

Pleva, Jan

Article — Digitized Version

Changes in management of foreign trade

Intereconomics

Suggested Citation: Pleva, Jan (1967) : Changes in management of foreign trade, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 02, Iss. 4, pp. 107-111, <https://doi.org/10.1007/BF02927677>

This Version is available at:

<https://hdl.handle.net/10419/137730>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

its ultimate redundancy, since the final goal is complete coordination of external aid by the recipient government. It is probable, however, that the existence of the Group promotes an atmosphere of mutual interest in bilateral assistance programs; a gap would be left were the Group to cease its functions while foreign aid continued to flow to Thailand.

While Thailand is a country which has a relatively well-developed administrative mechanism, and might be considered by some observers as a "special case", the example set by the Bangkok Group might well be taken up in other countries. Recent official statements, by a number of aid-recipient countries in the Far Eastern region, following the example set by the Bangkok Group, have urged aid-supplying countries to join forces with them in efforts to coordinate the flow of technical assistance.

The DAC has also encouraged better local arrangements in the less-developed countries themselves, to ensure that adequate consultation on aid questions takes place. One of the techniques that has been employed by the DAC has been the adoption of a set of guidelines for the coordination of technical assistance on the spot. These guidelines quite naturally put main emphasis on the responsibility of the recipient country itself to create a central institution or bureau through which all assistance requests would be handled. This office should possess sufficient authority to enable it to ensure that aid funds are solicited for and allocated to those sectors of the economy to which the development plan has accorded

priority. The guidelines encourage donor countries and agencies to give their full support to such a central office, if it exists, and if one does not exist, to give full support and encouragement to the recipient government in its effort to create one.

The DAC guidelines have been sent by Member governments to their respective embassies and field missions. It remains to be seen what local initiatives will result from this attempt to stimulate coordination of bilateral assistance at the local level, which has been inspired by the successful experience in Thailand.

Despite the obstacles to the effective coordination of development assistance, it is apparent from the variety of institutions and techniques which have been created to deal with this immensely complex problem that the will to succeed is present. Much more needs to be done to improve the flow of information, which is the heart of coordination, particularly at the local level. The success of coordination depends in a large measure on the full participation of the aid-receiving country, and the realisation by the recipient that better coordination will make a direct and visible contribution to economic development. As the level of sophistication of the governments of the less-developed countries improves, so will there be improvement of their understanding of the need for joint action. Most of the suppliers of development assistance are now prepared to take more concrete action in support of improved coordination of their respective bilateral programs.

CZECHOSLOVAKIA

Changes in Management of Foreign Trade

By Jan Pleva, Prague

It is a matter of common knowledge that changes in the management of national economy are in progress in several socialist countries. The basic character of these changes may, however, often remain a little nebulous to an observer from abroad, especially if coming from the West. Although they proceed in the same broad current, nevertheless, they depend on a rather varied set of concrete conditions in each country, and it would be difficult, and may be even premature, to attempt a generalisation at the present moment. However, it might be useful to illustrate the general character of these measures by changes that are now being carried out in the sphere of foreign trade in one of the socialist countries, in Czechoslovakia.

Initial Situation

To give simply main characteristics of the changes without the knowledge of the background would hardly present the necessary survey; and having this in mind we might start to advantage.

It is well known that, after World War II, a system of management of national economy developed in Czechoslovakia, known as a centralistic or directive system of administration.

The reasons of this were both internal and external (economic reconstruction, ideological cold war, embargoes, etc.) and this state could be overcome to an extent only by extraordinary measures. We take it for granted that this system outlived its purpose, and new ways of management are being sought. Here, we shall outline only some traits of the old system that created a special situation for administration of foreign trade.

To begin with, foreign trade was conceived as a source from which to cover the insufficiencies of a plan based on material balances: the material plan was primary, foreign trade was being incorporated subsequently. This method could never be fully successful: exports had to be increased or imports

decreased primarily with regard to fulfilling material balances. Economic processes were neglected, the balancing act became paramount, the problem of economic effectiveness receded into the background. As a result, Czechoslovakia's part in the international division of labour and cooperation did not by far meet the country's needs, foreign trade ceased to play the necessary active role of the stimulus of economic growth and elasticity of the whole economy. Instead of being a factor of increasing effectiveness and adapting the structure of production to the requirements of the scientific and technical development, foreign trade gradually grew to be a limiting factor. Czechoslovakia achieved approximately the same per capita turnover of foreign trade that is typical for bigger West European countries, however, less than half of the sum shown by smaller industrial countries in a more similar position.

This system, introduced in a period of international emergency (cold war) to protect the internal economy, called forth problems that, at a certain period of development, had to be faced also in Western countries: separation of the home price system from the world market prices. In Czechoslovakia, this separation was stressed by the constitution of a closed system of specialised enterprises, monopolising foreign trade. Consequently, industrial enterprises ceased to be interested in the results of foreign trade operations (for they were dealing with foreign trade enterprises on the basis of internal prices), and, naturally, lost touch with foreign markets altogether.

