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## Bilateralism in East-West trade

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problems standing in the way of a rapid increase in production. The USA and the Federal Republic of Germany took part in these endeavours which, though understandable in view of their interests, was nevertheless remarkable. But participation by these two countries did not mean a fundamental change in their attitude towards the International Tin Agreement.

This became apparent when the third international tin agreement provisionally took effect on July 1, 1966, once again without these two countries. This agreement, taking account of the principles laid down in 1964 by UNCTAD, has given itself the additional task "to make arrangements which will help to maintain and increase the export earnings from tin, . . . , to make arrangements for the continuing study of the short-term and long-term problems of the world tin industry, and to encourage wider participation in organizations devoted to research for promoting the consumption of tin".<sup>8)</sup>

#### Extension of Scope

To what extent, however, is it possible to reach the aims of this agreement as long as important individual countries are not prepared to adhere to it? The experiences of over ten years of international tin agreements have shown that such an agreement can function perfectly satisfactorily in times of excessive output, provided all important producing countries are members of it and submit to the measures proposed by the Tin Council. As soon, however, as the market begins to suffer from a shortage of supplies,

<sup>8</sup> See: UNCTAD Commodity Survey 1966 (part II A), published by United Nations Conference on Trade and Development, Geneva, November 1966, page 118 seqq.

the agreement proves to be largely ineffective, if some of the leading tin consumers stay outside. To this must be added the uncertainty surrounding the stock-pile disposals by the GSA as this did not exactly act as an incentive for the developing countries to intensify their production of tin.

There is without a doubt every justification for setting up as original and primary aim of the international agreements the stabilisation of the price of tin. It was precisely over the price that the representatives of the producing and consuming countries had their differences of opinion. All the more important would therefore seem to be the latest development in the third tin agreement. It proved, after all, possible to get together in London for a technical conference all the countries interested in the production and the consumption of tin. To be sure, a technical conference is as such nothing special. But what raises the London conference above the level of the ordinary is the possibility that it may prove the first step away from the present tin agreement with price stabilisation as its main aim towards a world organisation whose purpose it is to see to it that the limited tin deposits are systematically exploited.

In this respect, the International Tin Council would seem to have a unique opportunity. It could become the organisation "through which all the latest ideas, developments and techniques in the uses and applications of tin from all over the world could be assembled, considered and disseminated from time to time".<sup>9)</sup>

<sup>9</sup> See: Tin International, London, March 1967, page 62.

## SOVIET BLOC ECONOMY

# Bilateralism in East-West Trade

By Ernst Lederer, Frankfurt/Main

**T**he political side of the relations between the Federal Republic and the socialist states of South-Eastern Europe has made the problems regarding West Germany's trade with these countries take second place, although they had for many years formed the object of lively discussion in this country's financial and daily press. In view of the efforts made by the Federal Republic at reshaping its policy towards Eastern bloc countries this is only too understandable. It may, however, be assumed that quite a few problems regarding our trade relations have been solved satisfactorily in the last few years and that some progress has been made on both sides.

Nonetheless, this sector of our foreign trade, which constitutes only a small percentage of our overall balance of trade, is still far from being free from all difficulties, and constantly requires special efforts and careful cultivation. It may be expected that the

new course which the German Government has adopted in its policy towards Eastern bloc countries will lead to an expansion of trade relations with the countries concerned,<sup>\*)</sup> even though the extent to which they may be expanded is limited by factors which are largely outside the scope of our own influence. Here it is thought particularly of the difficulties which East European countries—especially those which still lack an efficient industry—meet when selling their products in Western countries, especially in the Federal Republic of Germany.

