CMEA Trade and Economic Relations with the West (Including Japan) in 1970s

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A C K N O W L E D G E M E N T

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Chapter I

I N T R O D U C T I O N

East-West economic and trade relations has been a major agenda in the discussion of international relations both in the socialist and capitalist countries for quite some time now. Even the Third World countries are closely watching the developments in the trade and economic relations between these two ideologically rival groups in the wake of growing demand for a New International Economic Order. For a country like India, whose economy is officially described as socialistic and at the same time underdeveloped, the close study of East-West economic relation can be quite fruitful both in the sphere of experience and potential opportunities. To our mind, the study of East-West economic and trade relations is of interest on two grounds:

(a) It gives us a practical knowledge on how two mutually rival (politically, militarily and economically) groups can come together for mutual benefit.

(b) If gives guidelines to a planned and underdeveloped economy like India about how to extract the best out of economic transaction in the international market for the achievement of the goals of the domestic economy.

However, the realization of (a) and (b) to the full demands minute details of the working process of the East-West relations which is beyond the scope of our work. In the chapters that follow we will make a modest attempt to find out the salient features of East-West trade and economic relations since the early seventies to the early years of the present decade.

When we talk about East and West as two groups do we mean only a number of selected countries on both sides. In the Eastern group only the countries of East-Europe i.e. German Democratic Republic, Czechoslovakia, Poland, Romania, Hungary, Bulgaria and Union of Soviet Socialist Republic will be taken into account. On the Western side we will deal mainly with United Kingdom, France, Austria, Federal Republic of Germany, Italy, United States of Ameria and Japan. Now we know most of the countries on either side belong to some group or other. All the socialist countries we will be dealing with belong to Council of Mutual Economic Assistance (CMEA) and most of the Western capitalist countries belong either to European Economic Commission (EEC) or Organisation for Economic Cooperation and Development (OECD). For a better perception of the intricacies in the trade and economic relations between the countries we are concerned with, it is imperative to describe briefly the two major organisations i.e. CMEA and EEC.[1]

CMEA was established in 1949 to promote "multilateral integration amongst its members."[2] Its founder members were USSR, Bulgaria, Czechoslavakia, Hungary, Poland, Romania (Albania only in file), GDR joined in 1950, Mongolia in 1962, Cuba in 1972 and Vietnam 1978. Yugaslavia has had an observer status in the organisation. In 1950s CMEA was more or less dormant, but in sixties and seventies it played a major role to promote economic integration amongst its members. To some Westerners, it was socialist bloc's response to "Marshal Plan" in the early years of its existence.[3] But after the death of Stalin this attitude changed as the Council defined its aims in official charters. "COMECON was to be a community in which resources are allocated for the good of the region as a whole."[4] One

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1. We are discussing EEC because barring Japan and USA other five countries (U.K., France, Italy, FRG, Austria) that we will be mainly concerned with are members of EEC. Moreover, our emphasis on EEC is also due to the fact that EEC is the most influential Western organisation on the matters of East-West relations.

2. Marer Paul, "Foreward," in Pecsi, Kalman (ed.), The Future of Socialist Economic Integration, M.E.Sharpe, Inc. Carmonk, New York, 1981, reprinted in Eastern European Economics, Fall 1980, Vol.XIX, No.1, pp.vii.

3. Wiles, P and Smith, A., "The Convergence of the CMEA on the EEC," in Shlain and Yannopoulos (eds.), The EEC and Eastern Europe (Cambridge University Press), Cambridge 1978, p.72.

4. Franklyn, Daniel and Moreton Edwina, "COMECON Survey," Economist, April 20, 1985.

fundamental aim of the Council was specialization. Through specialization it was sought to foster economic and technological development, eliminate the gap between richer and poorer countries and strengthen its defence capacity. Burning desire was of course, to catch up with the capitalist world both militarily and economically if not to supercede them.

To fulfil the above mentioned objectives COMECON has developed quite an elaborate organisation. Council session is the top in the hierarchy which usually sits annually where Prime Ministers from the member countries discuss broad policy matters. Below this Council Session COMECON has: "an executive committee which meets quarterly; committees on planning, research, engineering and supplies; a permanent Secretariat, and scattered around the group are more than twenty Standing Commissions responsible for detailed coordination in specific industries or problem areas."[5] On top of all these there are a number of official bodies including two banks, a number of transport organisations and more than sixty co-ordinating research centres.

EEC was established in 1958. Its founder members were the countries, France, FRG and Italy. Its share in

5. Ibid.

the world's total (portion of) area is 2 per cent; population; 7 per cent; national income, 18 per cent; industrial output 19 per cent and foreign trade volume, 34 per cent. Corresponding CMEA figures are: population, 10 per cent; area, 18 per cent; national income, 21 per cent, industrial output, 30 per cent and foreign trade, 9 per cent. The principal mission of EEC has been "to establish and refer the rules under which private enterprise can seek profitable commercial opportunities in the member countries."[6]

Unlike CMEA, EEC is supranational body. It has several supra-national authorities like EEC Commission, the Council of Ministers, the European Parliament, the court of Justice, the European Coal and Steel Community.

Now with these EEC countries if we add Austria, USA, and Japan the corresponding figure of Western blocks share in worlds total will really go high and nature of relationship amongst members will also be quite different. But in any case, our intention here is not to give a superficial comparison between the organisations in the East and West. This comparison is simply not possible

6. Ibid. Also Portes, R. "Western Investment in Eastern Europe," in Shlain and Yannopoulos (eds.), n.3.

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6. Ibid. Also Portes, R. "Western Investment in Eastern Europe," in Shlain and Yannopoulos (eds.), n.3.

as it is obvious that role, function and very structural relationship of the organisations are very different.

Thus to our mind it is far more sensible to introduce our topic by discussing the institutional background of foreign trade in socialist economy (as our basic preoccupation will be the socialist economics throughout the dissertation), changing attitude between East and West and finally present situation between these two sides.

The institutional background of foreign trade of all the East European countries are similar despite the very different roles that foreign trade plays in these countries, say, Hungary and USSR.[7] After 1948, Soviet model was applied in all the East-European countries. The reforms since mid-sixties were supposed to "radicalise" the system but only gradually.

In all the East European countries we see a foreign trade monopoly of the state with its foreign trade ministry as the only responsible authority. The foreign trade ministry constructs import and export plans within the boundary defined by the Central Planning Commission. "In

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7. In late seventies the percentage share of foreign trade in GNP was almost 50 per cent in case of Hungary whereas in case of USSR it was a meagre 60 per cent. Economic Geography of the Socialist Countries of Europe, Progress, 1980, p.138.

drawing up import plan, the Foreign Trade Ministry takes into account, on the one hand, the demands for import made by enterprises to their industrial ministries, and on the other hand, the state of foreign markets and supply estimates derived from the material balances communicated to it by GOSPLAN".[8] Bilateral trade concluded with other socialist country is integrated with the temporary plan which is actually engaged in the foreign trade. Foreign Trade Ministry also formulates both the short-term and long-term trade policy and is responsible for the implementation of current years plan.

Foreign trade corporations are organised around different production sectors and are responsible for export and import of given types of commodities. These corporations are subordinate to the Foreign Trade Ministry in true sense of the term as "volume, prices, transport costs, structure and direction of foreign trade have already been planned out as far as possible by the ministry within the framework of global trade plan."[9] These decisions are merely forwarded to the respective corporations, who at best even

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8. Pryor, F.L., The Communist Foreign Trade System, London 1963.

9. Boltho, Andrea, Foreign Trade Criteria in Socialist Countries, Cambridge University Press, Cambridge, 1971, p.39.

suggest minor modification, for implementation. The relationship between the corporations and the basic units in the sphere of export and import i.e. enterprise, is also very tenuous so much so that channels of contract is always vertical (from Foreign Trade Ministry to Foreign Trade Corporation from Industrial Ministry to producing enterprise) and almost no horizontal controls are allowed, except at the very top level.

Each Foreign Trade Corporation tries to seel its products or buy its import requirements in conformity with the Plan in the foreign market at the best possible price. This is done through bargaining either with foreign government or foreign firms. With the capitalist countries the general practice is to follow current world prices, though at times it happens that East Europe has to sell below the price due to mismanagement. When world prices are undetermined, as it usually happens with manufactured goods where quality is important, bargaining power and relative economic strength is determinent for price fixing.

In the internal operation, Foreign Trade Corporation buys the goods to be exported at its whole-sale domestic prices (in, say, forint) and sell it in the international market at the world/or Contract Price. The foreign exchange received this way is deposited in the State Bank and converted into domestic currency at the official exchange rate. In the case of imports, FTCs buys the goods in the world market with the foreign exchange sold to them by State Bank and sell them domestically at the prevailing whole sale price of similar goods produced at home.

One characteristic of this type of foreign trade is that they insist on bilateral trade. Though introduction of multilateral trade is under way through multilateral payment scheme etc., bilateral trade still remains a favourite. Two reasons can be attributed to this: (1) Rigidity of plan does not permit to incorporate unexpected demand of a multi-lateral set-up; (2) Bilateral trade makes it easier to fulfil one's own import plan.

In the fifties there was hardly any contact between FTEs and enterprise due to which enterprises suffered from the lack of knowledge of the market and opportunities. Moreover, being obsessive with the fulfilment or over fulfilment of quantitative targets, enterprises overlooked quality of products and also its responsibility to sell them abroad in competitive markets. With the reforms in the sixties such a discouraging situation has been sought to be changed. With more freedom to enterprises, decentralization in decision making, more contacts amongst various bodies, incentives to enterprises through premiums and bonuses, more keen watch on the disparity between foreign prices and domestic ones.

But even today import is regarded as more important and export an unavoidable necessity. As Oscarlange said it long back, "This principle that the fundamental determinant is our need for imports - we plan import and then plan to exports enough to pay for them, as the first principle of socialist International Trade." This 'first principle' is applied in all the East-European countries despite their differences in economic structure. For example, in Poland, "exports of very many goods are a resultant items of the material balances".[10] In Hungary, while imports were determined by plan, exports were haphazardly chosen as L.Zsoldos writes, "the only criteria for volume and composition of exports has been whether or not they pay for imports regardless of price." A similar situation existed in GDR also where "imports and exports depend on the state of the material balance."[11]

It is well-acknowledged that this system of planning out trade "ignores relative costs of production, alternative

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10. Boltho, A., n.9, p.53.

11. Zsoldos, L. quoted in Boltho, A., n.9, p.56.
    Pryor, F.L., Communist Foreign Trade System, pp.57-60.

production process and trade programmes and relation between trade and investment. Recent CMEA specialisation endeavour and long term planning tries to rectify the problems and thereby encourage investment in sectors with a comparative advantage but till recently there has been no real effort to do away with this emphasis on physical planning. This is shown by the use of material balances technique on an international scale so far trade between member countries are concerned." These methods, it is true, do show whether enough of any commodity is being produced by the block as a whole and above surplus and deficit arise but as Soviet sources admit, they cannot by themselves indicate which will be the most efficient of the alternative patterns of specialization."[12] A Hungarian official document also express similar realization when it says, "It is almost impossible to determine which foreign trade transaction is advantageous for us and which is not."[13]

<u>Development of Relation Between East-West Over the Years</u>

Although it appears to be quite surprising EEC had no official contact with the CMEA till date 1974 but it had its own policies towards the individual states.[14] The

12. Boltho, A., n.9, p.60.

13. Ibid., p.63.

14. Marsh, Peter, "The Development of Relations Between the EEC and the CMEA," in Shlain and Yannopoulos (eds.), n.3, p.25.

economic and political changes in post 1974 period led to "an increase in the authority and relevance of the community in foreign economic policy and to effect the beginning of a qualitative change in EEC-CMEA relations".[15] In this period these changes also influenced heavily the attitude of CMEA countries towards EEC and East-West economic cooperation. Side by side there was new assessment of the "degree of advantage to be shared by the EEC member states from collective action towards the Soviet Union and Eastern Europe."[16]

In the fifteen years from 1957 to 1972 EEC was seen as a threat and as an organ of monopoly capitalism and was not recognised by the CMEA. But over the years new realization dawned upon the CPEs (Centrally Planned Economies) as they started comparing their own experience with that of West. The immediate causes of this change has been attributed by Marsh and others on the following factors. (i) Drive towards CMEA integration, (ii) the development of domestic economic reforms, (iii) the development in Czechoslovakia in 1968.

But undoubtedly economic reforms were the major policy changes in the period 1968-74. Basic idea behind

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15. Ibid.

16. Ibid., p.26.

these reforms were to increase productive efficiency of all the COMECON economies by incorporating new techniques and some amount of decentralization. To achieve this goal the need was felt for sophisticated technology, advanced management technique and new source of investment. This automatically led to a new emphasis on foreign trade and and economic cooperation with the Western capitalist states in order to draw on their resources of financial and technological expertise to the full. In 1968 a Romanian technocrat put it in the following words, "for a time we thought that the USSR was the fountain technological progress - and indeed she was for us. But, in spite of our late start in industrialization we quickly discovered that there was little to learn from our big brothers. What we need are wider horizons. In many fields we can modernise our economy more effectively by tapping the reservoir of Western technology."[17]

At the same time, in the same period all the socialist enterprises were trying to penetrate Western markets for earning hard currency and consequently to achieve a world market standards in production.

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17. Wiczynski, J., "Technologycin COMECON", Macmillon, 1974, p. 296.

On the Western front the crisis of world economy and increased competition made EEC its reassess the possibilities of benefit out of East-West economic relations. England moved into action in 1964 and then others followed suit. The first real threat of competition came in the wake of American Economic Policy after 1968. In fact this policy forced all the Western Europe into a course of collective action towards CMEA states. Faced with increasing competition of Western Europe and Japan, US resorted to protectnism at home and search for new market outlets abroad. This led to a reappraisal of political and economic attitude towards the Socialist state. At the same time Japan also started moking cooperative gestures towards East European after objectively analysing the economic situation in the socialist and outside world keeping herself up to its true image of shrewd trader. Thus USA and Japan emerged as two new and significant factors in East-West trade and cooperation in the early seventies. Both America and Japan entered into dealings with USSR to exchange technologies for raw materials. Japan agreed to help exploring deposits in Siberia and also opened branch offices in Moscow to to facilitate business negotiation. In addition Japan granted a loan of $1000 million to USSR in 1973. Similarly, two American corporations, IBM and Occidental petroleum opened branch offices in Moscow after signing major contracts with the Soviet Union. In 1972 Nixon-Brezhnev Summit saw the signing of a trade agreement and promote of an export input back credit.[18] Thus from 1972 onwards both American Soviet and Japan Soviet trade were on the upswing.