The Essence of the Reform

The basic and leading idea of the reform in the field of foreign trade is therefore the renewal of market relations between producers and foreign markets. Specialised trade enterprises can in future only mediate as far as their existence will be economically justified. This concept, naturally, brings in its train the necessity of many changes in the economic as well as in the organisational condition of the enterprise, equally in production and in trade. It may be said that the gist of the whole reform on the microeconomic level is the new position of the enterprise, its existence depending no more on the fulfilment of planned gross production, but on economic results, meaning the rehabilitation of the economic calculus: this is valid even more so for the position of the enterprise face to face with foreign markets. The profit, and the risk, of foreign

trade operations is being transferred, in principle, to the producer; competition in foreign markets is becoming his inexorable teacher. If he wants to stand up to it, he must pay his way, specialise, cooperate, purposefully combine on the national, as well as on the international, level.

Next logical step is, quite naturally, a new solution of the relations between the enterprise and the central authorities. So far, individual enterprises or industrial concerns were under the operational control of the corresponding ministry, the principal aim being the fulfilment of what were in substance short term quantitative targets. The concept of planning, however, undergoes a change: the opinion prevailed that the role of planning will not be diminished, but on the contrary enhanced, if oriented predominantly towards the creation of favourable conditions for long-term development. Undoubtedly, in foreign trade that means influencing the development of the economic structure in such a way that enterprises may compete with benefit in foreign markets on the basis of meeting the customers' needs and requirements; so far, they were rather trying to sell on the basis of a subjectively formed structure of production. This means rehabilitation of certain economic categories, especially of the world market prices (prices realised in foreign markets) and economic calculus, concurrently with finding a new balance in the relative spheres of activities of the central organs and of the enterprise.

In Western economies, an enterprise is relatively very independent from the central administration, and may relatively easily develop activities not in accord with broader interests of the society. In a centralistic system, activities of an enterprise are bound by directions that are very detailed and limit its field of manoeuvre in the name of social interest, this being too often only a matter of subjective views of the planning organ. Objectivity of the so-called "social aspect" cannot but correspond to the degree reached in the knowledge of objective reality, and this may be failing. The system of centralised management cannot but substantially limit the possibility of independent and initiative activities of the lower links of economic management, makes decisions of higher organs absolute, but fails to assure sufficient feed-back in case their decisions are not rational.

On the other hand, one could hardly allow a socialist economy to disintegrate into a number of antagonistic interests, where priority should be given to



HARBURGER OELWERKE BRINCKMAN & MERGELL
HAMBURG-HARBURG

**Manufactures of Edible Oils
 and Raw Materials for Margarine
 in Top Quality**

Leading in the Industry for 60 Years

partial group advantage. As a matter of fact, today such a state is deemed undesirable even in Western economies, and even there ways are sought to balance the interest of the society with that of the private enterprise by means of some sort of planning. In principle, the problem is of environmental build-up for the enterprise to function with profit to itself and advantage to the society, for it to be compelled to such activities not by norms, decrees and directives, but by its own, preponderantly economic, interests. It is then necessary to create a milieu in which it will appear both to the individual and to the whole collective useful and advantageous to be initiative to gain material reward as well as to satisfy inborn extra-economic aspirations. There is little doubt about it that most people wish to do something to find their own place in the society, to become respected in their collective, to find their status in the socialist society.

The Solution

This chapter may be introduced by stating that proposed solutions are not regarded as absolute. Unexplored fields are being trodden, some methods and economic categories are to be used for the benefit of socialism that have been current under capitalism, but not in present forms of management of the socialist society. Furthermore, some categories are to be utilised that, in the given form, have not existed at all. The new measures are therefore to be regarded as an open system, subject to change and development in time.

First of all, certain economic, preponderantly financial duties are laid upon the enterprise, constructed in such a way as to create conditions for economic activities anticipated by the plan. The means of fulfilment, the material scope of activities are left to the enterprise. Concurrently, it is endeavoured to find such organisational forms of entrepreneurial activity that will enable maximum feed-back: the organisation should assure timely signalling of necessary changes (both economic and organisational), and at the same time the whole system should give these changes free way. There may be changes of economic conditions, marketing methods, forms of organisation, changes of the production mix and regional structure in foreign trade, and many other. The problem is of course the finding of the proper tie between the freedom of decision on lower levels of management and the forms of central planning necessary in socialism, especially in the case of foreign trade. It is an effort to synchronise the operational optimisation, freedom of manoeuvre and alternative of choice on

the microeconomic level with simultaneous safeguarding of broader targets and development of the long-term macroeconomic plan. This is a most complicated task, involving not only the relation of plan and market, but even the concept of the very substance of the plan itself. In this short information we must pass over this question and rather proceed to present the concrete solution.