#### The Principle of Bilateralism

It must be borne in mind that it has always been, and in most cases still is, the principle of these countries to engage in trade with other countries on

<sup>\*)</sup> For the purpose of this report, the socialist countries of Europe, excluding Yugoslavia, and the People's Republic of China.

a basis of strict bilateralism buying, if possible, only so much in a given country as the latter is capable of importing from that side. It may be assumed that this principle is no longer as rigidly and strictly applied by some of the countries under discussion as this had been the case in former years, since sizable surpluses towards some of these countries are notable, which will force them nilly-willy to use part of their foreign currency earnings in other markets for the financing of purchases made in Germany. On the other hand, we also see that two of our most important trading partners from the socialist camp have for some years exported much more goods to the Federal Republic than they have imported from this country. A country like ours, which abides by the principle of unlimited freedom in the movement of goods, can only take note of such developments, perhaps with some surprise or even regret, but it cannot, and will not, endeavour to prevent them or interfere by imposing restrictive measures. It would hardly be necessary for us to deal with this phenomenon if we were not convinced that the two countries—I am speaking of the Soviet Union and Poland—have in fact need of goods produced in West Germany, which they could well buy if they adhered to bilateralism in trade relations with us. Well, we all know that in the socialist camp the demand for freely convertible currencies for various purposes is rather substantial. In such cases one should, however, no longer complain about the difficulties which, e.g., Common Market regulations concerning imports of farm produce from non-member countries present with regard to the exports of the two above-mentioned countries to the Federal Republic. It is quite correct that especially in the case of Poland farm produce constitute a substantial portion of its exports to Germany and that under the regulations of the EEC-Commission for the importation of farm produce from non-member countries some of these exports can no longer be effected as easily as before. Nonetheless, the question of large surpluses in the trade balances of these two countries towards the Federal Republic still constitutes a mystery—from the economic point of view—for many people.

Other countries, mainly Rumania and Bulgaria, by contrast, are faced with exactly the opposite problem. These countries are anxious to promote industrial growth to a large extent with the aid of German plant and equipment, German machinery and German methods and techniques. It is true that quite a number of orders originally intended for Germany were finally placed in other countries. Yet, the purchases made by these two countries in the Federal Republic, and to a certain extent this is also true of Hungaria and Czechoslovakia, in terms of value have been far above their own deliveries to Germany. The question suggests itself how these countries can meet their ever-increasing liabilities towards the Federal Republic. In this connection it must not be overlooked that the goods we import from these countries are almost exclusively paid in cash upon delivery, which means

that no credit is granted and that the foreign currency is received by the exporting country without delay. On the other hand, a large portion of German goods, particularly in the last three years, were sold to these countries on deferred payment terms extending over several years, which means that the entries in West Germany's export statistics will not immediately be reflected in the buying country's balance of payments. The amounts in question which are quite substantial are thus spread over a period of perhaps five years enabling the buying country to distribute maturities in such a way that due regard is paid to the anticipated rise in its exports to Germany. In other words: the output of the industrial plant we supply is incorporated, directly or indirectly, in the payments schemes. Naturally, there is much theorising going on here—and there certainly is the risk that in the years to come especially if and when debt redemption dates accumulate, our exports to these countries may contract temporarily. Not all these countries are in a position, like the Soviet Union, to bridge possible gaps in their balances of payments through selling home-produced gold. As regards Bulgaria and Rumania, the steadily growing number of tourists from West Germany will increase these countries' foreign exchange receipts quite considerably.

#### **Can Imports from the Soviet Bloc Be Liberalised?**

It is the Soviet Union which, as we have just seen, uses currency derived from deliveries to West Germany for purposes other than buying German goods. This practice, it must be noted, is not restricted to trade with the Federal Republic. Their surplus on trade account with the United Kingdom is even larger, although, as we all know, the British Government, some years ago, facilitated the granting of financial credits to the Soviet Union in the equivalent of the total amount of DM 1,200 million by taking over credit insurance guarantees. These credits which run for periods up to 15 years were designed to facilitate the purchase of industrial plant and equipment by the Soviet Union. As far as is known, the Soviet Union has made use of this possibility only reluctantly and it is reported that its order placings so far reach less than half of the value of these credits. The reason for this restraint, they say, is the allegedly high rate of interest to be paid in foreign currency. It is, however, understood that of the total burden of interest the Soviet Union has to bear only between 5 and 5.5 % p.a.