Faced with such a changing scenario in the external world, the states of Western Europe realized that to extract maximum advantage they must put up a unified front both to USA, Japan and CMEA. To avoid competition amongst themselves and to prevent socialist block from playing one state off another to obtain most favourable Terms of Trade the West European countries decided to change their conventional line approach towards the countries in the socialist world. This is how a changing attitude of the Socialist world met with a changed approach of the West Europe to alter the course of East-West relation from early 1970s.

The Situation in the 1980s

East-West trade and economic relation is passing through a rough weather which began with Russian intervention in Afghanistan in 1979. At the same time rescheduling of the Polish and Romanian debt and the imposition of martial law in Poland has also contributed in

18. This agreement was conditioned upon Congress's approval to a Trade-Bill and broke down in 1978.

dampening the initial enthusiasm of economic exchange between the two sides. The pipe line controversy in 1982-83 between Europe and US marked the culmination of the debate on the desirable extent of relation between Socialist and Capitalist economics. On the whole, East-West trade is stagnating today. Imports from the West are declining and at the same time exports from the East are not being able to make any headway in the markets of the industrialized West. On the debt front East European countries are showing some improvement but nevertheless in the whole of seventies they showed a permanent deficit in their trade account. Western banks are working to short-term loans from medium and long term ones and displaying disinterest. At the same time US and its allies are trying to influence other Western countries to put restraint on the West-CMEA cooperative ventures. All these developments only shows that East-West trade relation continues to be inseparably linked with political relations.

Even within the bloc the scenario in the early years of eighties is not very encouraging. The prospect of 'integration' is not very bright. There has been no consensus on: regarding the basis of specialization, how to measure and divide the fruit of specialization, what kind of regional trade, financial and incentive systems would harmonize the interest of different enterprises in different countries, so that they are willingly integrated as suppliers and buyers.[19] Such discouraging development in East European economic integration scheme will also contribute to a slow down of East-West trade relations in its own way.

Keeping the above mentioned factors in mind we can perhaps say that East-West trade and economic relation is still in a 'transition period' and in the chapters to follow we will make a modest attempt to capture different aspects of East-West relations in this period.

The thesis is designed as follows:

Foreign trade is an indispensable part of any economy. Socialist economies are also no exception to this. The universally accepted objective of foreign trade is to produce goods and services which are both indispensable and unavailable in the domestic economy. Depending on the level, strategy and scope of development, foreign trade does play an important role in enabling an economy to attain its desired goal. Furthermore, foreign trade of a particular nature can also be a necessity if a particular path of development in a particular way is pursued in the countries concerned. It is well established that after the adoption of import-led growth strategy the role of foreign trade in CPEs has changed and at the same time trade with the

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19. Marez, Paul and Montias, J.M. (eds.), East-European Integration and East West Trade, Bloomington: Indiana University Press, 1980 and also Pecsi Kalman (ed.), n.2, expresses the similar kind of opinion.

industrialised West has also been perceived as an objective necessity. In our first chapter we discuss the specific role foreign trade has to pay in CPEs.

In Chapter II, we will devote our attention to the growth of trade volume over the years, its changing composition and the directions of trade flows is taking since early seventies. In this chapter attempt will be made to unveil the reasons which led to an "out-burst" of trade and economic relations between the East and West. We will also trace the financial relations between the two sides in the period starting from early seventies to early parts of eighties. Along with above two, industrial cooperation between East and West will also be briefly discussed. Japan being the only 'capitalist east' trading with 'socialist west', we will discuss Japan's economic exchange separately in the same chapter.

In the third chapter, some important problems which have cropped up after 1970 and also the problems inherent in a centrally planned economy trading in the international market will be looked into. But in this chapter our main focus will be on the debt problem which has been haunting the smaller East European countries for quite some time now.

In our concluding chapter we will summarise the salient features of the above mentioned chapters. A modest attempt would also be made it possible, to give logically built up suggestions.

Finally, a few words about the statistical data used in the dissertation. Statistical information published by different sources show wide discrepancy in the matter of East-West trade. Some time the discrepancy arises because of unequal recordings of trade and shipments. Moreover COMECON countries do not publish data on balance of trade. Again reliability of many sources are extremely doubtful. Taking all these factors into account, we have exclusively used (barring a few exceptional cases) the statistical hand-book on CMEA trade published by Vienna Institute of comparative economic studies ~~foreing trade and development in~~ 1982.

Throughout the dissertation statistical inferences are drawn on the basis of simple calculation. Furthermore, the definitions and code numbers used in the various statistical tables are given along with tables used in various chapters.

The countries mostly discussed in the CMEA and industrialised West are as follows:

1. CMEA (7): Bulgaria, Czechoslovakia, GDR, Hungary, Poland, Romania and USSR.
2. Industrialised West (7): USA, Japan, Austria, FRG, France, Italy and U.K. (Some time some more countries may be incl[illegible] in the second group if necessary).

Chapter II

ROLE AND NECESSITIES OF FOREIGN TRADE IN CENTRALLY PLANNED ECONOMIES

Foreign trade is an integral part of any modern economy. In this age of fast changing technology and ever increasing specialization of production it is almost a wild dream to think about an autarkic state. But at the same time the importance of foreign trade or the status of external economic relations is not the same for each and every economic community of the world. Like any other economic institution, the external trade and economic relations also do take a particular shape, a unique direction and propagates a certain economic ideology based on both the material base and need and political reality of the country concerned. The economies of the East European Socialist countries do exhibit all such traits but at the same time reassert the truth that no modern economy can move towards its cherished goals without taking part in the international division of labour. But this participation of the socialist community in the international economy has passed through many ups and downs, has to pass through many rough weathers. It was not in a very distant past when one saw all the socialist countries led by USSR being forced to impose autarky as they were seen as a deviator form the path which was so natural for the world economic community as a whole. But to-day, we see staunchest economic, political and military rivals shaking hands over diplomatic tables promising each other to cooperate in their economic pursuits. What appears to be a miracle if one does not delve in deep to find the rationale is nothing but what economists always argued theoretically although with varying degrees and from different outlooks. What we mean to say is that the two groups with conflicting economice ideology are joining hands in the economic field not out of their delinqucy but on the basis of their cool, calculative understanding of the economic reality. In the following pages we would like to discover these realities. Our enquiry becomes more interesting because what we will be dealing with are two groups: COMECON and world's richest community i.e. industrialised capitalist countries (EEC, Japan and USA). COMECON matters because it unites the West's principal economic and military rivals, its members form a tenth of world's population and certainly produce more than a tenth of the world's income.[1] COMECON also matters because they are determined to get stronger. For a beginner what strikes at the very first look is the aspiration of central planners fully to mash trade into

1. COMECON Survey, <u>Economist</u>, April 20, 1986

central planning process through state monopoly of foreign trade (MFT) and to mitigate as much as possible the uncertainty inherent in trade by concluding binding agreements.

"CPEs engage in external commerce not so much to maximise the micro and macro economic gains from trade as to facilitate the implementation of pre-set nation wide economic plans or the realization of centrally held development priorities. In other words, the gains or costs of individual transactions and hence individual commodity prices, do not matter much in terms of overall success criteria of CPEs as long as the trade sector is centrally controlled."[2] Another thing which should be kept in mind is that each economic contracts/deals with the West has its specific factors affected by a multitude of factors which vary at different times and in different countries. A detailed factual description on the motives, the execution and the results of various contracts constitutes a warning against generalizations and pre-conceived ideas.[3]

The influence of foreing trade on the growth process of centrally planned economies, evidently defers from that

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2. Brabant, Jozef M., "~~Role of Foreign Trade in Centrally Planned Economies:~~ The USSR and Socialist Economic Integration," A Comment Soviet Studies, Vol'XXXVI, No.1, January 1984, pp.127-28.

3. Hill, Malcolm, R., East-West Trade, Industrial Cooperation and Technology Transfer, Gower Publishing (London), 1983, Reviewed in Soviet Studies Vol. XXXVI, No. 1, JAN'1984, P151

usually associated with the market economies, either developed or underdeveloped. In the case of Western industrialised economies the influence of foreign trade operates only through its exports. This can happen either in a " "Keynesian underemployed type of world, in which export demand, through the foreign trade multiplier, supplements an insufficient domestic effective demand, or in a post-war full employment society, in which growth can often be export propelled, by virtue of a spiral of investment stimulating increases in productivity which in their turn promote exports; thanks to the latter, balance of payment, constraints can be ignored and further high investment plans launched, which keep the economy in a state of long run confidence itself generator of further and faster grwoth".[4]

In the underdeveloped countries it is import which leads to grwoth. Imports provide the required techniques and capital goods which cannot be produced within the economy. Thus, here import multiplier assumes the role of the prime mover. The centrally planned economies fall on the intermediate level and it is for that reason they could be defined as 'semi developed'.[5]

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4. Boltho, Andrea, "The Role of Foreign Trade Criteria in Socialist Countries," Cambridge University Press, Cambridge, 1971, p.128.

5. This definition is used by Adler Karlsson, in 'The Semi-Developed Socialist Economy' cited here from the foot-note, Boltho, n.4, p.129.

Although, it may appear in the first sight that the economic structure and growth meets resemble more closely to those of less developed countries, it can be said with confidence that most of the socialist countries had reached higher economic development than modern less-developed countries much before their socialist revolution. They never really had the burning necessity to look for capital goods outside to produce desired result of output. They had enough skill and sophistication to produce them internally. For the centrally planned economy "it was easier to limit the function of foreign trade to that of accessory to a development process fostered within a general autarkic frame."[6]

The Stanlist model of industrialization aided by strictly controlled pattern of foreign exchange has allowed the East-European countries to industrialise rapidly without resorting to excessive specialization to any primary commodities and probably to "alter the comparative advantage pattern which would have been dictated to them, at the outset, by strictly static considerations."[7] Without getting into any controversy, one can say in material sense that the strategy paid off but all these happened in three decades back. The situation did not remain the same after mid-sixties and

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6. Boltho, n.4, p.129.

7. Ibid., p.130.

particularly after the beginning of seventies. Most of the old priorities goes were achieved.[8] Over the years range of possible choices widened considerably in the form of chemicals, consumer goods, increase leisure, electronics, agriculture etc. At the same time there is no more Lewis type of unlimited supply of labour from the country side. The growth process itself has changed its course from extensive to intensive one.[9] Possibilities are limited for further increase in the output by mere plant multiplication. "Marginal capital output ratio is increasing. The much more refined and different choices associated with capital deepening are taking place of rought and ready methods that for a long time had been directing capital into a few chosen sectors."[10]

In such a situation as described above foreign trade has a more positive role to play as far as growth is concerned. Foreign trade here widens choices, creats economies of skill and specially stimulates technical progress. Technical programmes can be stimulated through a concentration of effort, in exports sector, keeping in

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8. Electricity, steel and armaments were the first in the priority list, Boltho, n.4, p.130.

9. Ibid. Wilczynski, J., <u>Socialist Economic Development and Reforms</u>, Macmillan, 1974, pp.9-17.

10. Boltho, n.4, p.130.

view the international standard of quality. Governments have come to recognize that imports needs are potentially very large. Although they still regard exports as an unavoidable necessity; consequently growth can be exported, but dependents on foreign trade is increasing and planned specialization, both inter and intra industrial, is being pursued. In this conditions imports perform a function similar to the one so far considered, but exports too begin to contribute by encouraging the growth of leading sectors capability of stimulating the rest of the economy, and by helping to dismantle an under-specialized economy in which a large number of commodities was produced in almost invariably inefficient conditions.

It is ironical that the stress laid on heavy industries is now creating foreign trade problem for several of the East-European countries. These should not, however, be taken as an indictment of the growth pattern chosen. The relative neglect of primary products and insufficient attention to quality which are at the root of present imbalance between over production of machinery and scarcity of raw materials, could probably be corrected by CMEAs efforts.

That the socialist outlook to foreign trade has changed,[11] can be seen from the COMECON's declared policy

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11. Wilczynsk, J., n.9, pp.260-99.; Smith, Alan, H., The Planned Economies of Eastern Europe, Croom Helm, London and Canberra, 1983, pp.203-20.

to develop trade 'with all countries of the world'. Here one may wonder whether this declared policy and CMEA's integration effort would go hand in hand. We feel they would.. Because if COMECON members were to work more efficiently they should produce better goods to sell more of them to the world. That in turn would help them to fill their hard currency coffers, enabling them to buy more western goods. So, far from being incompatible, COMECON's integration and East-West trade can flourish together.

Not only above theoretical possibility, there are sound reasons too to believe that the drive for more comradely cooperation will go hand in hand with Western trade. In the past, COMECON's joint project have needed large top-ups of Western equipment. In the biggest project of all, the Soyuz gas pipeline, about 80 per cent of the materials used said to have been imported from the West. And in order to modernise their factories and cut energy consumption, COMECON countries need just the sort of advanced technology the West can provide.[12]

So, today, the question is not whether CMEA wants trade with the West but how much of it and what type of it.

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12. Franklin Daniel and Moreton, Edwina, "Comecon Survey," Economist, April 1985.

Unfortunately there is hardly any consensus among the COMECON members regarding the optimum volume of trade. Russians definitely want to reduce it as they think that look West attitude distracted attention from the potential of their own innovation. One hears them wanting to "liquidate unjustified reports from the capitalist countries."[13]

But East-European countries need hard currency not only to buy equipment but also to service their debt. True, the East-European six reacted impressively to the Western credit squeeze which affected them all in the wake of Poland's collapse. But even for most of the six[14] debt service is still a heavy burden. Even among the six the pinch is not felt equally. Of the countries whose economies tilt mostly to the West, Hungary and GDR have been keen to keep their Western trade and Western credits flowing strong. Bulgaria and Czechoslavakia have a relatively low debt and both have been reluctant to start borrowing on a large scale and consequently are less worried.[15]

The above paragraphs should not suggest that the need of technology and capital laid CMEA countries to trade

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13. Babakou, Nicholai, Chief Soviet Planner, quoted in "COMECON Survey," The Economist, 20 April 1985.

14. Ibid. Six: Romania, Poland, Hungary, GDR, Bulgaria, Czechoslavakia.

15. Ibid.

with the West and West also reciprocated out of generosity. As we have already mentioned the trade between East and West is of great interest to both the parties. As such law of capital has the incessant desire for expansion and hence endless search for new markets. So all the capitalist countries do see a vast potential but yet shielded market in the East Europe and will naturally be inclined to explore when they feel that it goes well with their interest. Another thing which strengthen this desire was the prolonged recession and stagnant (if not slackening) demand in the home markets. Along with these two or rather in consequent of these two one found Japan and USA competing with West Europe to get a share in the cake. Not only that amongst the West European countries there were tendencies to cut in to each other's shares.[16] All these gave more and more importance to the East Europe economy exchange. Both the sides are trying to make the best out of it for their own interest without touching the issue of fundamental differences between the two community.

