plant is supplied to the USSR to pay off Soviet loans. The USSR imported upwards of 25,000 tons of granular nitrogen fertilizers in 1977-1978 ⁽³⁷⁾. The Mazar-e Sharif plant consumes approximately 200 million cubic meters of gas each year; it is produced near Sheberghan and delivered by pipeline. Along with fertilizers for agriculture, the plant supplies various enterprises with its own "by-product," liquid ammonia, oxygen in tanks and dry ice. The ammonia, for example, will be used extensively at the copper-smelting plant being built in Aynak. The plant thermal electric power plant, with a capacity of 36,000 kilowatts, will supply electricity to Balkh and Mazar-e Sharif, and after construction of the fourth turbine is finished, it will also supply other cities of the northern provinces with electricity. The enterprise employs about 5,000 people ⁽³⁸⁾. Thus, the Mazar-e Sharif plant is a true center of development for the country's northern provinces, a nucleus of the industrial complex based on petroleum and gas production and processing being formed here, one which will influence not only the system of domestic economic ties, but also the shape of the foreign trade structure.

The fact that the cost of cooperative Soviet-Afghani project output was already about six billion afghani, nearly 40 percent of the total cost of Afghanistan's industrial output, even back in 1978 testifies to the results of this industrial cooperation. They account for upwards of 60 percent of all industrial production in the country's state sector ⁽³⁹⁾.

In carrying out the industrial cooperation program, the partner countries try to ensure a balanced combination of assistance in developing the traditional branches of processing industry, which serve basically to meet domestic needs, and assistance in developing modern new branches, primarily in extractive industry, which are oriented in considerable measure towards exports. Such an approach facilitates the formation of an efficient national economic complex based on full use of domestic resources and active participation in the international division of labor.

The specific factor of geographic proximity has been evident in the significant scope of USSR-Afghanistan cooperation in the area of infrastructure, whose proportion of total economic and technical assistance is significantly higher than in USSR relations with other countries of noncapitalist development. Back in 1924-1927, the USSR

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helped build a telegraph-telephone line connecting Kushka to Herat to Quandahar to Kabul and Kabul to Mazar-e Sharif (⁴⁰). In Afghanistan, which has no railroads or outlets to the sea, the network of roads has been built and expanded with USSR assistance and the system of vehicle maintenance and service has likewise been set up. By the mid-1970's, there were 2,500 km of hard-surface roads, 1,400 km (about 60 percent) of which had been built with USSR assistance. Among them is the 679-km Kushka to Herat to Quandahar road, which has become the main artery linking the economically important regions of Afghanistan (⁴¹).

The Kabul - Shir Khan route (about 400 km) connecting the Afghani capital with a border port on Pyandzh River serves Soviet-Afghani trade. Cutting tunnels through the Hindu Kush reduced by a third the length of the route to the Soviet border and, correspondingly, shipping time, which lowers the cost of delivering freight (⁴²). Soviet organizations also have built about 10 highway bridges across rivers and mountain ravines.

With a view towards expanding cooperation in shipping export-import freight and improving its effectiveness, a joint Soviet-Afghani transport-forwarding joint stock company, the AFSOTR, was created in 1976. Some 51 percent of its capital belongs to Afghani organizations and 49 percent to the Soviet Union (⁴³). The company also handles transit shipments.

A considerable amount of road and transport equipment is supplied from the Czechoslovak SSR. Bulgaria has been helping develop urban transport since 1978. In 1978-1979, Bulgaria's "Balkankarimpeks" has supplied the DRA with 300 modern Chavdar G-5 buses, which has significantly improved Kabul city transport, especially on lines linking worker quarters with industrial zones (⁴⁴).

Soviet organizations have built three of Afghanistan's four international-class airports (⁴⁵). The port of Shir Khan, on a western stretch of the Amu Dar'ya, is a focus of Soviet-Afghani cooperation as the "river gates" of Afghanistan. In 1979, port freight turnover was approximately 400,000 tons, about 35 percent of the total freight flow between the USSR and Afghanistan. Soviet organizations are building a bridge across the Amu Dar'ya which will have a capacity of 1.2 million tons of freight per year, permitting an easing of the load on the port and improved Soviet-Afghani trade services (⁴⁶). In cooperation with the USSR, development and improvement of Afghanistan's transport network facilitates economic contacts between the countries, accelerates freight flows in both directions and activates trade and economic ties.

The USSR renders Afghanistan considerable assistance in developing power engineering. Three hydroelectric power plants with a total capacity of 156,000 kW, including "Naglu" GES on Kabul River (capacity 100,000 kW), have been built with its help. These three power plants account for 50 percent of the country's power capacity (⁴⁷). The development of electric power engineering in border regions creates a reliable base for their agro-industrial utilization in the interests of the partner countries.

A 36,000-kW thermal electric power plant attached to the nitrogen fertilizers plant and the power transmission line network has been built and continues to expand with USSR assistance. In 1979, for example, Soviet organizations led work on construction of the Naglu -Jalalabad GES power transmission line (⁴⁸). Diesel electric power plants are supplied from Czechoslovakia (⁴⁹).