All this shows that it is probably not lack of financing possibilities that causes some countries of the socialist camp to base their trade relations with Western industrialised nations on other principles than that of bilateralism which they propagate as their own maxim. However, it is likely that the problem of British exports to the Soviet Union formed one of the items on the agenda of the meetings between the Soviet Premier Mr Kosygin and his British hosts during his last visit to London.

Not only in London but also in the political talks which the Federal Republic had recently with Rumania as well as with Hungary and Czechoslovakia, and also in the course of the presently suspended negotiations about a new trade agreement with the Soviet Union, the question of how to expand imports from these countries will certainly play a major part. As is well known, the Soviet Union and most other socialist countries demand of the Federal Republic that the import of their goods be completely liberalised. The least they demand, if not the most favoured nation clause (as was done by the Soviet Union) is more or less equal treatment with our trading partners in the Free World; they describe today's relationship, which still implies some restrictions in specific fields of trading, as discriminating. It is, moreover, beyond doubt that the Federal Republic and other Western countries will have to make further concessions in this respect, especially towards those countries which have applied for admission to GATT, which will be granted sooner or later. The Federal Republic, it is true, has already met many of these wishes by partly liberalising imports in May, 1966. There are, however, good reasons which for the time being advise against fully liberalising our imports.

### **Price Control**

It is an established fact that commodity prices in the state-controlled economy of a communist country do not have the same significance in general as well as for the calculation of sales as in a country with a free market economy. In the economy of a communist country prices, as so many other things, are largely a political instrument which may be used easily for specific purposes in international relations between these countries and the Free World. Complaints about socialist countries offering goods of their own or goods brought from third-party countries in certain markets at certain times below cost have thus never ceased to be voiced. The Federal Republic, too, has to reckon with this possibility, especially in connection with the import of industrial products which our own industry has difficulty in marketing in Germany or abroad at prices that fairly cover production costs. It is therefore understandable that these industries are opposed to complete liberalisation of the import of goods manufactured by them from state-controlled economies and that they demand from the Federal Government that some kind of price supervision be maintained. This has been done in the form of tenders which are unrestricted in terms of quantity, but which require that each contract and the envisaged import under this contract be reported to a central agency thus providing for a control of the price for the respective commodity.

### **Problems of Barter**

One of the instruments with which socialist countries try to sell their products in sizable quantities, even though the quality of these goods does not meet the

requirements made on them in Western countries, is the so-called barter contract or direct exchange of commodities for commodities. More and more cases are reported in which the placing of orders of considerable value has been made dependent on the seller's taking products from the purchasing country. Apart from the difficulties which this would involve, e.g., for an engineering works selling agricultural produce or products that are alien to its own operations—which in the final analysis will only be possible by important price concessions—such demands are likely to carry with them serious disadvantages for the economy of the purchasing country itself. On the one hand, the Western supplier will be compelled to make up for the loss to be incurred in the marketing of goods that have been forced upon him by calculating the price for his own deliveries accordingly. On the other hand, the prices for goods accepted in barter and sold at reduced prices will undercut the regular market prices of other clients, who may have been faithful buyers of the products for many years. This will make it difficult to keep experienced and knowledgeable importers interested. Therefore, most exporters try to sell such bartered goods in third countries. This practice, however, is apt to have detrimental repercussions on the trade relations which we maintain with these countries.

### **Industrial Cooperation**

A subject which has been put up for discussion in recent years during the examination of our trade relationship with East European countries has been so-called technical cooperation. Here it seems important to draw a clear distinction between the meaning which the two sides attach to this term. While manufacturers in Western countries interested in industrial cooperation with enterprises in countries of the Eastern bloc will think of genuine partnership, socialist state authorities, with whom such decisions would lie, will always adhere to certain Marxian principles and will, beginning with the theory that the state is the holder of all property, subject vast sectors of private enterprise to their ideology. The hopes initially harboured by the West about chances for genuine cooperation have probably given way by now to the recognition that it would be wise to speak of a certain division of labour—which may certainly be realisable—or even wiser of farming out contracts, a method which, incidentally, has yielded good results so far. Another field where cooperation might be more feasible seem to be joint ventures of various kinds in third-party countries. In this context the idea suggests itself of cooperation in developing countries, which might very well produce good results in that the know-how and skills of experienced management staff from Western countries are employed together with cheap labour and auxiliary supplies from the East. But even in this field no more than certain first steps and attempts have been made and no noteworthy results have been achieved so far.