Thus what we are trying to argue here is that East-West trade and economic relations should not be seen as a game between a dependent and provided economy but as a

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16. Marsh, Peter, "The Development of Relations Between the EEC and the CMEA," in Shlaim and Yannopoulos (eds.), The EEC and Eastern Europe, Cambridge University Press, Cambridge, 1978, pp.38-39.

complementary one which is so natural at this era of internationalization of production. The very fact that CMEA's exports to EEC has 61 per cent raw materials and EEC's exports to CMEA had 91 per cent manufactured products in it in the year 1975.[17] only gives testimony to our observation of their complementary nature. But here one must not that so far as volume of trade is concerned EEC is more important partner to CMEA than CMEA to EEC. For example, EEC share in CMEA foreign trade was in excess of 25 per cent but CMEA's share in EEC's foreign trade did not amount to more than 4 per cent in 1976.[18] Similarly only somewhat more than 3 per cent of OECD's total foreign trade is conducted with COMECON countries and exports of COMECON countries were only of 0.6 per cent of OECD's GNP in 1981. Moreover, the significance of technology transfer - such as one in natural gas pipeline deal - cannot be discussed in figures. If one measures the importance of East West trade in terms of the entire external trade volume of the various countries it becomes clear that figuratively COMECON countries are more dependent on the West than vice-versa. The following two tables (Tables 1(a) and (b)) will illustrate this.

17. Muller, Friedemann, "Mutual Economic Dependence Between the EEC and the CMEA," in Shlaim and Yannopoulos (eds.), n.16, p.209.

18. Ibid., pp.207-08.

Table 1(a)
SIGNIFICANCE OF TRADE WITH THE EAST-BLOC FOR SOME SELECTED OECD COUNTRIES* IN 1981

	East Bloc Exports (fob)		East blocl Imports (cif)	
	in mil.$	% share of total exports	in million $	% share of total imports
Finland	3,709	26.5	3,816	26.9
Austria	1,816	11.5	2,500	11.3
West Germany**	8,625	6.4	5,866	5.9
France	4,118	4.1	5,025	4.2
Sweden	1,115	3.9	1,295	4.5
Italy	2,546	3.4	4,769	5.2
Switzerland	883	3.3	1,235	4.0
U.K.@	2,565	2.4	2,875	2.5
Japan	4,356	2.9	2,429	1.7
USA	1,555	1.0	4,343£	0.6
OECD Europe**	32,206	4.0	39,719	4.6
OECD Total**	44,138	3.4	44,260	3.2

* Source: OECD, Statistics of Foreign Trade, July 1982. Reproduced in Dobrovolny, J., "East-West Trade in a Transition Period," East European Quarterly, XVII, No.3, September 1983, p.338.

** Including inter German Trade

@ Estimated

£ f.o.b.

Table 1(b)

SIGNIFICANCE OF TRADE WITH THE WEST FOR COMECON COUNTRIES 1981

	Exports to OECD* billion $	Imports from OECD* billion $	Balance	Share of Western exports in total export volume@	Share of Western imports in total import volume@
USSR	25.0	22.2	+2.8	32.5	35.5
GDR**	5.0	5.2	-0.2	25.0	30.5
Poland	3.7	4.5	-0.8	34.5	32.0
Romania	3.6	3.0	+0.6	35.0	34.0
Czechoslovakia	2.8	2.4	+0.4	22.0	24.5
Hungary	2.5	3.2	-0.7	31.2	39.0
Bulgaria	0.9	1.9	-1.0	16.0	17.0
COMECON**(Europe)	43.5	42.4	+1.1	30.0	33.0
COMECON (Total)	44.3	44.1	+0.1	30.0	33.0

*. Source: OECD, Statistics of Foreign Trade, July 1982, Ibid., p.339.

** Including inter-German Trade.

@ Calculated on a rouble basis according to the Statistical Yearbook of Comecon, Moscow 1981.

What emerges from the above two tables is that qualitatively speaking CMEA countries exports to and imports from OECD is much more significant than OECD's exports to and imports from CMEA as far as their total trade volume is concerned. This implies following three things:

(i) CMEA's dependence is more on OECD as far as trade volume is concerned than vice-versa;

(ii) With such impressive shares in the total foreign trade of CMEA's the trade with OECD has a very significant role to play in the centrally planned economies.

(iii) The very fact that this significant role has been given to the trade with the West by economic decision makers in the centrally planned economies implies that there is a need or necessity in the economy for this trade to grow.

Now, after discussing the role and necessities of foreign trade in the CMEA countries we will try to understand the conditions which has presently resulted into high demand for foreign technology. To simplify matters we will distinguish between two broad categories in the line of Ryszard Rapaciki.[19] These go as follows:

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19. Rapaciki, Ryszard, "Factors Determining the Demand Foreign Technology in a Socialist Economy," East European Economics, Vol.XXI, No.1, Fall 1982, pp.56-[illegible].

(a) Internal factors: Working mechanism of the economy, its structure and state of development determining general capacity to create and produce technical innovation; and

(b) External Factors: The exist independent of internal changes in the economy, in the area of economic ties with foreign countries.

It is widely believed that socialist countries have low affinity towards introducing new products (i.e., they are usually characterised as "standardized product economies") and also to introduce improved methods and means of production. Consequently, the rate and extent of technical advancement is lower than what is theoretically possible and desirable.[20]

There are number of reasons for their handicap of CPEs mentioned above of which mention only two. First, whenever a decision is taken either to expand an old asset or introduce a new one the choice is always for the most modern initiatives and this usually happens to be the imported one. Secondly, because of the nature of economic calculations and evaluative criteria, innovation is not generally in a privileged position whenever there is a

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20. Ibid.

choice between continuation and change. "The pressure to modernize is not felt much by the enterprises, partriculary since the risk associated with upgrading means of production during operation is not adequately offset by the additional incentives to 'up-date'.[21]

Like any other economy, in a socialist economy too the need for foreign technology is decided on the basis of development achieved and state and structure of productive prices. In the East-European countries we can see a functional relationship between need of imported technology and nature of economic growth and role of intensive factors in it. As the extensive growth factors (i.e. investment, employment) are fastly depleted there is definitely a strong necessity to boost inherent human creativity and efficiency. This new necessity will make it imperative to development of science and technology and also to participate increasingly in the inter-national division of labour. Thus the strategy of intensive growth creates an objective necessity for socialist countries to demand more advanced technology and give a new thought to the role of foreign technology in solving the problems of economic development.[22]

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21. Ibid. p. 37

22. Ibid.

But again, not all the countries with similar level of development will exhibit the same eagerness for imported technology. The need or demand for foreign technology is also determined by the structure of the economy and its changes. Countries with the same level of development but greatly different so far individual branches (particularly those demanding innovation) will show different tendencies towards technology import. Perhaps this explains the high disproportion found in the area of technology imports amongst socialist countries. For example, "the proportion corresponding to the chemicals, machinery and electronics industries in Czechoslavakia and GDR is substantially higher than in Poland, as manifested in a scale of foreign licenses purchases by these countries that is much larger than it would result merely from the same scale in terms of economic development levels."[23]

So far as internal factors are concerned we can also submit this observation that exists some kind of functional relationship between demand for imported technology and level of investment and country's willingness to participate in the international division of labour.[24] Classic example

23. Ibid. P63

24. Ibid. P73

in this case is Poland in the seventies. The new development strategy that went into effect in 1971 was largely based on an increased investment effort and greater involvement in the international division of labour. Indeed we see here that though working mechanism reviewed unaltered. There was a rapid growth in the importation of new machines and equipments and of technology in "un-embodied" forms particularly in the form of licenses.

Now coming to the external factors determining the importation of technology we must note at the very beginning that though they emerge independently of internal changes in the economy, they are primarily shaped by the internal development of individual economies. What is most fundamental to these external factors is the fact that no country even one with most abundant resources can initiate technical progress in all sectors simultaneously and is bound to import technology whenever the results of the economic calculations favour abundanment of domestic research and development. This inevitable need is felt more acutely when "demonstration effect"[25] and desire to catch up with others fast is also very strong.

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25. Ibid. Here demonstration effect refers to machinery, methods and equipment for finished products and not to consumer goods as such.

Thus what we observe from above paragraphs is that in the socialist countries that we are concerned with have objective reasons to feel the necessity of foreign trade particularly with the West. This has led to a change perception of the role of trade with the non-socialist countries particularly West in the recent years. The result of these have been increasing participation of socialist countries in the international division of labour in the last fifteen years or so. We would like to conclude this chapter by quoting Deputy Prime Minister of Hungary who summarises the thoughts of socialist political decision makers in recent period in the following words, "An increasing participation in international division of labour in conformity with our conditions and growth requirements is a fundamental preconditions not only for counter balancing our terms of trade losses, but also for implementing both our future economic development and social policy objectives".

Again, "There is a close interaction between the improvement of our product and products structure and development of foreign trade relations. A rapid development of our foreign trade relations is an important pre-condition:.. for the high speed development of production in an intensive direction as well as improvement of the country's economic policy."[26]

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26. Dr. Szeker, "Hungarian Economy - World Economy," East European Trade, No. 193, April 1979, pp. 11-12.

Chapter III

VOLUME, STRUCTURE AND DIRECTION OF TRADE

It is true that East-West trade and economic relations are still in the transition period. But at the same time it is also true that their volume has increased over the years and also diversifying. Today economic transaction between East and West takes place both at financial and real level. Not only that East European state enterprises and Western capitalist firms have started working in joint ventures not only in the countries concerned directly but also in third countries. Perhaps, U.K. was the first Western capitalist country who opened up economic relations with the socialist countries (first with Russia in 1949) but today all the Western countries (capitalist) compete with each other to get a share of European market. Not only this, in recent years (beginning from early seventies) USA and particularly Japan have acquired a special status in East-West economic and trade relations. So much so that Japan and USA are regarded as rivals and EEC has to take special note of these countries while taking a decision regard their deals with the Eastern Europe including USSR.[1] Keeping in mind the special status of Japan in the

1. Marsh, Peter, "The Development of Relations Between the EEC and CMEA," in Shlaim, A and Yannopoulos, G.N. (eds.) The EEC and Eastern Europe, Cambridge University Press Cambridge, 1978, pp.58-59.

international market and also giving full justice to the importance of she being a partner of the socialist bloc, we will discuss the trade and economic relations of CMEA with Japan separately towards the end of this chapter more elaborately.

First we will discuss the physical trade between East and West. Here we must mention about an important categorisation of goods i.e. hard (currency) goods and soft (currency) goods. It is too well known that CMEA countries need desperately hard currency goods[2] but at the same time they are more endowed with soft goods. A number of studies rank commodities from hardest to softest as follows:

1) Raw-materials and fuels that can be sold to the Western market;
2) Modern equipment and parts;
3) Standard engineering products which the country cannot obtain from the domestic production.
4) Food and light industry products whose domestic supply fluctuates
5) All products not mentioned from (1) to (4) are soft.[3]

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2. In CMEA Beef spare parts, technology, etc. are the most important hard goods.

3. Pesci, Kalman, "Future of Socialist Economic Integration," reprinted in East-European Economics. Fall, 1980, Vol.XIX, No.1, .137.

The range of these products changes from time to time (and partly every year). The categorization fundamentally affects the structure of mutual trade. It is also quite obvious that hardness and softness do effect the structure of trade amongst other things.

Another fact known to all is that CMEA's exports mainly consist of raw materials[4] and labour intensive products while they import heavily machinery/equipment and capital intensive products. Table 1 will illustrate the fact.

Table 1

WESTERN TRADE WITH CMFA BY FACTOR INTENSITY (%) SAMPLE OF TEN INDUSTRIALISED COUNTRIES

Year	Labour Intensive		Resource Intensive		Technical Int.	
	Export (X)	Import (M)	Export (X)	Import (M)	Export (X)	Import (M)
1965-68	27	27	22	60	51	13
1971-74	30	26	24	59	46	15

Source: R.Eulor, "Why Future Credits Depend on East Bloc Exports," Euromoney (January 1977), p.42.

In the above table chemicals and machinery are considered as technology intensive; textiles, processed food stuffs, other light industries, metal and wood products were classified as labour intensive, and the

4. But here it should be noted that apart from USSR the other CMEA countries are very poor in raw materials also.

rest as resource intensive. Over the decade 1965-74, on average 60 per cent of western imports from CMEA were resource intensive products and another 26 per cent labour intensive. Conversely, about 46 per cent to 51 per cent of Western exports to the CMEA were technology products. Obviously, as the development of CMEA economies proceeds new pattern of demand will emerge which will familiarise state industrial enterprises with a production of new products that could become exportable in future. There is definite indication that two way flow of technical know-how will emerge in near future.[5] Thus the fear expressed in some circles that East-West trade will stagnate due to the composition of trade is not well founded. However, at the present stage the trade and monetary relations between East and West can be illustrated with the help of Figure 1.

