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Austria as a Model for East-West Trade

by Dr Walter Stermann, Vienna

The transition from the cold-war period, when also the economic relations between East and West had been almost frost-bound, to peaceful co-existence has brought about the Western industrial nations' growing interest in East-bloc markets, and along with it a continuous expansion of trade. This tendency became even more pronounced after, in the last years, economic reforms had started in almost all East-bloc countries—reforms, that by integrating elements of a free market economy intend to promote the national economies' performances without on principle changing the adherence to the socialist planned economy. It is a common feature of these reforms that apart from a certain new interpretation of the cost accounting system they introduce decentralisation and with that a delegation of responsibility and competence to the individual managements, that thus are enabled to exercise more influence also on the purchasing of their productive equipment and primary material. The result of all this is the possibility and even necessity of direct contacts with the suppliers. The Western seller does no longer deal exclusively with the official of a public foreign trade association in a monopoly position, but he is also offered the opportunity of talks with the producer interposed in distribution.

As is well-known, quite some time ago Yugoslavia has taken the lead regarding these decentralisation tendencies, and they resulted in such extensive changes that due to its present economic order this country is no longer considered an East-bloc country proper (Yugoslavia is but an observer, not a full-member of COMECON). In the most important East European countries these tendencies appeared in various forms, different intensity and with differing results.

Individual Prerequisites

In consequence of the political thaw the European industrial nations' Eastern trade increased constantly. Regarding this trend, apart from economic aspects, strong political motives were doubtlessly decisive, thus e.g. the influence of de Gaulle's European policy or the Federal Republic's concentrated efforts for an agreement with the East-bloc. In fact the Common Market's East-West trade increased by more than 250 per cent between 1958 and 1966, while in the same period the trade volume with third countries merely doubled. In the case of France and the Benelux countries this trade expansion was slightly below this

average, while the Federal Republic of Germany has reached it and Italy increased its exports from \$ 89 million to \$ 357 million and its imports from \$ 103 million to \$ 514 million. In the first half of 1967, this trend continued even more strongly: the EEC expanded its exports to socialist countries by 32 per cent as compared with the first half of 1966, the Federal Republic with 47 per cent and Italy with 28 per cent taking the lead.

Of course, the change of the political climate has not been without influence on the Austrian Eastern trade, but its longer-term and more constant development is based on individual prerequisites. As shown by Table 1, from 1958 to 1966 it has only about doubled as compared with the stronger trade expansion of the EEC countries.

Table 1

Development of Austria's and the EEC's East-West Trade

Year	Imports in million \$			Exports in million \$		
	Austria	EEC, incl. Fed. Rep. *		Austria	EEC, incl. Fed. Rep. *	
1958	133.6	677.7	266.6	140.7	625.7	277.3
1959	149.5	823.3	323.2	156.2	710.7	314.2
1960	186.5	975.0	380.5	196.7	991.9	440.3
1961	178.5	1,077.3	412.5	211.1	1,098.5	476.4
1962	196.8	1,201.8	472.2	221.5	1,170.5	504.2
1963	233.7	1,362.8	453.2	232.7	1,079.7	438.6
1964	227.7	1,359.5	486.7	253.5	1,212.6	551.2
1965	259.0	1,572.9	589.2	285.2	1,416.0	587.7
1966	277.1	1,797.0	650.4	302.9	1,670.8	695.8

* Without interzonal trade.

Sources: Austrian Statistical Central Office and Statistical Office of the EEC.

Three components are influencing the development of Austria's Eastern trade: a historical one, a geographical one and one pertaining to international law. From the times of the Austrian-Hungarian monarchy—although five decades have passed since its dissolution—stronger traditional ties are still existing with those socialist countries, that, completely or in part, had belonged to this monarchy. This applies above all to the Danubian states Yugoslavia, Czechoslovakia and Hungary. These traditional relations are human ones, family bonds, but also cultural and economic ones. They are being promoted by the geographical position of Austria, that, politically and according to its conception of the world belonging to the West, in a way bridges the ditch between East and West. This function is facilitated

politically by the country's voluntary status of unceasing political neutrality. As regards Austria's particular relation to the USSR there is the additional fact that this country as an occupation power and co-signatory of the Austrian State Treaty of 1953 to a large extent has influenced Austria's development after the last war.