One may say that there are three aspects to such a method of management: economic, legal, and organisational.

Economic Aspect

It has been mentioned that in future the producers should be set face to face with foreign markets. Consequently, they will not be separated from those markets by the barrier of specialised monopoly enterprises and double price system, but the realisation of their product abroad will influence their economic results, i.e. their income. If we take here no account of a certain period of transition, it will mean that in principle the division between the internal and the world market prices will be abolished. It is clear that there never will be a complete harmony—it exists in no country in the world—and that current financial and trade policy instruments will be used. There is hardly any need to stress that such circumstances will enforce considerable changes in the structure of production, and therefore it will not be a short-term reform, but a long period of economic and structural adaptation throughout the whole national economy.

Economic responsibility for operations in foreign markets requires naturally a corresponding degree of economic independence. The producer will have to be given the right of choice, i.e. to sell or not to sell, carry out the trade directly or by the intermediary, etc. The main requirement being that the information about the state of the foreign market, and the necessity of adaptation should cease to be the duty of the trader only, as it has been so far, and that it should pass over also to the producer.

Legal Aspects

We mentioned that a socialist economy cannot give up planning, the possibility of not only influencing, but in fact creating conditions of long-term development, in spite of the fact that it will adopt different methods and instruments than up to now. In foreign trade it is necessary to ensure long-term trade relations in the broadest sense: industrial cooperation and agreements about the division of production pro-



H. Scholdt

Shipowners — Shippingagents

Established 1868

HAMBURG 1 — BALLINDAMM 8 — CABLE: "SEESCHULTD"

grammes with socialist countries, and, as far as convenient to both sides, also with Western countries. There is also no intention to split foreign trade activities among a lot of small units which could hardly find the necessary trust and goodwill abroad. The international trend goes to the growth of bigger units, and to the change of the international trade into a system of long-term economic liaison and cooperation, and it would be out of place to renounce such an advantage. Therefore, the state monopoly of foreign trade will be maintained, although in a changed conception: its substance is no more understood as the authority of the state to intervene directly into the entrepreneurial activities, but as the right of the state to specify the conditions, under which foreign trade should be administered and to appoint, or even organise enterprises to carry it on. The basic principles should be determined by the Government, the Ministry of Foreign Trade to be preponderantly the planning organ.

Organisational Aspects

Abolishing the hitherto existing isolation of the internal market from fluctuations of the world market, the incidence of the results on the producer, necessity to build up specialised and economically independent enterprises implies also the necessity to carry out certain organisational changes. The point is not in regarding these new forms as absolute: the idea is rather to create a broad field for the economic activities of enterprises and leave them the choice of varied forms and methods, to give free field to the changes that, in future, may appear as advantageous, or even necessary. At the present stage, following changes should be introduced:

As the most appropriate form of joining the interests, influence and responsibility of the producing enterprises (concerns) with the necessary degree of concentration appears the company limited by shares. The shareholders of a trading company will be mostly its customers on the production side, partly also other trading enterprises or even the commercial bank. The organisation of the company and the rights of shareholders are regulated by the Czechoslovak law on similar lines as is usual all over the world. This form will probably be used in the trade with machinery products, chemicals, textiles, shoes, woodworking products, glass and porcelain.

In a case where the technical side prevails, e.g. capital goods, whole production plants, unique machines, the producer will carry out the trade directly, or by intermediary of his own specialised subsidiary. Such should be the case e.g. for such renowned machinery producers as SKODA or CKD.

Apart from that, pure trading companies, that will operate on own account or as brokers according to circumstances will go on existing. Advantages of such a form, in case of assorting groups of goods, marketing of novelties, etc., need not be stressed.

The above possibilities are not exhausting: it is presumed that combinations of importers, exporters and producers will come into being for trade in raw materials, specific combines to carry out big complex operations, etc. As compared with the past, no permanent and unchangeable forms are being fixed, without infringing, however, the right of the central authority to influence the development if necessary.

What Is the Purpose of the Changes?

The newly introduced market mechanism creates a bigger scope for the development of foreign trade. It creates a wider access to the Czechoslovak market, for imports should be regulated, in principle, mainly by comparable costs, by the state of foreign exchange reserves and by the export capacity of the Czechoslovak economy. It may be expected that the changes will promote not only trade with the socialist countries, but also with the West, under the condition of course, that also Western countries will withdraw directive and administrative limitations that are sometimes in force with respect to Czechoslovakia. In Czechoslovak foreign trade, tendencies will be strengthened towards multilaterality, specialisation and co-operation, which will create conditions for a growing turnover and free exchange. State interference with this sphere will be limited just to ensure the principles of management of the national economy as well as the principles of international trade, specifically international obligations and the growth of international cooperation.