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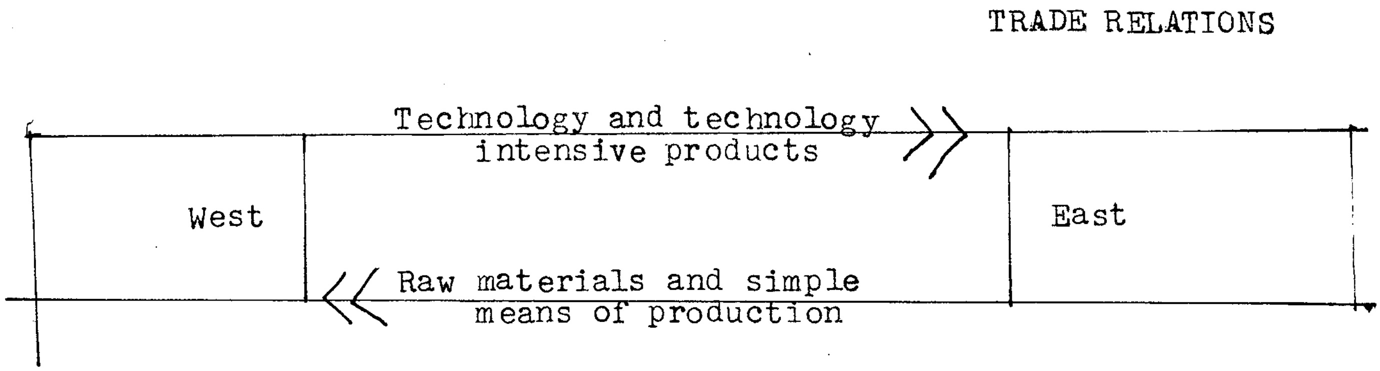
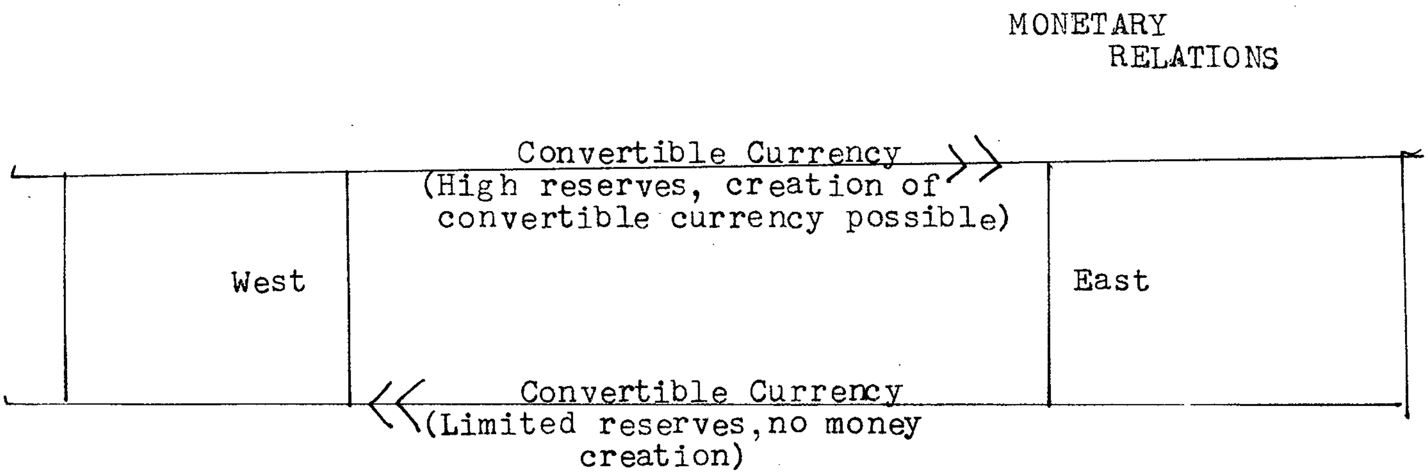
5. 'The CMEA has attained a high technology too, in a number of fields especially metallurgy, machine building, medical equipments, pharmaceuticals, food-processing and they have been offering licenses to the West, particularly since mid-sixties.

CURRENTS OF EAST-WEST TRADE





Source: Muller, F., "Mutual Economic Dependence Between EEC and CMEA," in Shlaim, A. and Yannopoulos, G.N. (eds.), <u>The EEC and Eastern Europe</u>, Cambridge University Press, Cambridge, 1978, p.212.

Now in the following pages we will produce some statistical information concerning trade volume, structure and direction of East-West physical trade and will draw some statistical inferences from them.

Table 2

INDUSTRIALISED WEST*- TRADE WITH CMEA COUNTRIES 1970-81
(in million US $)

Year	Bulgaria	Czech.	GDR	Hungary	Poland	Romania	USSR	CMFA
				Exports				
1970	297	723	382	573	794	667	2209	5645
1975	1039	1757	1030	1753	5189	1893	10715	23376
1976	874	1950	1165	1726	5179	1863	11653	24410
1977	822	1943	1037	2195	4714	2155	11412	24278
1978	1007	2155	1357	2820	5251	2762	13331	28682
1979	1114	2559	2188	2811	5669	3518	16521	34386
1980	1468	2687	2275	3020	6054	3575	17294	36374
1981	1648	2010	1901	2885	3691	2473	16233	30841
				Imports				
1970	208	658	363	495	939	504	2118	5285
1975	318	1487	890	1173	2761	1437	6750	14816
1976	377	1541	942	1345	3237	1703	8773	17918
1977	393	1699	993	1562	3391	1684	10079	19800
1978	474	1964	1201	1747	3849	2035	11366	22636
1979	697	2475	1428	2332	4475	2896	16210	30513
1980	707	2883	1840	2592	4892	2063	20286	36264
1981	691	2311	1710	2226	2930	2869	18215	30952

*Consists of Canada, USA, Japan, Austria, Belgium, Denmark, France, FRG, Italy, Netherland, Norway, Sweden, Switzerland and U.K.

Source: COMECON Foreign Trade Data, p.262. Vienna Institute for Comparative Economic Studies.

Table 3

INDUSTRIALIZED* WEST - TRADE WITH CMEA, 1970-81 SHARES OF INDUSTRIAL CMEA COUNTRIES

Year	Bulgaria	Czech.	GDR	Hungary	Poland	Romania	EF	USSR	CMEA
				Exports					
1970	5.3	12.8	6.8	10.1	14.1	11.8	60.9	39.1	100
1975	4.4	7.5	4.4	7.5	22.2	8.1	54.2	45.8	100
1976	3.6	8.0	4.8	7.1	21.2	7.6	52.3	47.8	100
1977	3.4	8.0	4.3	9.0	19.4	8.9	53.0	47.0	100
1978	3.5	7.5	4.7	9.8	18.3	9.6	53.5	46.5	100
1979	3.2	7.4	6.4	8.2	16.5	10.2	51.9	48.1	100
1980	4.0	7.4	6.3	8.3	16.6	9.8	52.5	47.6	100
1981	5.3	6.5	6.2	9.4	12.0	8.0	47.4	52.6	100
				Imports					
1970	3.9	12.4	6.9	9.4	17.8	19.5	59.9	40.1	100
1975	2.1	10.0	6.0	7.9	18.6	9.7	54.4	45.6	100
1976	2.1	8.6	5.3	7.5	18.1	9.5	51.0	49.0	100
1977	2.0	8.6	5.0	7.9	17.1	8.5	49.1	50.9	100
1978	2.1	8.7	5.3	7.7	17.0	9.0	49.8	50.2	100
1979	2.3	8.1	4.7	7.6	14.6	9.5	46.9	53.1	100
1980	2.0	8.0	5.1	7.2	13.5	8.5	44.1	55.9	100
1981	2.2	7.5	5.5	7.2	9.5	9.3	41.2	58.9	100

Source: Ibid., p.263.

*Consists of Canada, USA, Japan, Austria, Belgium, Denmark, France, FRG, Italy, Netherlands, Norway, Sweden, Switzerland, and U.K.

We can see from Table 2 clearly that policy of detente in the early years of 1970 really led to an upswing in the East-West trade volume. The annual growth of industrialised West's exports to CMEA was around 34.3 per cent. In absolute terms the West's export to CMEA rose from 5645 million US $ in 1970 to US $30,841 million in 1981. The highest importer from the West as well as highest exporter to the West was USSR in the entire period. Not only that USSR showed the highest growth rate in its trade with the West and its export rose faster than the imports. Czechoslovakia is the only other CMEA country whose export grew faster (19 per cent) than its import (13.7 per cent) over the period 1970-81. The rest five countries have shown faster increase in their import than exports in their trade with the West. The period 1970-81 saw a continuous upswing in East-West trade volume only with one exceptional year 1976-77 when exports to CMEA dropped from 24,410 million US $ to 24,278 million US $. But 1981 turned out to be the worst year with a universal decline in the trade volume between CMEA seven and industrialised west. Heading the list Poland dropped imports from OECD by 39 per cent over 1980 and exports to OECD by 40.1 per cent in a single year. The fact of abrupt slowing down of growth of trade volume in 1980 and then a negative growth in 1981 strongly imply the influence of politics over economies.

Though we cannot say anything concrete about the effects of this drop of trade on the CMEA economies, we can certainly say that USSR is the least vulnerable country in the CMEA. Not only because of its meagre trade-GNP ratio but also to the fact that its share as we see in Table 3 in the CMEA's exports to West is steadily increasing over the years. In 1981 her share was 58.9 per cent of total CMEA exports to the West while in 1970 it was only 40.1 per cent. Again in the import front she always claimed less share in the imports from the West than the other six clubbed together. In case of other countries we see lot of fluctuations in their shares in the trade. Out of this what emerges clearly is Bulgaria's low status in the share of trade with the west and Poland's steady decline in the share over the years. But despite that in 1981 Poland still claimed highest share in the trade amongst European CMEA countries closely followed by Romania and Hungary.

SITC (Standard International Trade Classification, Revised in 1961*)

SITC0: Food and Live Animals

SITCI: Beverages and Tobacco

SITC2: Crude materials, inedibles except oils

SITC3: Mineral fuels, lubricant and related materials

SITC4: Animal and Vegetable oils and fats

SITC5: Chemicals and Chemical products

SITC6: Manufactured products classified chiefly by metals

SITC7: Machinery and Transport equipment

SITC8: Miscellaneous manufactured articles

SITC9: Commodities and Transactions not otherwise classified.

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*The content of SICT 1 group were slightly changed by 1978 revision which has been applied by some countries. Data of 1978 onwards are therefore, not fully comparable with previous years.

Source: COMECON Foreign Trade Data 1982, ed., Vienna Institute for Comparative Economic Studies sponsored by First Austrian Bank, p.252.

Table 4

EXPORTS OF SEVEN INDUSTRIALIZED COUNTRIES AND INDUSTRIALISED WEST TO CMEA BY COMMODITY GROUPS, SHARES OF COMMODITY GROUPS IN PERCENTAGE
1970

Country	SITCO	1	2	3	4	5	6	7	8	9	Total
Bulgaria	6.3	0.3	4.0	3.8	0.1	13.7	33.8	34.0	3.4	0.0	100
Czekoslavakia	11.3	0.5	7.5	0.5	0.5	15.9	17.2	39.0	6.8	0.0	100
GDR	9.3	1.1	7.8	4.4	0.6	9.2	24.0	40.8	2.8	0.0	100
Hungary	10.8	0.2	7.5	0.5	0.5	19.8	30.5	23.9	5.5	0.0	100
Poland	12.6	0.5	9.0	1.2	2.4	14.1	14.1	25.6	29.7	0,0	100
Romania	4.5	0.1	6.2	4.5	0.4	9.3	31.7	39.5	3.3	0.0	100
USSR	5.7	0.2	3.9	0.2	0.0	11.4	28.2	10.9	8.7	0.0	100
					Year 1975						
Bulgaria	4.4	0.4	2.1	0.9	0.1	11.7	28.9	47.7	3.1	0.7	100
Czekoslavakia	4.1	0.7	6.7	1.5	0.6	21.2	18.0	38.8	6.7	1.1	100
GDR	6.7	1.3	8.1	0.1	0.5	20.5	26.7	32.1	3.5	0.5	100
Hungary	6.8	0.4	4.7	0.4	0.3	24.8	30.7	26.4	4.7	0.8	100
Poland	10.5	0.2	5.9	0.8	0.6	10.1	28.9	39.3	2.5	0.8	100
Romania	8.1	0.1	4.4	4.0	0.5	10.8	32.1	36.5	3.0	0.5	100
USSR	15.2	0.1	1.3	0.2	0.3	8.7	31.6	39.0	2.9	0.7	100

Table 4 contd...

Country	SITC0	1	2	3	4	5	6	7	8	9	Total
					Year 1981						
Bulgaria	13.0	1.0	8.6	0.5	0.1	16.0	21.8	38.5	4.0	1.5	100
Czekoslavakia	8.4	0.3	7.9	1.5	0.4	23.6	14.7	36.7	5.3	1.0	100
GDR	22.3	1.6	4.8	0.2	0.5	15.1	18.7	33.2	3.0	0.6	100
Hungary	3.5	0.2	5.0	2.5	0.3	28.9	26.6	30.2	6.8	1.0	100
Poland	40.5	0.5	4.8	0.7	0.9	12.8	12.7	23.2	2.2	1.7	100
Romania	26.0	0.4	6.4	11.6	0.4	13.3	20.6	17.8	2.9	0.5	100
USSR	30.1	0.1	1.9	1.1	0.5	11.1	28.4	22.9	2.7	1.2	100
ALL	26.2	0.37	3.6	1.98	0.52	14.2	24.4	21.5	3.4		100

Source: <u>COMECON Foreign Trade Data</u>, Vienna, pp.300-388 (Summarised)

Table 5(a)

IMPORT OF SEVEN INDUSTRIALISED COUNTRIES FROM CMEA COUNTRIES BY COMMODITY GROUPS 1970

Country	SITC0	SITC 1	2	3	4	5	6	7	8	9	Total
Bulgaria	36.4	7.5	11.8	0.4	4.8	5.5	18.3	5.6	8.9	0.0	100
Czekoslavakia	11.1	0.4	13.6	7.8	0.2	6.5	29.6	17.3	12.0	0.0	100
GDR	9.7	0.2	6.7	5.6	0.3	15.4	24.7	21.2	15.9	0.0	100
Hungary	40.7	1.3	11.7	2.8	1.4	4.8	18.8	5.9	11.5	0.0	100
Poland	32.9	0.9	14.1	19.3	0.3	4.6	17.7	3.5	5.6	0.0	100
Romania	26.8	0.6	19.8	8.9	4.4	5.9	18.4	3.6	10.9	0.0	100
USSR	5.1	0.2	36.5	29.6	1.9	3.2	19.6	2.7	0.7	0.0	100
CMEA	17.8	0.8	22.9	17.9	1.6	5.2	20.7	6.4	6.3	0.0	100

Source: <u>COMECON Foreign Trade Data</u>, ed. Vienna Institute, pp.300-83 (Summarised).

Table 5(b)

IMPORTS OF SEVEN INDUSTRIALIZED COUNTRIES FROM CMEA COUNTRIES BY COMMODITY GROUPS 1975

Country	SITC0	SITC 1	2	3	4	5	6	7	8	9	Total
Bulgaria	31.3	16.3	6.1	1.8	0.9	5.1	17.1	8.5	11.7	0.0	100
Czekoslavakia	8.1	0.4	11.2	13.9	0.3	6.7	26.9	15.8	15.1	0.0	100
GDR	14.9	0.0	7.5	6.8	0.6	16.6	17.2	18.7	17.3	0.0	100
Hungary	32.6	1.4	8.9	2.1	1.5	6.9	16.7	8.4	20.4	0.0	100
Poland	16.8	0.6	9.6	33.8	0.4	36.4	13.3	11.1	9.7	0.0	100
Romania	15.8	0.6	7.4	24.6	3.0	4.5	15.5	6.4	21.8	0.0	100
USSR	1.9	0.2	25.9	50.4	1.8	4.1	11.0	3.4	0.8	0.0	100
CMEA	9.9	0.7	15.8	31.9	1.3	10.8	13.6	7.3	8.2	0.0	100

Source: Ibid.