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Broad assistance in training skilled workers and specialists facilitates successful cooperation in various branches of the national economy. The basic form of skilled worker training in Afghanistan is training them directly at construction sites. By 1977, more than 70,000 skilled workers had already been trained by this method at various cooperative Soviet-Afghani projects (⁵⁰). About 2,000 students are being trained in construction, geology, chemical technology and other departments of Kabul Polytechnical Institute, which was created 11 years ago with the technical assistance of the USSR (⁵¹). Specialists with a secondary technical education are being trained at a mining-petroleum tekhnikum and an automotive tekhnikum. More than 1,000 people are studying at the automotive tekhnikum. Beginning in 1975, the tekhnikum has had an evening division, which teaches primarily plant workers (⁵²). Tekhnikum graduates -- mechanics, electricians, technologists -- work both at the automotive repair plant and at many other industrial enterprises of Afghanistan.

An increasing number of students from the DRA are traveling to CEMA countries to study at higher and secondary academic institutions. Since 1 September 1979, some 1,500 young men and women chosen from among the best graduates of Afghani lycees have enrolled in VUZ's of Moscow, Leningrad, Kiev, Tashkent and other cities of the Soviet Union. They are being trained in 108 specialties. After returning to their homeland, the young Afghani specialists will work at cooperative Soviet-Afghani projects (⁵³). An Afghani-Bulgarian agreement has been signed on sending 2,000 young Afghanis to study in Bulgaria in 1979 (⁵⁴).

CEMA-country economic cooperation with Afghanistan is equal and mutually advantageous in nature. The extensive use of effective new forms of assistance such as compensatory agreements and the general contract facilitates increasing that mutual advantage. The partner countries are trying to continue expanding the cooperation, shifting ties to a long-term basis and strengthening elements of planning in them. In particular, an agreement on cooperation in the area of planning was signed in June 1979 between the USSR State Planning Committee and the Afghanistan Ministry of Planning (⁵⁵). Strengthening planning elements in the economic ties of the partner countries testifies to a continuing deepening of the division of labor between Afghanistan and countries of the world socialist community. An Afghanistan delegation participated in the work of the 33rd and 34th CEMA Sessions. At the request of the Afghanistan government, the 34th CEMA Session adopted a resolution on DRA participation in CEMA activity as an observer in 1980.

[Tables 4 and 5 of Chapter 3 are on the following two pages.]

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Table 4. Structure of USSR Imports from Certain Countries of Socialist Orientation in 1978, in percent

commodity or commodity group	Afghanistan	Burma	Syria	Algeria	Angola	Guinea	Congo	Tanzania	Ethiopia
1. Machinery, equipment, means of transport	--	--	--	--	--	--	--	--	--
2. Fuel, mineral raw material, metals	44.5	--	...	--	--	94.7	--	--	--
3. Chemical products, fertilizers, rubber	0.7	100.0	...	--	--	--	--	--	--
4. Building materials and parts	--	--	--	--	--	--	--	--	--
5. Raw materials and processing products (nonfood)	25.4	--	33.0	1.6	--	--	100.0	100.0	--
7. Raw material to produce food	0.3	--	--	--	100.0	2.9	--	--	96.0
8. Foodstuffs	23.8	--	0.5	97.0	--	2.1	--	--	--
9. Manufactured consumer goods	--	--	17.6	0.6	--	--	--	--	--
Undistributed	5.3	--	48.9	0.8	--	0.3	--	--	4.0

[Note: Numbering follows original text; last item, "Undistributed," was unnumbered.]

Taken from: "Vneshnyaya trgovlya SSSR v 1978 g. Statisticheskiiy sbornik" [USSR Foreign Trade in 1978. Statistical Handbook], Moscow, 1979, pp 198, 200, 237, 245, 246, 248, 253, 260, 263.

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Table 5. Structure of USSR Exports to Certain Countries of Socialist Orientation in 1978, in percent

commodity or commodity group	Afghanistan	Burma	Yemen	Syria	Algeria	Angola	Benin	Guinea	Ethiopia
1. Machinery, equipment, means of transport	51.8	0.7	55.8	54.7	49.9	82.4	66.8	30.0	85.7
2. Fuel, mineral raw material, metals	17.9	19.7	3.7	9.4	3.6	...	---	43.0	...
3. Chemical products, fertilizers, rubber	0.1	---	---	0.1	---	---	---	---	---
4. Building materials and parts	0.4	---	3.7	---	3.5	...	---
5. Raw materials and processing products (nonfood)	0.1	74.0	---	5.2	9.9	...	---	---	...
7. Raw material to produce food	3.7	---	---	---	---	---	---	---	---
8. Foodstuffs	8.8	---	15.7	...	0.9	2.4	24.3	11.4	...
9. Manufactured consumer goods	5.2	5.0	0.2	0.3	0.5	3.2	4.5	2.7	0.1
Undistributed	12.0	0.6	20.9	30.3	28.2	12.0	4.4	12.9	14.2

[Note: Numbering follows original text; last item, "Undistributed," was unnumbered.]

Taken from: "Vneshnyaya trgovlya SSSR v 1978 g. Statisticheskii sbornik" [USSR Foreign Trade in 1978. Statistical Handbook], Moscow, 1979, pp 197-200, 231, 232, 235, 236, 245-247, 263.

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*Original numbering in text was continuous for Chapter 3, that is, (1) = (5³⁵).

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