Although these three components give Austria's relations to the East European socialist countries their peculiar character, on the other hand their influence should not be overestimated. For, when all is said and done, it is economic realities and the trade-political advantages offered—which Austria makes every effort to accomplish—that are decisive for trade relations between two countries.

Growing Importance of East-West Trade

In Austrian foreign trade business with the East-bloc plays a much more important part than in all other Western countries. Comparable relations are to be found only in Iceland, Finland and Greece. In 1966 all industrial nations' foreign trade with the East-bloc amounted to about 3 per cent, that of the West European states to about 4 per cent of their total foreign trade volume, while in the same year for Austria this proportion was 11.5 per cent with imports and 17.7 per cent with exports. To make a comparison possible, it should be mentioned that 1966 Austria's trade with the other EFTA states amounted to 15.9 per cent in imports and 20.1 per cent in exports. It is quite obvious that Austria's trade policy makes allowance for these facts all the more since the country's progressing discrimination by the Common Market, with which Austria carries through more than half of its foreign trade, enforces a change-over to other markets. In the first half of 1967 Austria's exports to the Common Market proportionally decreased from 46.5 per cent to 41.6 per cent, those to the Federal Republic from 27.9 per cent to 21.5 per cent even. However, a considerable expansion of Austrian trade with the East-bloc is impeded by the same obstructions as met by the other Western nations,

Table 2

Individual Countries' Share in Austrian East-West Trade

Country	Imports	Exports
	in million Austrian shillings	
East Germany	652	791
Bulgaria	431	648
Poland	1,105	922
Roumania	432	677
CSSR	912	1,145
Hungary	982	1,012
USSR	1,268	1,542
Total of COMECON States	5,782	6,737
Jugoslavia	1,167	998
Albania	14	4
China	239	121

Source: Manual of Austrian East-West Trade, 1967.

i.e. above all bilateral transactions, which are made allowance for also by the trade and payments agreements with East-bloc countries. The individual countries' share in the total volume of Austria's Eastern trade in 1966 is shown by Table 2.

Most liberalised are of course trade relations with Jugoslavia, with which, as a full-member of GATT, practically the same trade-political relations are existing as with other developing countries belonging to GATT. Goods and payment transactions are contractually regulated since 1948. Austria applies GATT liberalisation and GATT preferential tariffs vis-à-vis Jugoslavia and this country in return grants the minimum rates of its customs tariff, that already now is employed in its traditional function. Payments are made in Austrian shillings or other freely convertible currencies.

Trade Agreements and Payment Transactions

Bilateral long-term agreements (in most cases covering 5 years) which are renewed at any given time, are existing with all COMECON countries. For reasons pertaining to international law in the case of East Germany the partner is not Australia but the Federal Chamber of Industry and Commerce. Trade in products is wound up on the basis of quota lists, if it is not a question of import goods liberalised by Austria. Payments transactions are carried through by way of bilateral clearing in clearing dollars via accounts kept with the Austrian National

Table 3

State of Accounts as per December 31, 1967 (in 1,000 clearing dollars)

Country	Dec. 31, 1967	Swing
Bulgaria	+ 284	1,500
Poland	+2,182	3,000
Roumania	+1,353	1,500
USSR	+2,670	5,000
CSSR	—2,475	3,500
Hungary	+1,507	2,500
Eastern Germany	+ 750	3,300

+ = Austria's claim. — = Austria's debts.

Bank (for East Germany with the semi-official Control Bank) and with the Central Banks of the partner countries involved. Payment transactions are taken care of by the commercial banks. The Central Banks grant each other technical credits ("swings") up to the maximum amounts as fixed in each case. This is done in order to avoid in this bilateral payment system a longer-term blocking of goods trade caused by the indebtedness of one of the partners. The socialist countries' demand for goods and the difficulty of placing sufficient quantities of products supplied by the East-bloc lead to the result that globally the clearing accounts are permanently showing Austria's strong creditor position, although the individual East-bloc countries' positions are frequently exposed to considerable fluctuations (Table 3).