Table 5(c)

IMPORTS OF INDUSTRIALISED COUNTRIES FROM CMEA COUNTRIES BY COMMODITY GROUPS
Year 1981

Country	SITC0	SITC 1	2	3	4	5	6	7	8	9	Total
Bulgaria	13.7	8.5	5.4	30.1	0.1	8.7	10.8	12.4	9.4	1.0	100
Czechoslavakia	7.1	0.4	13.5	18.6	0.2	11.0	25.4	10.2	12.6	1.1	100
GDR	7.7	0.0	4.7	27.4	0.7	15.6	16.5	13.8	13.2	0.5	100
Hungary	23.6	1.5	9.4	7.7	1.6	10.8	14.5	10.8	18.8	1.2	100
Poland	16.1	0.4	10.6	16.8	0.1	5.5	24.1	13.5	12.2	0.6	100
Romania	5.5	0.6	3.1	40.7	0.3	4.7	16.8	7.0	21.1	0.2	100
USSR	1.0	0.1	9.9	76.7	0.0	4.8	5.4	1.5	0.4	0.2	100
CMEA	5.5	0.5	9.1	54.1	0.2	6.4	11.1	5.3	6.5	0.4	100

Source: ibid.

The above tables (Tables 4 and 5a,b,c) gives us a comprehensive picture of composition of trade between CMEA and industrialized West. From the tables we see that since 1970s the following three items, namely (a) mineral fuels, lubricant and related materials, (b) manufactured product chiefly classified by metals, and (c) crude materials and in-edibles have taken an important share in the imports of industrialized West from the CMEA. On the other hand, (1) beverage and tobacco, (2) animal product and (3) miscellaneous products have been least important in the imports by the West. Amongst all the products (a) has shown phenomenal increase during 1970-81. The overall picture of West's imports from the CMEA will be much more illuminating if one considers individual countries separately. For instance, although food and live animals have a modest share in the total exports of CMEA to the industrialized West, Bulgaria Poland and Hungary earn substantial amount through this item. Similarly, GDR, Czechoslavakia being more industrialized and developed have transport and machinery, chemicals and chemical products as important export earners from the industrialized West.

One redeeming feature in the composition of export from CMEA countries is that the share of transport, machinery and manufactured goods are increasing even in those countries above it was meagre in 1970. One important thing to note here is the dominating influence of USSR exports on the bloc as a whole. For instance, though minerals, fuels etc. did not have large share in most other East European country's exports, the huge amount of exports from USSR gives it an important position in the overall export list.

As far as OECD's export is concerned Table 4 clearly tells us that chemicals and chemical products, manufactured products classified chiefly by metals and machinery and transport equipment take the chunk of the share. Of the three transport equipment and machinery claim the highest share. But it is also important to note that share of the above item is decreasing over the years (from 40.9 per cent of total exports in 1970 to 21.5 per cent in 1981). The item which showed quite rapid growth during 1970-81 was food and live animals. From a mere 7.2 per cent of total exports from OECD to CMEA seven in 1970 this item jumped up to claim 26.2 per cent of the total exports from OECD to CMEA. Other items have maintained more or less the same share during 1970-81.

Thus in the composition of trade between CMEA and OECD we see typical features of trade between a highly industrialized and moderately industrialized groups.

Table 6

COUNTRYWISE TRADE WITH CMEA COUNTRIES , 1970-1981 (million US $)

Year	Austria	FRG	France	Italy	Japan	U.K.	U.S.A.
			EXPORTS				
1970	368	1296	647	702	447	596	352
1975	1279	6458	2607	2167	2197	1268	2779
1976	1287	6247	2733	1960	2799	1178	3495
1977	1419	6648	2782	2271	2669	1457	2533
1978	1667	7716	2919	2411	3196	1726	3673
1979	1992	8695	4027	2632	3244	2059	5673
1980	2108	9443	4643	2728	3584	2628	3843
1981	1808	7587	3906	2469	4012	NA	4255
			IMPORTS				
1970	332	1101	453	824	592	608	226
1975	956	3210	1695	1923	1373	1152	731
1976	1094	4016	1994	2461	1362	1871	864
1977	1252	4474	2216	2595	1622	2171	915
1978	1397	5619	2534	2799	1639	1876	1506
1979	1773	7986	3290	3867	2234	2957	1863
1980	2370	8515	5253	5239	2068	2970	1481
1981	2502	7554	4980	4697	1712	N.A.	1671

(Source: COMECON Foreign Trade Data, Vienna 1982, pp.266-93 -Summarised)

Volume of Trade (X + M) Million US $

Year	Austria	FRG	France	Italy	Japan	U.K.	U.S.A.
1970	700	2397	1100	1526	1039	1204	578
1975	2235	9668	4297	4090	3570	2420	3510
1976	2381	10263	4727	4421	4421	3049	4359
1977	2671	11122	4998	4866	4291	3628	3448
1978	3064	13335	5453	5210	4835	3602	5179
1979	3765	16681	7317	6499	5478	5016	7536
1980	4478	17958	9896	7967	5652	5598	5324
1981	4310	15141	8886	7166	5724	NA	5926

Source: Estimated from above Tables.

It is clear from Table 6 that so far as trade volume is concerned FRG has always been the most important partner of the CMEA. In 1980 it accounted for 31.5 per cent of the total trade volume between selected seven countries of the West and CMEA. The least important countries are Austria, and USA with 7.8 per cent and 9.3 per cent respectively in 1980. In order of importance so far trade volume is concerned we find FRG followed by France and Italy through with a substantially higher margin (in 1980 FRG's trade value was 17,958 million US dollars and that of France and Italy were US $ 9896 million and 7967 million US dollar respectively). UK and Japan lies in the middle of the ordered list. From Table 6 one sees clearly that from 1970 to 1980 the trade value of all the countries were rising without interruption. U.K., USA and Japan have showed very steady and rapid rise. Particularly 1978-79 saw the highest growth in the entire period. In 1978-79 FRG showed a 3,000 million US dollar increase followed by USA with 2,400 million US $, Italy with 1,900 million US $, UK with 1,400 million US dollar increase in their respective trade volumes. But in 1979-80 US trade volume came down drastically from 7,536 million US dollar to 5,324 million US dollar. Again in 1981 we see a universal decline in trade volume with only exception of US. Quite curiously US's trade value in fact increased in 1980 to 5926 million US dollar from 5324 million US dollar in 1979.

If we break up over-all trade between export and import we find FRG as dominating partners both in exports to and imports from CMEA. Another interesting thing we notice is that exports and imports of FRG to and from CMEA are reducing their gps and in 1981 they were almost matched (import : 7554 million U.S. $ and exports 7587 million US $). The rest of the countries have mostly maintained a favourable balance with the CMEA. The importance of U.S. as an exporter to CMEA (with a value of 4285 million US $) is far more higher than as an importer from the bloc (with a value of 1671 million US $). The list of seven countries as importers stood in the following order so far as value was concerned in 1981 : FRG, France, Italy, Austria, U.K., Japan and USA. As exporters the list will be in the following order : FRG, USA, Japan, Italy, U.K. and Austria.

Overall we find USA and Japan coming up fast to hold the position of most important exporters to the CMEA, while France and Italy have been and continue to move towards becoming more important importers them as exporters.

After brefly examining the physical trade relations between East and West are now move over to other areas of co-operation between the two groups of countries which are fastly emerging as a fruitful avenue to explore new possibilities for both the groups. At the centre of all these new areas (which came to be explored only after late 1960's) there lies the desire to acquire Western technology. Ever since the realization that socialist economics could be modernized more effectively "by tapping reservior of western technology dawned upon the socialist planners there have been constant effort to intensify the East West Co-operation in industrial sphere. The transfer of western technology has mainly assumed four kanor forms. They are : (1) official agreements on technological co-operation; (2) licenses; (3) industrial co-operation and (4) import of machinery and equipment.[6]

The first form mentioned above are basically bilateral by nature, usually concluded for 5-10 years and supplemented with annual protocols. In many cases there is a joint commission in both sides headed by a minister to co-ordinate overall co-operation. In addition there may be a number of joint working groups to take care of specific problems of mutual interest. These agreements cover scientific and technical cooperation but it necessary economic, industrial and even cultural fields are included. For example, the Soviet-France Agreement signed in 1971 for 10 years specifies the following big list of co-operation : chemicals, coal, communication equipment, electronic computers, gas and oil, machanical tools, metallurgy, power generation, precise metal working machinery, ship-building timber, and vehicle building; the agreement also provides for mutual participation in the construction of major industrial projects in France and USSR.[7]

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6. Wilczynsky, J., "Technology in Comecon", Macmillan, London, 1974, p. 297

7. Ibid.,pp.298-299

Amongst the other three, we have already discussed about import of machinery and technology in the previous section. The import of technology and know-how in dis-embodied form i.e. licenses can be discussed under the heading of industrial co-operation. East-West industrial co-operation is to-date is a vague subject. To put it in Philip Hanson's words, "it's newness is one of its few reliable ascertainable characteristics. Usable statistics and firms conclusions about it are few and far between."[8] Not only this, the flow of goods and services directly affected by East-West industrial co-operation are small. But nevertheless it is important because of its expected role in near future.

These 'industrial co-operations' are nothing but contracts extending over a number of years and requiring the partners to engage in 'a set of reciprocally matching operation'.[9] These operations usually take one or more of the following forms :

i) Exchange of technical information;

ii) Joint Research and Development;

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8. Hanson, Philip, "East-West Industrial Co-operation Agreements" in Shlaim & Yannopoulos (ed.), <u>The EEC....</u>, p.127.

9. Industrial Co-operation Projects or Joint Venture Corporation is a device estaolished between a particular socialist country and a capitalist country for bringing about commercial co-operation while, at the same time, circumvening political barriers. These corporations perform a variety of functions: primarily, acquiring capital and technology for the socialist state while providing a ready market and secure licenses to trade for businessmen from non-socialist nations.

iii) Sub-contracting by one partner to the other of component production or the manufacture of the part of the product range;

iv) Co-production (a two way flow of components or final products as part of each partner's production programme);

v) Joint marketing in either or both home markets or in third markets;

vi) Joint ventures in which each partner has an equity.

Mostly such arrangements include at least one of the following : licensing, know-how sales, engineering consultancy, training of labour, training of management, agreements on the use of brand marks and trade names. What differentiates fundamentally these arrangements from a usual buying or selling contracts is the long duration and continuing inter-dependence between the contractual partners.

The deal categorised as license sales is not very simple. As Hanson put it, "even so-called 'pure' license deals (without associated know-how, consultancy or hard-ware transaction) commonly entail royalty payments over several years, related to the licenses of production, this introduces a measure of continuing inter-dependence."[10] The EEC has tried to overcome this problem by considering license sales as a form of industrial co-operation only if they were repaid fully or partly with products from the licensed process or were part of a package deal combining other elements of industrial co-operation."[11]

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10. Hanson, Philip, (as in Foot Note 8) p. 129

11. <u>Ibid</u>., p. 131

According to the followed norms a license deal or turnkey project becomes a form of co-operation only if there is co-ordination in the matter of using the productive assets transferred. Unless and until one does not know the every detail of a contract it is nearly impossible to distinguish between a co-operative and ordinary trade. Usually the words of the concerned parties are taken to be the most reliable or authantic. There is another problem of exagerating figures of co-operative deal by including even trivial transactions or agreements. (This usually happens with figures from East-European source).

But despite these problems there is no doubt that industrial co-operation is increasing between firms in the west and various agencies, foreign-trade organs, ministries, associations and enterprises in East Europe. The new mode of trade and economic relations which came into existence in 1965 is getting increasing prominence since early 1970's. In 1972 there were 600 industrial co-operative agreements and it reached 1000 mark in 1975. Though latest figure is not available due to various problems, one can safely presume that their numbers are increasing but perhaps at slower pace in recent years.

The two East-Europen countries which were in the forefront in the entire decade of 1970 in promoting 'industrial co-operation projects are Poland and Hungary. Hanson, after examining the ECE Register, finds that most of the agreements were concentrated in the mechanical engineering, transport equipment and chemical industries. In modern co-operation the technical assistance was the commonest feature. Other features frequently found are : supplies of parts/components to Eastern partners (54% of agreements); the supply by the Eastern partners of parts/components to western for incorporation in the Western partner's product (49%); training of Eastern personnel (47.5%) and the provision of licenses (46%). The branches of industry in which co-operation takes place are mostly those leading themselves to the application of the most advanced technology, i.e.. earth-moving equipment, electrical engineering, electronics, equipment for chemical industry, food-processing, metallurgy, metal-working machinery, motor vehicles, petro-chemicals, pharmaceuticals, power installations, ship-building, tele-communication equipment and textiles. The braches of industrial production in which the technology standard have been radically raised in the Comecon countries include artificial fibres, buses, elemental consumer goods, electronic equipment, metal-working machinery, passenger cars, pharmaceuticals and trucks.[12]

Countries which are most interested in the joint industrial projects are Czechoslovakia, Hungary, Poland, Romania and Bulgaria in East-Europe. From the industrialized capitalist West FRG, U.K., France, Austria, Sweden and Japan have shown keen interest. Some CMEA countries have even passed legislation to allow foreign firms to own assets in joint enterprises upto

12. Ibid.,pp.131-133.

50 per cent.[13] in the beginning of the last decade.

To wind up our discussion on industrial co-operation we repeat that industrial co-operation agreements affect only a small part of East-West trade and economic relations and endowed with lot of problems but at the same time it is growing over the years. There is no charcteristic co-operative links between Comecon and Western partners in these joint projects. The precise relation is largely determined by the nature of the industry, the size of the partners, the level of technology they command, their financial resources and their bargaining power in general.

Now switching over to the arena of finance in East-West relation we observe that even financially East is more dependent on West than vice-versa. This emerges due to both import led strategy and non-convertibility of CMEA currencies. To be precise one can maintain that the need for hard currency and expanding East-West trade do show a good correlation with the strengthening and broadening of East-West financial relation. It is a fact that CMEA countries are not yet fully integrated into world financial system[14] but at the same time both Western Banks and CMEA Banks play important role in facilitating East-West economic relations. We will restrict our discussion in this section to the operations of Western and CMEA banks in both sides of the world.

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13. Romania passed one such legislation on March 1971 and Hungry followed suit in October 1971, Wilczynski, J., p. 311, Foot Note 22.