The Federal Government has repeatedly stressed its good will and intention to improve and strengthen relations with states of a different social order in the East and Southeast of our continent in many respects

and to initiate and establish new relationships where this seems advisable. The cultivation of the trade relationships with the majority of these countries over many years has certainly done valuable preparatory work in this field.

## ***World Business Trends***

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### ***Slow Growth of World Trade***

World trade continued to increase during the first months of the current year. In the first quarter of 1967 foreign trade turn-overs of all countries (without the East-bloc states) were 6 to 7 % above those of the previous year. This rate of expansion is again somewhat lower than that in the fourth quarter of 1966. However, above all a comparison with the growth rate of 10 % for the whole of 1966 is showing clearly that the slowing down of economic growth in most Western industrial countries is already proving to be a major obstacle to the expansion of world trade. The differing developments of business activities in individual states and regions found their expression in these countries' foreign trade relations, although the growth rates did not always immediately give a proper impression of the most recent tendencies.

Thus in the first quarter of 1967 imports of the United States were still considerably higher than in the previous year's corresponding period (+ 12.3 %). This, however, was in fact only a reflection of the cyclical increase of foreign supplies till autumn 1966, while import values taking the usual seasonal variations into consideration are sluggish since that time. As against that the United States' exports (first quarter of 1967: + 8.9 %) also after a similar adjustment showed a distinct increase in the first months of this year. The balance of trade surpluses, that from the beginning to the end of 1966 continuously decreased, have

therefore grown again since the turn of the year. The American balance of payments has been somewhat relieved from this side in any case.

The expansion of world trade is being kept in check particularly by sluggish demand in Western Europe. In this group of countries on which—including trade between its members—more than half of world imports are concentrated, the import values of the first months of 1967 were only slightly above those a year ago (first quarter: + 2.5 %). This result is to be attributed above all to the decrease in imports of the Federal Republic of Germany (— 9.1 %), but also in several other countries imports dropped or, respectively, increased hardly, e.g. in Belgium, the Netherlands, Austria, Sweden, and Spain. In Britain (+ 4.2 %) the abolition of the specific duty on imports still had its after-effects. On the other hand, the high growth rate of imports in Norway (+ 18.7 %), Italy (+ 12.8 %) and France (+ 12.0 %) is an obvious result of the vigorous expansion of demand—lasting in the case of France till the turn of the year at any rate.

Contrary to imports the West European countries' exports continued to show a comparatively pronounced growth (first quarter 1967: + 8 %), as exports to areas outside Europe increased at a higher rate still. This was the case in particular for deliveries to East-bloc states (Jan./Feb.: + 33 %) and Japan (+ 38 %). The extraordinarily rapid growth of Japanese demand reflects clearly the still

unabated cyclical upswing in this country. Since simultaneously the expansion of exports slowed down, Japan's balance of trade became adverse again recently (imports January to April: + 21 %, exports: + 10 %).

According to available export data of the industrial nations, imports of raw material producing countries also continued to grow considerably during the current year. For one thing higher demand in advanced raw material producing countries, particularly in South Africa, contributed to this development (imports in the first quarter: + 32 %). But also in the group of developing countries the relatively vigorous growth of imports apparently continued, a trend that set in already in the course of the previous year (imports 1966: + 7 %). As regards the financing of their import requirements these countries at present should profit from the fact that an increasing number of industrial countries is intensifying their export drive due to their deteriorated employment situation.

As the developing countries' exports (1966: + 6.5 %) are rising noticeably more slowly already since the middle of last year, their aggregate trade balance is marked by a tendency to deficits. Measured by the industrial countries' foreign trade data this development continued in the beginning of 1967. The increase of export proceeds in developing countries is slowed down not only by the effects of the recession on the processing and storing of raw materials in the most important industrial countries, but also by the fall in prices connected with