Our hope is that this system will help to considerably increase our part in the international division of labour, which will enforce a growth of effectiveness, profitableness, faster adaptation of economic activity to the result of the world scientific and technical progress, and that in its turn it will be advanced by it. As producer enterprises will take direct part in the competition of international markets, they will have to reconsider their conceptions of specialisation, co-operation and combination, and in fact the whole structure of industrial production. There will be a growing interest in broader and more varied economic relations with all partners on equitable conditions. In the eyes of the planner, foreign trade will appear not as a supplement or appendix, but as an active and dynamic element of the economic growth, which, in its own right, will gradually influence the long-term structural development of the whole economy.

It would not be profitable nor promising to prophesy at the birth of a system that is only just coming into being. It is nevertheless possible to say what are the ideas behind these changes.

The imports of machinery to Czechoslovakia cover only about 11 % of the internal consumption, whereas in other comparable countries it is as much as 50 %. It seems clear that imports of machinery should grow relatively faster than their exports. The imports of

industrial consumer goods cover about 5 % of the total consumption. If the variety on the inner market is to be appreciably increased, and at the same time is to call forth a certain competition in the home production, imports should probably cover at least 20 % of consumption. The exchange of consumer goods with other countries should grow several times.

Cooperations, and especially purchase and sale of licences and industrial know-how are insufficient and growing slowly in relation to both East and West. A substantial increase should enable a faster way to technical accomplishment, better use of raw materials,

etc., and so, in its turn, to create a wider field for exchange.

Foreign competition will give rise to an atmosphere of confrontation and competition for Czechoslovak goods in quality, costs, commercial adaptability, etc., which will influence technical and technological practices and also the distribution of income.

It may therefore be assumed that the above described measures in the field of foreign trade will exert a decisive influence on the further development of external economic relations as well as on the further development of the whole inner economy.

World Business Trends

***Department for Business Trends Research,
The Hamburg Institute for International Economics***

Industrial Production and Labour in Western Europe

The slowing down of West European economic growth in the past year found its expression above all in industrial production. Its increase—all countries, excluding construction—declined from about 4.5 % in 1965 to between 3 and 3.5 % in 1966. This was the smallest growth rate for eight years. The development during the past year reflected conspicuously the weight of contractive forces increasing since autumn. Up to the middle of the year the previous year's corresponding level had been again surpassed by 4.5 %. In the third quarter, however, the growth rate fell to 3.5 % and in the fourth one to only about 1 %. Considering the usual seasonal influences West European industrial production has even begun to decline slightly since late summer, 1966.

But this development was not representative of most West European economies, it reflected above all declining industrial production in the Federal Republic of Germany and Britain, which alone contribute more than half of total industrial production in Western Europe. In the fourth quarter of 1966 in both countries the previous year's corresponding level was not reached anymore. On the other hand, industrial production in Italy simultaneously increased by almost 11 %

and in France—in spite of a certain slowing down—growth reached 5 % still. The same rate applies to the Netherlands, Norway and Austria.

However diverse production developments were in the West European economies, common to most of them was a decrease of the number of persons employed in industry. This applied not only to the Federal Republic and Britain, but also to Sweden, Denmark, the Netherlands, Austria, and Switzerland. At mainly 2 to 5 % according to the latest available position in each case, the dimension of these cuts was very considerable. The number of employed persons rose but slightly in the French industry, and only in Italy and Norway an increase worth mentioning came about. Industry's mostly restrictive employment policy has different reasons, but surely a cautious opinion on future production developments plays a major part.

Always when industry is reducing its efforts for hiring new labour, other economic sectors, which previously did not succeed due to their smaller attraction can better cover their demand for manpower. However, in an increasing number of West European countries for some time such reallocations did not suffice anymore to prevent an increase of unemployment (ad-

justed for seasonal variation). Here the Federal Republic of Germany and Britain have been the outstanding examples, but France, Belgium, the Netherlands and Sweden were showing a similar tendency—although differing in impetus. In Italy finally the reduction of unemployment continued but slowly hitherto, in spite of the vigorous expansion. Altogether the West European labour market—that for years had been strained to excess almost chronically—is thus marked by relaxation.

Labour market conditions in numerous countries during the last months were thus characterised by a coincidence of cyclical and seasonal factors tending to slow down activity, and the unemployment ratios frequently surpassed 3 %. This, however, does not yet mean the loss of full employment, for excluding seasonal variations the unemployment ratios mainly remained between 1 % and 2 %. Among the European industrial countries—as in the last years—only Belgium, Italy and Austria surpassed these figures. This approach reveals the true dimension of a higher unemployment rate of scarcely 2% in the Federal Republic and Britain, although here the seasonal cumulation is a warning of the problems to be expected from a continuous recession.

A consideration of seasonal influences is also necessary if the