14. Although Romania and Hungary have joined IMF what sort of influence it has had on these countries is not clear yet.

The involvement of Western Banks have gone up after 1972 and this can be noted from the fact that most of them have opened branches in the East European capitals. These branches offer help in the field of foreign trade. Outside the Eastern bloc these banks offer guidencess in marketing and production and also facilitates license dealings. Some-time they also operate in third countries on behalf of the CMEA countries.[15]

Correspondingly Banks of CMEA countries are also proliferating in the western side having branches in leading trade centres. Countries like USSR, Hungary, Poland and Romania have even opened separate banks in the capitalist world. Some of them are owned by the individual socialist state and the rest are jointly owned.[16]

Apart from financing East-West trade the CMEA country's banks play active role in Euro-currency market and participate in European bond issues. More-over some of the banks act as agents for their parent country for selling precious metals.[17] Because of their acumenship these banks have already attained good reputation in the western world.

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15. Wilczynski, J., "Financial Relation Between the EEC and the CMEA" in Shlain & Yannopovlos, "The EEC....", p.179

16. Ibid., p. 179

17. "The Moscow Narodny Bank is used as an agent for Soviet-gold sales in London and the Ost-West Handersbale in Frankfurt aim Meim for diamond sales in FRG," ibid., p.186

Keeping pace with the individual country's banks the CMEA twin banks (a) IBEC (International Bank for Economic Co-operation and (b) IIB (International Investment Bank)[18] are also coming up in the international financial market in a big way. IBEC raised its first loan amounting to $ 20 million scheduled to by French and Belgium banks in 1972. The IIB also followed suit taking up a loan amounting to $ 50 million with 7 years maturity in 1973. Perhaps the desire to attain some amount of convertibility in addition to ful-full the need of western technology and to put a collective effort in the western world have motivated these twins to come up so decisively.

In a nut-shell we can maintain that East-West financial relation was quite healthy in 1970s. But here we must note that in recent years the scene is not all that encouraging and problems of high interest rate and unfavourable terms have cropped up which would be discussed in the next chapter. The effects of recent unfavourable trend in East-West relation will change the scenario undoubtedly to quite an extent and only future can tell us the limit of it.

Now, having discussed East-West trade, co-operation and financial relation, we move over to trade and economic relations between Japan and CMEA countries. Confirming its pioneer status

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18. IBEC and IIB were set-up to facilitate settlements amongst the member countries and provide short-term and long-term loans for investment projects of collective importance.

in trade amongst non-western countries Japan's trade volume with socialist countries has really been increasing at an impussive pace as we have noted in a previous section. Due to its geographical location and geological situation, Japan has to constantly search for new avenues, new markets in the international market. To achieve this through their own 'Plan Rational'[19] approach Japanese policy makers co-ordinate domestic industrial growth with the possibilities of enhancing their international competitiveness. Japan's experts in MITI (Ministry of International Trade and Industry) and private sectors analyze her prospective markets "for what these nations need, can pay for, produce and offer as future resources".[20] This strategy on the basis of pure economic calculations has helped Japan in making in roads into the socialist economics of Eastern Europe pretty fast.

It is true that CMEA's share in Japan's total foreign trade volume is quite low but it is also true that there has been a definite attempt to improve this since 1960s. In 1970s it seemed that Japan was more interested in keeping its East-European market intact than maximising their trade profit.[21] This change from a relectant beginner to patient trader is quite typical of Japan.[22] The following two tables illustrate Japan's trade with socialist bloc in earlier years and its progress.

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19. Johnson, Chalmers quoted in Goldman, J.R. "When Capitalist East Meets Communist West" in East European Quarterly, XVIII, No.2, June 1984, p.238.

20. Ibid., p.238

21. Ibid., p. 243

22. Initial years Japanese experts showed some reservations towards Eastern Europe as they thought there was nothing to g[illegible] as East Europe had nothing to offer in return of Japanese

Table 7

JAPAN'S TRADE WITH EUROPEAN CMEA, 1963
(in $ '000)

Country	Japan's Exports	Japan's Imports
USSR	158,136	161,940
Romania	8,136	7,653
Czechoslavakia	6,507	4,431
Bulgaria	2,206	1,421
Hungary	2,550	409
Poland	1,177	1,344
GDR	590	3,211

Table 8

JAPAN'S TRADE WITH EUROPEAN CMEA, 1964, 1965
(EXCLUDING) USSR (in $ millions)

Country	Exports		Imports	
	1964	1965	1964	1965
Romania	19.2	15.2	11.9	19.0
Bulgaria	7.5	10.9	5.8	6.1
Czechoslavakia	2.8	8.7	6.0	7.0
Poland	2.5	5.4	2.1	1.9
Hungary	4.0	2.3	0.6	0.4
GDR	0.1	1.1	0.6	0.4

Source: Goldman, J.R., "When Capitalist East Meets Communist West," in East European Quarterly, XVIII, No.2, June 1984, p.244.

The above tables show that although in 1963 Japan had an unfavourable balance with GDR, her exports to other countries eased up the situation. Again in 1964, 1965 Japan improved its position to an extent and this reflects her gains in Comecon market.

During 1960's and 70's Japan's drive for excellence in chemicals and related products paid her handsomely in Comecon market. In mid 70's Romania and Czechoslovakia governments gave two valuable contracts to two Japanese private companies.[23] Japan's sharp commercial genius can be observed by its own perception of problems generated in the CMEA bloc in the 1970s. Observing intently the problems in East Europe Japanese experts deduced that the main problem in the centrally planned economies was in the agricultural sector. Noticing that CMEA countries had the features of 'mixed economy' in terms of the importance of agriculture and industrial sectors,[24] they concluded that agriculture had a tremendous bearing on all other sectors of the economy. Thus if this sector can be assisted than problems might be less severe and it was exactly that what Japanese did by exporting chemicals and food processing plants to the CMEA countries.

It is this acumenship and shrewdness which has kept Japanese exports favourably placed over imports vis-a-vis

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23. Goldman, J.R., "When Capitalist...." p. 245 (Foot Note 15).

24. All the East European Countries show this feature. Bulgeria is the most agricultural, Poland, GDR, Czechoslovakia are industrialized; Hungry and Romania lie somewhere in between.

Eastern Europe from 1975 to 1981. From 1975 to 1976 Japanese exports to the centrally planned economies of Europe rose by $ 74 million and she cut back her import by 23.2 per cent in the same period. Hungary and Poland increased their imports by 7.1 per cent while Czechoslovakia took 6.4 per cent more over 1974.[25]

As far as composition of trade concerned Japan buys raw-materials and semi-finished products from Bulgaria and Hungery; finished products such as machinery, equipment, ships in addition to raw materials and semi-finished products from GDR, Czechoslovakia and Romania. On the other hand, she sells to these countries sophisticated technology in plastics, machinery, synthetics live rubber, chemicals textiles etc.

Japan also take part in JVCs in Eastern-Europe and scientific/technical co-operation in USSR. On the whole, in their trade and economic relations both Japan and East European Countries are satisfied with each other their trade relation has stood the test of time and have shown considerable diversification in composition. Despite having a trade deficits with Japan, USSR is eager to explore new possibilities with her as Japan has always remained an important partner in exporting Soviet goods to third countries.[26] Thus in near future we can hope to see a more powerful and wider co-operation between Eastern Japan and Western Socialist Countries.

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25. Goldman, J.R., "When Capitalist....", p. 248

26. Sushkov, Vladimir, "Main Trends of the USSR's Trade and Economic Co-operation with Japan," <u>Foreign Trade</u>, No.7, 1985, p.18.

Chapter IV

PROBLEM AREAS IN EAST-WEST TRADE

We have already mentioned in the previous chapters that all is not well in the arena of trade and economic relations between the rich capitalist industrialized countries and the socialist bloc of Eastern Europe including USSR. Though there is no doubt that the volume and range of trade and economic exchange is increasing between the two groups it has been entangled with problems. Some of these problems are chronic and some them are of sporadic nature. At the same time on many occasions problems originated in the military and political field do get manifested in the economic sphere. Thus while talking about problems withinin the spectrum of trade and economic relations one cannot really overlook or ignore the problems of non-economic nature, though we will keep our attention mostly confined to on the former.

To simplify matters, we will proceed with a very broad categorization of the problems with regard to the origin of the problems. We will distinguish between two different sources of origin. They are: (a) external source, that which exist outside the socialist bloc. Basically, under this we will discuss the problems which have cropped up due to economic situation in the capitalist markets, increasing protective policies in the West and aggressive foreign policy of some industrialist countries headed mainly by the USA. (b) Internal problems are those associated with the management and execution of trade, technological gap leading to the need of hard currency and hence finally ending up with heavy debt with the West. Here we will be merely concerned with the debt problem which has been haunting many East European countries, though unevenly, for quite some time.

Problems Originated in Outside the Socialist Bloc

Since the Brettonwood system broke down in 1971 the world monetary system never really have come back to a stable normalcy. Then came the two oil shocks of 1973 and 1979 which fuelled the chaos in international market like nothing else did. Added to these the periodic recession in the capitalist economies created a situation which would not have any sensible economic man happy about what was happening in the market. All these developments are now subsiding in varying degrees. But till 1983 at least, the scenario in the capitalist economy continued to be "tense, complicated and contradictory".[1] Only the USA, UK and Japan have been successful to an extent in pulling off the

1. Kamelinsky, Yuri, "Capitalist Economy in 1983," Foreign Trade, No.1, 1984, p.26.

crisis. In most other capitalist countries production either continued to decline or its level remained unchanged. Unemployment grew, the level of inflation was high, the crisis seriously affected the international finances. The over rating of US dollar aggravated the monetary crisis to a still greater extent: GNP, basic industrial production everything was in crisis.[2] Quite naturally, the volume of world trade was also declining and although in 1983 USA, Japan and UK managed to wear off the crisis to an extent, the trade volume in 1983 remained at 1982 level.[3] All these would definitely have a decisive impact on East-West trade and our observation is that it has shown a negative impact (till 1983 East West trade continued to shrink).

But before we proceed to elaborate the worsening trade and economic relations which has become so prominent in eighties we must clarify the doubt which would occur to any observer of CMEA economies. In the previous sections we have contented that the confusion, instability, which prevailed in late seventies and early eighties in the West had its origin or is a continuation of development started in early seventies. But at the same time we also know that it is during the period of early seventies and late seventies that East-West trade was most active. Now question arises

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2. Ibid., p.26.

3. Ibid., p.28.

here is that how in a more or less same situation a particular trade relation can deteriorate. To answer this very simplicitly, we can point out that in the previous period it was west which was looking for markets, its capital was looking for an out-let from the grip of tension, but in the current period it is the East-European block which is looking for its end products seeking a place in the West.[4] Thus it is a question of disparities in demand prevailing when one goes to the market. Consequently, an East European country is forced to cut the prices of its products but only to be alleged for indulging in dumping which aggravates the situation even more. Obviously other developments like Russian intervention in Afghanistan, escalation of arms race have contributed quite heavily in the general determination of East-West trade to which we will return.

In May 1983, a meeting was held between the heads of the the state and government of seven leading capitalist countries in Williamsberg (USA) ostensibly to discuss the prevailing economic situation, where trade and economic relations between East-West were also a major agenda. It was noted in its final document (para 9) that those relations

4. Here USSR should not be clubbed together with other European CMEA as USSR enjoys a much more commanding position in the market than other CMEA members.

should be in accord with interests of security. Such a tie up of the questions of the East West trade with aggressive foreign policy of US figures in the seven's document for the first time.[5] Not only this, US has enhanced its effort to more actively use international organisations, primarily those in which industrial capitalist countries are the bulk of membership. For instance, Cocom (Co-ordinating Committee for Multilateral Export Control), OECD, the IEA (International Energy Association) and directly in NATO steps were taken to curtail their trade with the socialist states. Talks were held in Cocom to restrict more the items exportable to the socialist countries and also to broaden the option of the Committee.[6] Again in May 1983, at the IEA sessions it was recommended to Western European countries to curtail their purchase of Soviet natural gas. At the session of OECD Council of ministers also it was agreed that "East West trade be considered as a factor determining the relation of the economic and military potentials of the two groups of countries, and also that subsidies for this trade be reduced."[7]

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5. Kamelinsky, Y., n.1, p.28.

6. Ibid., pp.29-30.

7. Ibid.,

In 1984, there was some upward tendencies in the economies of leading capitalist countries. But adverse economic and trade relations continued to be same if not aggravated. CMEA reacted to this kind of a situation in the following words in its Declaration of Summit Economic Conference in June 1984, "reliance on force, escalation of the arms race, and sub-ordination of economic relation to aggressive policy hamper the solutions of basic problems of world economic development and make it difficult to overcome the economic crisis in the capitalist world, compounded by energy, raw materials, food and monetary crisès. Dis-organisation and restriction on international trade and instability in the world commodity market are growing, the tide of protectionism rising and international monetary financial relations breaking, in particular, because of the imposition of artifically raised interest rates."[8] But despite this and other declarations and appeals to senses from many quarters are witnessed throughout 1984 a continued deterioration of the condition of East-West trade because of the US administrations policy of confrontation, politicization of international economic relations and economic war against the

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8. Kamelinsky, Yuri, "The Economic Outlook and Trade Policy of Capitalist Countries in 1984," Foreign Trade, No.2, 1985.

countries of the socialist world. A new procedure of granting export licenses have come into force making export of science intense products from the USA more difficult. Cocom has extended the list of restricted items by including equipment for telephonic exchange, computers and equipment for them as well as appropriate soft-ware for machineries whose export is already under control.[9] The USA is insisting that its NATO allies stop exporting goods which will for some reason or the other be considered strategical and that they agree that exception from the Cocom rules be accepted by all the fifteen member countries. The latter circular would enable the USA to veto export from its allied countries.

USA is trying to exert its pressure on neutral countries like Sweden and Austria. USA have asked for assurance from Spain that she would not re-export to Socialist countries the science-intense products she imports from USA.[10] The situation have gone to such an extent that Financial Time wrote in April 1984 that over 300 West European companies trading with socialist countries are under the threat of US economic sanctions.

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9. Ibid, pp.39-40.

10. Ibid., p.41.

Thus what emerges from our discussion is that the problems which originate from outside the bloc has more to do with non-economic factors than to economic ones. Although economic factors are also responsible (like declining economic activity, reduction in world trade) it has been blown out of proportion deliberately and too blatantly by hostile government of the USA and its allies. But there are still rays of hope and one must not overlook the forces counteracting the destructive policies which have emerged out of cool economic calculations and have managed to survive the onslaught of aggressive policies of those very states to which those forces belong. In the following paragraphs we will briefly outline the objective process expanding East-West cooperation which neither US or its allies can bring to a halt.before we turn to the discussion of internal problems hampering East-West trade.