This clearing system, which after the war was established already at the beginning of Austria's Eastern trade, has proved its worth, and as compared with payment in free currencies seems to be advantageous, since the socialist countries' currencies—at least the rouble—are not freely convertible. This system makes allowance for the provisionally existing bilateralism with the East-bloc, but owing to the credit margin offers a certain flexibility. As for the rest, Austria's repeated suggestions, particularly vis-à-vis the USSR, but also vis-à-vis the other major People's Republics, that as regards the fixing of the exchange of goods they should consider proportions, meet with a lack of comprehension. What Austria meant was that the size of its economy should be compared with that of the other involved countries' economies and that the different absorption capacities should be taken into consideration, i.e. that they should buy more than they supply. The funds available for financing purposes are small and do not enable the Austrian exporters to considerably expand their deliveries on credit to the East-bloc. This would, moreover, not solve the problem of the East-bloc's indebtedness, but, under longer-term aspects, even exacerbate it, since debt service is an additional strain on the foreign exchange reserve. Besides, Austria's socialist trade partners never expressed the wish for a change of the clearing system, e.g. the transition to payments in freely convertible foreign exchange. This seems to justify the conclusion that they, too, believe this system to be the optimum one under present conditions.

Impediment through Bilateralism

However, as is well-known, the Soviet Union for a long time already has aimed at making the rouble freely convertible, but obviously without advancing towards this goal. A first step in this direction has been the creation of the transferable rouble, which the International Bank for Economic Cooperation—that handles the multilateral clearing and credit system of the COMECON countries—uses as clearing unit. Since starting its operations on January 1, 1964, this bank has not only served the facilitation of payment transactions within COMECON, but—as may be seen from its last annual reports—continuously raised its members' partnership shares in gold and freely convertible foreign exchange, and through its West European branches tries to join the business in freely convertible foreign exchange. This is supposed to create a kind of Euro-rouble as a counterpart to the Euro-dollar, and obviously is to prepare for the Soviet Union a right to say in the dealing with monetary problems of the West. Thus the conversion of the transferable rouble into gold and freely convertible exchange, which recently and repeatedly the Soviet Union has made a matter for discussion, perhaps will yet lead to first practicable measures.

Anyway, as long as the strict bilaterality in East-West business is still existing, for Austria, too, the motto is valid that an increase of its imports from the East-bloc is the prerequisite to an expansion of

its exports to these countries. An unrestricted most-favoured nation treatment is a well-known demand of the East-bloc nations. This attitude is opposed to the West's as well-known objections that there be no reciprocity of trade advantages. These doubts are based on the fact that the Eastern partners' customs tariffs, if they are existing at all, do not have the function of market regulators as in the West, but are no more than instruments of trade policy. It is therefore good evidence of GATT's adaptability that not only for Czechoslovakia, as a country with state monopoly trading, arrangements could be worked out enabling its cooperation as a full-member. Also with another country, that has trade monopoly trading, i.e. Poland, an agreement was made in October, 1967, according to which this country, that has no customs tariff, after getting full-membership as counter-consideration for the granting of the multilateral most-favoured nation treatment and the participation in the successes of the Kennedy Round—as well as the increase of exports to the GATT countries expected from that—will pay for all this with an increase by 40 per cent of its imports from these countries within five years after the end of the Kennedy Round.

Partial Granting of Most-Favoured Nation Treatment

Austria yielded to the pressure of its Eastern trade partners demanding the application of an unrestricted most-favoured nation treatment in that it conceded GATT-tariffs to the four most important among them. These are the USSR with which a large-scale and long-term trade and shipping agreement exists and which as counter-consideration applies the minimum rates of its customs tariffs (comprising maximum and minimum tariffs), and Hungary, that grants Austria the favoured rates of its customs tariff having become operative only on January 1, 1968. The other two are the full-members of GATT, Czechoslovakia and Poland, both of which have no customs tariff. Thus it is here a question of unilateral Austrian performances without any reciprocity, which aim at an expansion of the trade volume also with these two countries. Owing to the above-mentioned agreement with GATT Poland of course participates also in the Austrian tariff reductions within the framework of the Kennedy Round.

Concerning liberalisation all East-bloc countries are also beneficiaries of an Austrian "free list" of goods with a world-wide application, i.e. goods that may be imported into Austria without any limitation and formality whatsoever. Beyond that Austrian import lists have been contractually fixed with Czechoslovakia, Poland and Hungary, applying to goods, that may be imported from these countries without any quantitative limitation. With Albania, Bulgaria, Rumania and East Germany hitherto no licences to trade have been negotiated neither on the tariff sector nor in imports. However, everything is continuously in a state of flux, as any new negotiation of a contract may bring about changes.

