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The Political Aspect Veils Economic Differences

by Prof Dr Andreas Predöhl, The German Overseas Institute, Hamburg

East-West Trade is an eminently political affair, consisting of all commerce between the Western world and the Communist or communist-dominated countries. There are two opposed attitudes towards East-West Trade: in the one camp, such trade is approved of because of its economic advantages, no matter what its political implications might be, and some people even consider it possible that trading might lead to favourable political weather changes; the other group is dead against this trade believing it to be politically objectionable as a form of support for Communism, and at the most, only a real political "quid-pro-quo" could make such trading permissible. But the question grows much more complex when we discover that the single political notion of East-West-Trade covers a number of vastly different economic facts.

Trading With China

Trade with the People's Republic of China shows all the characteristics of trading with developing countries. Unless China keeps on trading with the outside world, its development would be much frustrated. China's problems are not greatly different from those of the first stages of industrialisation in Russia. As was the case in Russia, Chinese industrialisation, though not starting from absolute zero, has to rise from a comparatively low level—from that of Manchurian heavy industry built up by the Japanese, as the Soviets had to use the basis handed on to them by Tsarism. And, in the same way as the Soviet economy, during the period of the first Five-Year Plan, exported large quantities of cheap raw materials, including grain, crude oil, and timber, in order to pay for foreign machinery and skilled labour, so the Chinese need exchanges with the outside world. Whether China could make do with trading with the Soviets only, if all trade links with the West would be cut off, seems highly doubtful, especially in view of the political tension between Peking and Moscow. Thus, the Western world might be in a position to place obstacles in the path of China's development. But the West will not be able to prevent Japan from increasing its trade with China, after initially being almost completely cut off from the Asian continent. This goes to show that political objections carry but little weight.

Smaller countries will not be able to build their own industries without foreign credit, or their industrial development will be extremely slow. Larger countries, on the other hand, suffer only a moderate slowdown if they are compelled to squeeze the required quota of savings from the pockets of their own population. The Soviets have never been granted long-term credits beyond the repeatedly prolonged "Russian Bills of Exchange", and their entire industrial development has consequently been financed by exploiting the Soviet peasants. And yet, the Soviet Union managed to produce approximately 18 million tons of crude steel at the termination of the second Five-Year Plan, three times more than Japan managed to attain during a development period of forty years. This means that it is highly questionable whether the application of credit restrictions achieves anything important. Giant nations like the Soviet Union or the Chinese People's Republic can make use of such immense resources that they are able to make progress under their own steam, once they have reached taking-off point in opening up the first production detours implied by industrialisation.

Economic exchanges with China are likely to be of a similar big advantage to the main industrialised areas as were earlier exchanges with the Soviet Union. During the big depression of 1930/31, German engineering exports had been almost the only support remaining for German industry. But it is not even necessary to point to such extreme examples as the world economic slump. Any extension of the worldwide circulation of goods and services redounds to the economic advantage of the industrialised focal areas.

This was already true during the epoch of classical liberalism, when the world's economy expanded, and it remains true during the evolution of so-called developing countries. Development aid is much more than a purely humanitarian act. On the other hand, that economic development will transform China into a world power of enormous potentialities, in contrast to the more modest changes in smaller developing countries, cannot be denied. But would it be possible to prevent such developments by imposing a trade embargo?

Trading with the Soviet Union

Indulging in "East-West" Trade with the Soviet Union is, however, a completely different kettle of fish. Side by side with the American and the European economic power centres of the world, the Soviet Union has become the third giant agglomeration of world production. When these huge industrial areas exchange goods and services mutually, it acts as one of the most powerful prime movers of world economy. But the planned economy of the Soviets is the main obstacle against this exchange being as voluminous between the Soviet Union and the rest of the world as between Europe and North America. There are apparently great difficulties in making bilateral foreign trade grow at a similar rate as multilateral trade grows in the Western world. Increased exchanges with the Soviet Union would be to the great advantage of all the countries of the world. Political objections against such trade, which might still have some validity in relation to China, are losing all substance in this case. Giant and fully-developed national economies have such large scope for building up their supplies from their own sources that the losses which they suffer from defective interdependence with the economy of the free world do not make a great difference, even in case of a bilateral form of foreign trade.

It is no valid objection to say that armament supplies should, at least, be handled much more cautiously: this will remind us only of the wretched steel pipe embargo. There is, in fact, no valid difference between peaceful and warlike exports. In total war, all goods are essential for waging war, especially, e.g., the products of peaceful farming. At any rate, everything that is produced for peaceful purposes may be transformed into some type of defence production, in the same way as any peaceful worker can be conscripted as a soldier. Rearmament can never be prevented or hindered by trade embargoes. To imagine that it might be possible or even mandatory to exchange only goods that will never play a part in any war is complete self-deception. We do not want to expose ourselves to an adverse verdict of political scientists who deny that increasing economic exchanges are liable to dampen down political antagonism or might even level down the differences between contrasting political systems. There is, on the other hand, no denying that economic systems do converge, and that their assimilation is being promoted by economic exchanges can hardly be gain-said.

The Countries of Eastern Europe

Even more powerful is the economic argument in favour of building up larger exchanges with the so-called satellite states of Eastern Europe, which constitute the third area of East-West Trade. Before they became communist, these countries had always been marginal areas of the European industrial power centre. By far the largest part of their imports came from, and exports went to, the industrial nuclei of

Central Europe, especially Germany. All economic rationality has been violated when they were artificially tied to the economic power centre of the Soviets. The operation has been less harmful to the industrial nucleus of Europe than to the marginal countries themselves, because a centre can more easily grow a new periphery than a periphery can find a new centre. Overland distances between the satellite countries and the main East European centres are so difficult to overcome that most of these marginal countries have been compelled to develop subsidiary, marginal industrial centres. But these are not strong enough, and they are subject to strong and unchangeable economic forces of attraction pointing westward.

It is therefore not surprising that these countries of the Eastern borders make conspicuous efforts to establish economic ties with Europe again. To carry on "East-West Trade" with these countries cannot possibly do any harm politically—on the contrary, such trade is politically highly desirable. But we should avoid also in the case of these countries any form of delusion—about chances for changing the political attitude of these countries by using our economic links with them. Perhaps, there may even be some slight change from this source, but this cannot be our aim. In the best interest of these countries and of the central area, everything should be done to return to the same type of high-volume exchange which links marginal countries to their industrial centres all over the world. In this case, too, bilateralism, as an instrument of planned economy, presents an obstacle. However, it ought to be possible to overcome just this obstacle to a certain degree, particularly in regard to the Eastern satellite countries.

East Germany—A Special Problem

How East Germany should be dealt with is a special problem. Neither is East Germany a marginal area, nor is Western Germany a subsidiary industrial nucleus, but East Germany is the Eastern slice of the industrial nucleus itself. Political tension, consequently, between the Eastern and Western parts of Germany are much sharper. We dare not predict whether economic ties will be strong enough to overcome political obstacles. Economic forces demanding big exchanges, of course, are much more powerful in this case, when it is not the question of relations between the centre and the periphery, but political antagonism is also strong. East Germany has reached, incidentally, second rank among the East European industrial producers, which is only the natural outcome of its position in the continental part of the European industrial power centre, and it would thus make little sense for the West to discourage economic exchanges for political reasons. Whether the economic forces will have a political effect, however, is even more questionable in this field of "East-West Trade" than in the case of having economic links with the Eastern border countries.