First example of this process is the international (industrial) fair held in Hanover in April 1984 where a seminar was organised on the question of economic, scientific, and technical cooperation between USSR and FRG. Desires were expressed to look for new spheres of co-operation and the need for long term orientation on mutually advantageous trade and economic relations. Another example is US-USSR Trade and Economic Council, which knits over 200 American

Corporations and Soviet foreign-trade organisations, which met in its regular session in May 1984, in New York. In the general resolution adopted by the participants it was stated that "the development of trade and economic relation between USSR and USA on the principles of equity, mutual benefit and absolute fulfilment of commitments assured would help improve relation between the two countries, ease world tension and maintain peace."[11] International Chamber of Commerce also did not lag behind in raising the voice of sanctity. In its 28th Congress held in June 1984 a special session was organised on the problem and prospects of trade and economic relations between East and West. In its appeal to Western business circle it has stated that its stands for further expansion of trade and economic relations between East and West and opposed the policy of discrimination and confront undermining international trade.[12] On the socialist front all these have been observed favourably and a Soviet foreign-trade ministry spokesman has reiterated CMEA's declared policy in the following words, "As for the Soviet Union it is consistently opposed to restriction and discrimination in international trade and favour mutual

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11. Ibid., p.41
12. Ibid.

advantages trade contracts with those capitalist countries interested in expanding trade with the Socialist states."[13]

Problems Originating Within the Bloc

The first problem in the sphere of East-West trade we can locate in the organisational structure of the CMEA itself. First of all Comecon is not a supra-national body with power to take decisions and enforce them.[14] Soviet scheme to give more muscles have been successfully opposed by East-Europe who regard them as a threat to their national sovereignity. So Comecon can act only as an international talking shop and civil services. On all but procedure matters it can merely make recommendation which to be binding has to be approved by all the participants on the other hand, the European community tries by making[15] and referring rules (like lower tariffs etc.), to create a common market in which companies have more opportunity to and stimulus to go for profitable venture.[16] To persuade the European countries to play this game is tough

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13. Ibid., p.42.

14. Franklyn, Daniel and Edwina Moreton, "COMECON Survey," Economist, April 20, 1985.

15. A resolution in CMEA can be passed only if it is approved by the Communist parties of all member countries.

16. Franklyn, D and Edwina, M., n.14.

enough but in case of CMEA it is virtually impossible. This lack of authority on the part of CMEA decisively has a negative influence on its bargaining power in the international market vis-a-vis other well organised powerful bodies.

It is true that stronger economic bonding amongst its members is CMEA's aim but they cannot leave it to the market forces since their ideology is to run things by central plans. "Plan Co-ordination" which is supposed to be COMECON's substitute for market forces involves consultations over each member's economic strategy.[17] It covers both trade planning and increasingly, long term programmes in such areas as energy and research. Planners from every country are supposed to act keeping an eye on the overall CMEA objectives and priority. Thus in the wider scale the old problem of decision from the top enters the area of foreign trade ignoring the initiatives and enterprise from below. In order to coordinate the plans CMEA has evolved an organisation of formidable complexity which we have discussed in a previous chapter.

In short we can say that the rigidity which prevails in centrally planned economies like East Europe leads to the problem of exceedingly slow decision making[18] and host of other associated problems which should be

17. Ibid.

18. Ibid.

looked into for a better exploitation, thorough participation in the international market. The centrally planned economic system often results in shortages of goods and services; competitive stimulus, incentives for prices, links between producers and consumers and meaningful prices.are more or less absent. As we have already stated, in COMECON these problems get manifested to an 'international scale' and gets even more complicated by the member countries stubborn attitude towards their own sovereignty.

The problems which crop up due to the foreign trade mechanism and economic system existing in the CMEA countries do get manifested in the form of delays, wasteful competition amongst the CMEA countries in the international market, production of outdated products due to lack of information and so on. Another problem whose origin can be traced in the strategies adopted in the initial industrialization phase is the huge technological gap which exists between East and West particularly in the sphere of consumer durables. This leads to production of inferior goods and hence induces non-competiveness amongst the exporters from Eastern Europe.[19] As we have already mentioned in the previous chapter that that there exists an objective necessity to input modern advanced technology there has emerged within CMEA a very

19. Here we are referring to heavy emphasis on steel, heavy machinery in earlier years of planning.

important classification of goods, namely, hard goods and non-hard goods.[20] The need of hard currency and severe scarcity of hard currency has not only caused misturst between member countries from time to time but also caused now too well talked about problem of debt burden. The problem of debt burden will be discussed separately towards the end of this chapters and in the following paragraphs we will concern ourselves with the problems associated with industrial cooperation between East and West.

The first problem relating to industrial cooperation is that East-European countries are not as favourably placed as USSR in the eyes of western companies. Because of the relatively limited national markets in the majority of CMEA countries, the majority of capitalist companies primarily show an interest in the CMEA market as a whole or in its biggest national market, the USSR. "They are only interested in the smaller national markets to the extent that they satisfy the specific economic and technological requirements of a given under-taking or to the extent they are able to penetrate the CMEA market through cooperation agreements in these smaller markets

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20. Hard goods are those which is not available within the Eastern bloc and have to be bought with hard currency.

or to import important raw materials."[21] This problem can be solved probably to a great extent by involving smaller countries in the cooperation between USSR and advanced capitalist countries. This will require a long term well thought out programme by every individual country concerned.

Another problem in the area of East-West Co-operation projects is the question of incorporating them into the long term plans of the socialist countries. To have a decisive impact on economy, development and mutual trade the joint projects cannot be working independently of the goals and objectives of long term planning. But this need of having a long term planning for the joint projects and at the same time incorporating them into the perspective plan demands existence of a number of alternatives to pick up one from. They should contain possible alternatives for standards,[22] condition and efficiency parameters and should also include mutual information. But going by the existing practice this drawing up of alternatives would not be an easy job. Long-term planning also carries within it the problem of uncertainties both in the external environments and within the internal goals of East-West cooperation agreements.

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21. Pesci, K., Future of Socialist Economic Integration, reprinted in East-European Economics, Fall 1980, Vol.XIX, No.1, pp.172-73.

22. Ibid., p.174.

In Pesci's opinion, co-operation projects, plans and agreements embodying short-term direct action programmes should be made realistic on both sides - and above all by the socialist countries - by providing for reserves to eliminate the disruptive effects of uncertainities.[23] This problem of un-certainities can be solved either by a reserve of supply of capital, technical expertise, financial resources or by introducing a flexibility in the plan structure. But in most of the centrallyplanned economies we are discussing, these steps can still be regarded to be too far fetching.

In addition to above hurdles there is also the elements of risk associated in a joint project for the capitalist partner which may hamper the progress of this area. In a socialist economy state intervention in the matters of enterprise and in other affairs (e.g. price policy) can be arbitrar and unpredictable. Change of any kind in the market will seriously hamper the "performance"of the capitalist parter. Again, in joint projects where indigenous partner's financial position is is relatively weak in terms of their own asset can create mistrust. The large enterprises are particularly in a bad position in this regard. They can get money for important

23. Ibid.

ventures only through state preferential funds. "The question iw wehther in the preliminary but highly important state of negotiations on co-operation the capitalist partners can be expected to believe that thesepreferences will be given."[24]

The Problem of Debt Burden

There is no doubt to the fact that phenomenal increase in the East-European countries participation in the international credit operation has its origins in the process of political detente and closer economic cooperation between East and West. Richard Portes puts it in the following words,. "...in the seventies there was a virtual explosion in East-West trade and in credit extended by the West to Eastern Europe. In an atmosphere of detente many different political and economic forces have created an opportunity to realize profit and capitalism, based as it is on competition, seized the opportunity with its characteristics flexibility and alacricity".[25] But we must admit at the same time that political detente was only the immediate cause of the need of cooperation and the objective necessity for such an atmosphere was felt by the planners since mid-sixties.

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24. Ibid., p.176.

25. Portes, Richard, "East-Europe Debt to the West," Foreign Affairs, No.7, 1977, pp.751.

At the cost of being repetitive we mention again that the late 1960s showed the need to increase productivity in the face of perceived technological gaps which led the planners to seek substantial efforts of Western machinery. Not only equipment and technology, but also consumption aspiration came from "demonstration effect" from the West. Moreover, authorities believed that higher consumption might itself stimulate labour productivity. Finally, organisation and incentive problems made agriculture vulnerable to bad weather, and early seventies saw two major harvest failures.[26]

These pressures were paralled by the problems in selling manufacture in the West. Deficient quality standards and a structure of supply too similar to goods already surplus in Western markets were major obstacles; the recession beginning in 1974 accentuated them. Countries like Hungary, Bulgaria and Romania suffered from fluctuation due to the agricultural protectionism of the EEC countries. On top of this an adverse terms of trade (TOT) since 1973 severely hit all East European countries except the USSR and Poland. But all these problems should not leads us to the conclusion that large scale borrowing from 1973 was in response to short-term problems in harvest and TOT setbacks. It only reflects a dis-equilibrium of more fundamental

26. Ibid., p.754.

nature. "Once the East-European countries discovered that they could borrow large amounts without un-acceptable political conditions, it was therefore, natural that they should wish to postpone adjustments."[27] Initially East-European requirements appear to be negligible. But as recession deepened and Western private demand fell (demand for loan) the liquidity of Euro-dollar market grew and East-Europe had no difficulty in arranging for five to seven years loan on excellent terms.

Although Euro-market lending constitute the chunk of total East-European debt, Western governments have also been eager to extent export credits or at least to guarantee those offered privately. In an atmosphere of detente the Western firms are also eager to woo the East-European customers. At the same time, recession imposed a competitive search for export markets in East, particularly for capital goods and barring USA all the major West European countries have announced major loan guarantee purchase schemes covering various East European countries.

Amount of Debt

At the end of 1970 the total debt of East-Europe to the West was 8.3 billion US dollars of which East Europe accounted for 5.8 billion US dollars and USSR shared 2.5 billion. Within a span of five years it shot up to 45.3

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27. Ibid., p.755.

billion US dollars (of which East Europe shared 27.4 billion US dollar and USSR took 14.4 billion) the debt is increasing ever since but different sources give different figures of debt. For example, the total indebtedness of CMEA in 1978 was amounted to be 59 billion US dollar by Brooklin Institute, $53 billion by IMF survey, $55.5 billion by Chase Manhattan bank and in Table 1 given below we find it to be $48 billion.[28] But without bothering much about the exact amount we can see the overall trend over the years and also the relative importance of it on different countries by taking up any of the sources as our basis for analysis.

From Table 1 (given in the following page) we see that growth of debt was highest in case of Bulgaria, followed by Polland with 21 per cent average annual increase. The countries with the lowest growth were Czechoslavakia with 12 per cent and Hungary with 11 per cent average annual growth of indebtedness. "The growth of indebtedness paralleled the increase in deficits in trade with capitalist countries which doubled in the first half of the seventies and then levelled off."[29]

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28. Czerkawski, Krzystof, "The Indebtedness of Socialist Countries to the West," in East European Economics Fall 1982, Vol.XXI, No.1, p.88, foot note 11.

29. Ibid., p.81.

Table 1

INDEBTEDNESS OF EUROPEAN SOCIALIST COUNTRIES IN 1970-79

(Billions of $)

Country	1970	1975	1978	1979
Bulgaria	0.7	1.8	2.7	4.2
Czechoslavakia	0.3	1.8	2.7	3.0
GDR	1.0	3.8	5.9	6.9
Hungary	0.6	2.1	3.7	4.9
Rumania	1.2	3.6	4.7	5.3
Poland	0.8	6.9	13.0	18.5
USSR	0.9	10.0	17.1	21.6
ALL	6.5	29.1	48.0	65.4

Source: Reproduced from "The Indebetedness of Socialist Countries to the West," K

The indebtedness of socialist countries from the Euro-dollar market is increasing faster than the indebtedness incurred through government backed loans. There are many reasons for this. Because of the easy accessibility and simplified transaction, this credit is preferred to any other mode of financial transaction. Moreover, the cost of Euro-currency loans are much lower than other usually available credit types. In Euro-currency loans the only cost is the interest payable with the principla on expiration of the term.

Another attraction of using Euro-currency bans is the freedom they offer in regard of spending the money. But of late even from these sources the loans have started to be tied with heavy interest rate.

It is quite pertinent for us at this stage to examine whether East-European countries really donot face any such problem of going bankrupt. The ability of a country to settle debts generally depends on three factors: (1) Credit Terms (terms of payment, interests and penalties); (2) The possibility of earning revenue from free currency exports; and (3) The possibility of reducing payments with free currency imports.[31]

The most important requirement for a sound ability to settle debts is borrower's ability to direct borrowed funds to import substitution and export promotion sectors. The allocation of investments made on the basis of hard currency, self-financing, the degree of profitability of import substitution and export promotion production and economy's ability to accumulate export surpluses are also very important.

The need to reduce payments on free currency imports was expressed in the policy of import rationalisation i.e. reducing the growth rate of import from the West to reduce the trade deficit adopted by the CMEA. But the fact still remains that socialist economies of Europe acquired a high

31. Ibid., p.84, foot note 19.

level dependency on import and hence trade bill cannot be balanced solely by restricting import. On the other hand a sudden cut in import can cause disturbance in the economy leading to slowing down of economic growth rates. Thus increment of export revenue is vital for CMEA countries to be able to repay the debt. For this along with the expansion of export sector there should be simultaneous elimination of protectative measures adopted by the some Western capitalist countries.

Very often credit worthiness of a country is measured by 'debt service ratios' (cost of credit divided by export revenue). But this indicator overlook the issues of profitability of pro-export sector or its efficiency and country's capacity to divert investment towards export promotion activities.

On the premises accepted in the West, the higher is the export revenue earmarked for debt payment, the higher is the sensitivity of import to export revenue. Thus a drop in export of a country may prevent her from reaching requisite imports while discharging the credit obligations. Furthermore, countries become usually cautious if the ratio of service on debts to exports is more than 0.25 in the long run. A cursery glance in the following Table 2 will reveal that this coefficient is higher for each and every East-European Socialist Economy.

Table 2

LOAN PAYMENTS BY CMEA IN FREE CURRENCY 1978

Country	Ratio of loan payments to export revenue 1978	Ratio of net indebtedness to export revenue 1978
Bulgaria	0.87	3.6
Czechoslovakia	0.33	0.8
GDR	0.49	2.2
Hungary	0.60	1.7
Poland	0.66	2.8
Romania	0.43	1.0

Source: Czerkawski, Krzystof, "The Indebtedness of Socialist Countries to the West," in East European Economies Fall 1982, Vol.XXI, No.1, p.85.

From the above Table 2 one can see that the countries in the worst position are Bulgaria and Poland and countries with relative ease are Czechoslovakia and Romania. But here we should observe that the higher proportion of Bulgaria's debt is not only due to large indebtedness but also due to low export earning from the capitalist west. At the same time Romania's position seems to be satisfactory because of the fact that she drawn out most of her credit from international currencies not listed in the table. (Romania secures credits from IMF and IBRD of which she is a member).