The unilateral *de facto* liberalisations vis-à-vis Czechoslovakia, Poland and Hungary are advances made in the hope that with a progressing easing of economic policy in these countries, counter-considerations will become possible some time. True, this exemption from any quantitative limitation of imports does not constitute a true bilateralisation e.g. as applies to imports from OECD countries. What takes place is a licencing after a previous examination, above all of prices, thus being similar to the different formalities of the import system used in the other West European states. This price control proves to be necessary in view of the volume of the quasi-liberalised imports from the four countries in order to avoid serious market distortions caused by low-priced foreign products. To what extent this main reason for licencing will cease to exist, if in the course of economic reforms also the East-bloc countries will work with comparative costs and thus with true export prices, of course cannot be predicted at all today.

The operation of the licencing system is sufficiently informal and short-term, and this way does not effect a delay of the flow of goods. The level of quasi-liberalisation is about the same as the West European one, with Poland it amounts to 70 per cent, with Czechoslovakia and Hungary to 66 per cent in each case. The French quota that even compared with the German one with 90 per cent is very high, should be highly influenced by political optics. The Benelux countries, too, liberalised extensively vis-à-vis the East-bloc, and Italy intends to increase its present quota of approx. 40 per cent to about 70 per cent.

Little Interest in Barter Transactions

Apart from clearing transactions the barter and package deals as formerly practised frequently in business with the East-bloc have declined much, although Eastern partners like to force them by giving that Austrian supplier the preference over others, who is in a position to link up at least part of his supplies with return deliveries. This attitude is caused by the partner's wish to save foreign exchange used for clearing transactions. Austria, however, is little interested in these business transactions, since they are quite problematical for the import market and do not improve the partner's chronic debtor position. They remain essentially confined to such large-scale skeleton transactions as e.g. are carried through by VOEST in its steel deliveries to the Soviet Union in order to receive regularly iron ores in return. More frequent is the form of package deals in the so-called "switch", in which the placing of import goods in the domestic market or in a third country will be made easier as regards pricing by a premium to be paid by the exporter. There exist the most differing variants: in case the export goods originated from a third coun-

try—and there must be paid in freely convertible foreign exchange, while it yields only clearing dollars—the Austrian National Bank itself imposes the requirement of a switch-premium.

Austria's position at the line of intersection between East and West predestinates this country to act as intermediary for the export oriented economy of the West. It is therefore understandable that the transit trade via Austria plays a major part. Moreover, in Austria the West itself is establishing points of contact with the East. It is quite significant that recently also the Chase Manhattan Bank established itself in Vienna by purchasing the majority of a Vienna commercial bank in order from here to provide its American clients with information on trends and chances of business with the East-bloc. Vice versa the Hungarian economist, Professor Bogner, recently suggested the establishment of an East-West bank in Vienna. This city also plays a major role as a market for free trade with Eastern currencies, and the turn-over of East-bloc currencies, above all for tourists, is estimated to amount annually to 50 million Austrian shillings.

No Model for the West

If now, considering everything that has been stated above, the question arises whether Austria's East-bloc trade would be a suitable model for the Federal Republic of Germany and other EEC countries, too, this question should be answered in the negative. For one thing, the prerequisites to the relatively large share of business with the East-bloc in Austria's total foreign trade are quite particular ones and cannot be transferred to other circumstances. For another, although the applied clearing system is rather expedient in the present situation, it nevertheless opposes the general endeavours aiming at a worldwide multilaterality of trade, into which the East-bloc countries are supposed to be integrated. Its acceptance by other Western countries would be a step backward. The realisation, however, that only the best possible opening up of one's own market to goods from the East-bloc creates the prerequisites to the expansion of one's own deliveries to this area, has become common knowledge in the West. This is proved by the EEC countries' progressing efforts for liberalisation vis-à-vis the East-bloc. For the rest also the chances of Austria's Eastern trade should not be overestimated too much. The general obstructions impeding an expansion of East-West trade are of course valid for Austria, too. The future development of this trade does certainly not only depend on the West's continuing the elimination of all differences between trade with the East and that with other countries, but also on the problem to what extent the East-bloc will meet the West halfway by a gradual adjustment of its foreign trade practices to those of the West.