On the basis of the data presented above it is evident that given the current level of export revenues the only way to improve debt position is to redeuce the trade deficits of the CMEA countries. According to one calculation, if the level of export and import had remained at 1977 level the indebtedness of these countries would have increased to $90 billion. That too, if 1980 import level had equalled the 1977 the stabilization of indebtedness would have required an annual growth in free currency exports of 10 per cent for the USSR, 20 per cent for Bulgaria and 8 per cent for other countries assuming no price increase.[32]

We have already mentioned about the bleak possibility of reduction im import. But some improvement in debt payment may be possible by curtailing some consumer goods importation and exportation of some highly demanded goods at the cost of sacrificing the home market. But these steps can be decided only after assessing the objective conditions of every single country.

Among the socialist countries, the Soviet Union undoubtedly has the best credit standing. This is because of its relatively lower coefficiet of indebtedness than rest of the CMEA countries and its vast source of raw materials and a highly developed economic potential. In terms of debt sizes and the dependence to which exports are encumbered

32. Ibid., p.86, foot note 22.

by debt payments, Poland's situation is most precaurious. In fulfilling the debt obligation Poland (and some other countries also) will have to draw on some more credit and this makes it imperative that she spends her present borrowed funds in proper way.

The speculation about future in terms of debt problem is still on in both East and West. Some in the West argue that past records are nothing but a part of the sinister plan by CMEA's to deliver the final blow at the capistlist world by ... defaulting. While there are many others who argue that debt problem can be overcome with mutual trust and help. On the Eastern side a strong group argue that only decentralizing reforms can solve the perpetual problem of hard currency. But Hungarian experience shows that before it was hit by adverse terms of trade (TOT) it was significantly improving its hard currency trade performance. Thus, perhaps one can argue that the case for a complete decentralisation is not proved. A limited decentralization and rationalization would suffice. Again in the case of Romania we see that even without systematic change its exports performance improved after it got most favoured nation (MFN) treatment and generalized system of Preference Tariff Treatment granted (July 1975 and January 1976 respectively). This suggests that lowering tariffs might help in a big way.[33]

33. Ibid.

Looking at the overall situation one can observe that debt service ratio of CMEA countries will remain high in coming years. The surplus of trade will be rather modest ($4billion according to OECD sources, in 1983) and not enough to repay the debt burden. In addition to this we notice that reserve of CMEA countries in Bank for International Settlement (BIS) have dropped to a critical level and a huge amount of repayment fell between 1982 June and 1983 September.[34] The incapability of increasing the hard currency reserve is the main reason for the present precaurious position of smaller CMEA countries. To give a clear picture of present trade deficits of the CMEA countries we present Table 3 illustrating the deficits.

During 1970s substantial trade deficit was financed by Western banks and government loans. In 1970 the amount of loan was $0.1 billion. As we seen in Table 3, after 1976 Poland and USSR which together accounted for 65 per cent of CMEA-West trade, substantially reduced their deficits. Nevertheless the net hard currency indebtedness rose further. In 1971 the net debt to the west was around $6 billion and in 1981 it became around $76 billion.[35] The present debts

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34. Dobrovolny, Jiri, "East-West Trade in a Transition Period," East-European Quarterly, XVII, No.3, September 1983,

35. Ibid. , p.332.

Table 3

OECD/COMECON CUMULATIVE TRADE BALANCES ($ million)

Year	Bulgaria	Czechoslavakia	GDR	Hungary	Poland	Rumania	USSR
1971	87	52	15	89	-193	147	-597
1973	362	250	280	293	876	728	+333
1974	794	456	331	738	2580	1,211	-589
1975	1494	698	428	1320	4905	1,560	3185
1976	1947	1082	653	1708	6826	1,600	6188
1977	2333	1290	715	2355	7972	2,033	7590
1978	2861	1448	795	3442	9194	2,721	9,153
1979	3175	1449	1567	3888	10144	3,243	8,241
1980	3709	1209	1963	4353	11056	3,699	5,249
1981	4807	825	2275	5049	11896	3,075	2,417

Source: Dobrovozny, "East-Weat Trade in Transition Period," East Europe quarterly XVII, No.3, September 1983, p.340.

of the COMECON countries represent a high percentage of their net material product and in some cases are a multiple of export earnings. The burden of the debt is also increasing considerably. The rise in interest rates in two years (82-84) put additional charges to their debt service. In 1980-81 they switched to more short-term basis and non-syndicated borrowings, which brought obvious problems, as some banks are not willing to extend their credit maturity for longer period (see Table 4).

Table 4 shows clearly that bulk of the credits (more than 50 per cent of the total) are given for a period of two years or less. The refusal on long term credits can perhaps be explained partly by the Polish and Romanian debt and also to the trade sanctions imposed after the introduction of military regime in Poland. But the real reason must be due to the growing debt service payments and particularly the infavourable schedule of debt maturities in 1982-83 are the real factors behind such behaviour.

Here we should note one problem characteristic of CMEA countries and this is concerned with the nature of data. Except Romania and Hungary who are now members of IMF, CMEA countries.do not publish comparable balance of payment data. This trade flows, especially their hard currency trade, are therefore used for estimating their

Table 4

MATURITY DISTRIBUTION OF CMEA COUNTRIES LIABILITIES VIS-A-VIS WESTERN BANKS
(end of December 1981)

Position Vis-a-vis	Total shares	% Share of Amounts Outstanding up to and including			
		One year	Two years	Over 2 years	Unallocated
East Europe	100.0[a]	42.1	10.0	32.9	15.0
Bulgaria	100.0	48.1	14.4	25.8	11.7
Czechoslavakia	100.0	37.6	7.9	46.3	8.2
GDR	100.0	42.6	15.3	27.1	15.1
Hungary	100.0	40.4	7.2	44.9	7.4
Poland	100.0	36.1	12.4	34.7	16.7
Romania	100.0	35.3	10.6	27.4	26.7
USSR	100.0	50.0	5.4	29.1	15.4

(a) Excluding undisbursed credits.

Source: COMECON Foreign Trade Data, Vienna, 1982, p.476.

hard currency trade, are therefore, used for estimating their ability to repay their debts. The availability and accuracy of their trade statistics is particularly important. Though there are problems about the reliability of of statistical data collected from different sources, one common thing which emerges in the period beginning from 1970 is that COMECON countries have shown permanent deficits in their trade balance with the West during seventies.

So far as deterioration since 1980 pertaining to East-West trade is concerned it is not only due to explicit sanctions by the West. "The leeway for future development is also restricted by the COMECON countries' inability to produce enough foreign exchange and by the increasing reluctance of Western banks to grant new credits."[36] To defuse the problem of hard currency COMECON countries are increasingly looking for bilateral trade on a compensation basis even with developing countries. But the truth still remains that COMECON countries must improve the quality of their goods and services to penetrate the Western markets in the long-run.

Thus what appears after discussing the issue of debt problem is that only escape route left for CMEA from hard

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36. Ibid., p.333.

currency squeeze is to cut back imports from the West and promote imports in convertible currencies. Several countries have done this in 1982 with varying success. But we have already observed that this could at best be a short term strategy because "such action would not only weaken the export potential but the COMECON system is designed in such a way that no country is projected to general a trade surplus over an extended period. Instead each country must meet certain delivery requirements as scheduled."[37] At the same time since 1979 the regional self sufficiency of East European countries has been d decreasing. The demand for raw materials is more than what the region has. As Dobrovolony states, "while the mutual deliveries of the CMEA countries covered to 93 per cent of the total coal and coke demand in 1979, such figure for oil and iron ore amounted only to about 70 per cent. Since the Soviet oil deliveries will even further decrease, the degree of self sufficiency will decrease further".[38] Thus in East-European countries we find the situation where it is necessary to curtail the import but at the same time import cannot be cut drastically if the planners do not want to see the whole plan to go topsy turvy.

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37. Ibid., pp.334-35

38. Ibid., pp.336-37.

In the light of the existing paradoxial situation what appears to us as the only correct and sensible way to come out of the problem is mutual effort and co-operation by both East and West. One sided effort like Western banks and governments becoming cautious while extending loans or East-European countries trying to curtail import will only accentuate the problem. But to put up a mutual endeavour both East and West have to weigh and accept political, economic and social actions they had dis-approved in the past. The need of the hour is to mobilize all possible and attainable efforts by the centrally planned economies to be a good competitor in the international market and at the same time simultaneous elimination of discrèminatory practices in the area of foreign trade, credit sanctions and remove protectátive practices by the capitalist world.to To achieve this the decision makers on both sides of the fence must listen to economic reasons rather than insensibly sticking to destructive political and militay logic.

Chapter V

CONCLUSION

As we have already noted earlier, the East-West trade is still in a transition period even after three decades of its existence. Doubts, faithlessness, non-economic considerations stifle a healthy growth of trade and economic relations at every level. Political factors and other factors, which are considered to be "strategic" by the international power mongers, very often distort the very logic of economic cooperation. As we have seen in our previous chapters, despite having attained a healthy change in attitude on the basis of sensible assessment of economic necessity, East-West trade is stagnating in 1980s. Problems which were there for quite some time now, have assumed all of a sudden monstorous dimension in the eyes of the Western businessmen, bankers and governments alike. At the same time, in Eastern block there is yet to emerge a consensus on the extent of trade and economic relations with the West. While Hungary, Romania were in the forefronts and USSR a reluctant partner in East-West economic exchange, increasing influence of USSR attitude in already being felt by some experts. Now what can be done to rectify the situation so that East-West relation blooms once again with full vigour and fragrance? The answer to this will effect a great proportion of world's population.

Quite naturally, keeping in mind our modest attempt to describe the scenario, we would not think of providing a ready made solution which has been eluding politicians, diplomats, economists for years. It is also impossible because, to our mind, a ready made solution, like a proper doses of medicine to cure a disease, is simply not available, neither it could be invented. Because it is quite obvious that when solution seekers are themselves responsible for the problems, no problem could ever be solved.

Now, having put the responsibility for the problems on the shoulders of the policy makers we are not at all trying to suggest that there exist no problems in East-West relation in reality but only in the minds of those concerned. What we are trying to say is that there are some genuine problems but not one of them is such which is insurmountable. (The introduction of joint venture corporation showed the adaptive capability of the economies both in the west and the east.) At the same time, these problems get mingled with mis-information and mis-trust on both sides making the whole problem area more complicated, more intractable. For example, when East Europe borrows heavily as a part of its economic strategy doubts are expressed in the West that Western sources of funds are in for a broad day light robbery. When due to the alarming proportion of debt East Europe becomes cautious, eyebrows are raised again branding them as retrogressive. Again when East Europe/USSR enters with commodities in an already saturated market and sell at less than market price to earn hard currency, these are accused of indulging in deliberate dumping and protection follows. A disturbance in the military balance of power will lead to embargoes, abrupt change or halt in the economic cooperation between the two sides. So in the ultimate analysis it is not economics determining other activities but it is the case of laws of economies being subservient to other logic built upon either on one's suspicion or wild imagination.

It is a fact that socialist bloc and capitalist West are competitors for the superiority over another in each and every field. Consequently every development within each bloc and between the blocs have to be watched, monitored closely and checks and balances have to be applied. This is quite natural when two distinctively different economic system participate in the international division of labour. But what is disastorous is the doubts both sides have about each others intentions and which are not being clarified by any. To put the whole thing simply, we will mention only two points which are central to the realm of faithlessness existing between these two worlds.

(a) West has the feat that CPEs will eventually try to eliminate the very sources which are being 'used' for the development and modernisation of these economies;[1]

(b) East apprehends increasing trade with capitalist partners will lead to more exposure and vulnerability of the economy and will in the long run attack the very foundation of a Socialist economy.[2]

To our mind, the above two epitomises all the logic put forward in both the worlds against each others moves or attitudes.

On top of the above, there is another very strong mis-conception which is, we believe, to be the basis of current hostile attitude by the West particularly USA.

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1. There is a very interesting oft-quoted conversation between Lenin and Radek which goes as follows:
V.I.Lenin: "Comrades, don't panic, when things go very hard for us, we will give a rope to the bourgeoisie, and the bourgeoisie will hang itself"
Karl Radek: "But Vladimir Illich, where will we get enough rope to hang the whole bourgeoisie?"
V.I.Lenin: "They will sell it to us."
Quoted in Smith, Gordon, B (ed.), The Politics of East-West Trade, Western Press, Boulder and London (1984), Chapter I, page 1.

2. In this respect the following remarks made by Henry Kissinger is worth quoting:
"Our strategy was to use trade concessions as a political instrument, witholding them when Soviet conduct was adventorous and granting them in measured doses when the Soviets behaved copperatively."
Ibid., p.2.

This mis-conception is the belief that East-West trade is basically a one-way technical flow from West to the East. It is true that relatively speaking East needs more technology, hard currency more desperately than the West needs East-European raw materials. But the flow is never a one way street. One should not forget that USSR is the highest producer of natural gas and oil, its gold export to USA takes care of the food-grain it imports from USA neither one can be blind to the fact that Socialist countries provide today an excellent reservoir of market and provide opportunity of expanding the market existing elsewhere. If it is "dried up" with a stroke of a pen there will be very few West European economies which would not be crippled. Furthermore, the multi-million dollar loans that CMEA owes to the West will evaporate to the thin air if they go bankrupt either due to internal problem or problems originated from outside. We can extend the list of mutual dependence by also including non-traditional industrial exports from the East which belies the belief that it is only the West where the reservoir of modern sophisticated technology lies. We have cited all these only to put forward the point that it is for the mutual interest and benefit of both East-West, the East-West trade and economic relation must get back to normalcy and expand progressively.

To achieve this those at the helm of affairs in the west must listen objectively to the saner elements, that we have mentioned elsewhere, within their own territory. On the Eastern side again, the CMEA must not forget the superior bargaining strength of a collective front than an ill-embodied one, CMEA must evolve a long-term strategy keeping each and every member into full confidence in the arena of East-West relations. We will reiterate here again that a successful integration scheme will give them more economic muscle to deal fruitfully in the international market and at the same time foster East-West trade and economic relations. This becomes all the more important for the smaller CMEA countries who depend heavily on food and raw materials, though USSR helps East Europe to quite an extent, and modern technology on the West. As we have already outlined before this dependency will continue for years to come and East-Europe must consider practical ways for keeping problems within their grip.

All said and done, at this point, however, there is not a single authority, whether individual, institutional or governmental, on East-West trade who can speak convincingly about the future course of development between the two systems. One just hopes that good sense will dawn upon some day on the makers of desiny of the future generations and they will listen to reasons.

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