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International Trade

East-West Trade Hampered by Politics

by Professor Dr Fritz Huhle, Darmstadt

During the twentieth century, world trade was twice checked in its continuous growth by world wars. But every time after such a war, it proved possible to restore international trade relations and to increase again the exchanges of goods and services across national frontiers. The volume of world trade, which amounted to the equivalent of more than \$ 400 billion in 1968¹, became much larger than in 1938 and also larger than in 1913. Economic requirements of supplying the needs of humanity proved to have much stronger potencies than all the obstacles of an anti-economic policy. In view of the fact that even the areas with an economic order on Eastern lines are dependent on international exchanges of goods, it seems to be justified to assert that world trade is stronger than world politics.

However, it is a different thing when a government reacts to the fear lest the supply situation of its country might suffer through the abstention from traditional trade relationships with the world outside its frontiers, and when it does deliberately, for political reasons, without a many-sided expansion of its international trade relations, and thereby also chooses to go without the potential improvement of its economic situation through trade. It will always be easy to go without something which has never been your own, or has only become yours very recently, easier than to do without advantages which have been yours for a long time and have thus become part of your customary surroundings. But among Comecon members², it has now become a perennial and growing desire for its members to strengthen their trade relations with western countries, and the reason for this, generally speaking, is certainly the disagreement between individual economic self-interest and the acknowl-

edged collective political objective. In achieving the aims of a general policy, the economy of the Comecon countries no longer sees sufficient compensation for the disadvantages deriving from the one-sided character of a merely inward-looking trade system between Comecon nations.

The change in assessing political and economic facts has come about very slowly but unmistakably, and it now definitely influences the trend of development in the foreign trade relations of East European states. (Eastern Europe, in this context, includes Bulgaria, Czecho-Slovakia, Yugoslavia, Poland, Rumania, and Hungary. It goes without saying that the Soviet Union exerts a dominant influence upon East European foreign trade.)

Never Above a Minimum

Export and import developments in the countries of Eastern Europe and in the Soviet Union, after the Second World War, are clear proof of the fact that in the Comecon area, internal trade relations are considered to be much more important than third-party foreign trade with the so-called capitalist world. Supranational cooperation between Comecon countries has definite priority over and above any economic tie-up with non-socialist areas. The statistical breakdown of regional trade activities reflects this state of affairs clearly.

By far the most important trade partner of all the Comecon countries is the Soviet Union, its share in exports and imports of these countries being between one third and one half of the whole. Of Bulgarian exports, approximately 50 p.c. go to the Soviet Union, under half of Bulgarian imports derive from the Soviet empire. In Poland, Rumania, Czecho-Slovakia, and Hungary, about one third of both exports and imports are tied up with the Soviet economy. The Soviet

¹ Estimates made by the German Federal Statistical Office on the basis of UN figures.

² Council for Mutual Economic Aid.

Table 1

Shares of the Eastern European Countries in the Foreign Trade of the Federal Republic of Germany *
(in %)

Country	Shares in Imports				Shares in Exports			
	1960	1965	1967	1968	1960	1965	1967	1968
Bulgaria	0.19	0.23	0.25	0.26	0.26	0.31	0.39	0.30
Czecho-Slovakia	0.61	0.48	0.51	0.57	0.57	0.56	0.60	0.71
Yugoslavia	0.55	0.67	0.69	0.77	1.13	0.78	1.34	1.37
Poland	0.75	0.62	0.63	0.59	0.63	0.51	0.57	0.59
Rumania	0.41	0.41	0.50	0.51	0.31	0.67	1.10	0.74
Hungary	0.44	0.41	0.39	0.38	0.46	0.43	0.48	0.34
Total	2.95	2.82	2.97	3.08	3.36	3.24	4.48	4.05

* According to producer and consumer countries.

Source: Außenhandel, Series 1, Federal Statistical Office, Wiesbaden.

share in East Germany's economic turnover is about two fifths. Only in Yugoslavia, which has not joined Comecon, these shares are only about one eighth of the total. The strong Soviet position in Comecon foreign trade has been consolidated by trade agreements that have been concluded for the Five-Year Plan period of 1966-70.

On the other hand, the Soviet Union's role as recipient of western countries' goods, and as their supplier, is negligible. Of foreign trade turnovers recorded by the UK, France, Western Germany, and the US during recent years, only about 2 to 3 p.c. are represented by goods exchanged with the Soviet economy. In 1968, Soviet imports into the Federal Republic of Germany amounted to 1.4 p.c., German exports to the Soviet Union to 1.1 p.c. of the respective totals. These shares even included the goods exchanged with parts of Eastern Germany at present under foreign (i.e. Polish and Soviet) administration including Danzig (Gdansk). Combining this minute trade volume with that connecting the West with the other Comecon countries results in figures which make it abundantly clear in what utter isolation, relatively speaking, the totality of all communist countries, from the western world, is living and trading, and how closely interdependent they are economically. Of the foreign trade of Bulgaria, Czecho-Slovakia, Hungary, and of the German Democratic Republic (GDR, for short), between

60 and 70 p.c., and of the foreign trade of Poland, Rumania, and the Soviet Union itself, about 50 to 60 p.c. are absorbed by intra-Comecon trading. Yugoslavia carries on only about one third of its total foreign trade with Comecon countries; on the other hand, the entire Comecon area including the Soviet Union accounts only for a few per cent of the total foreign trade volume of western countries.

A typical example for the big change which has taken place is Germany, whose contribution to the imports and exports of South-East European countries was particularly high before the last war, and of whose own foreign trade volume, this area then absorbed about one tenth. But up to the present day, all the efforts undertaken for enlarging East-West trade have not resulted in more, in Germany's case, than all the East European countries collectively supplying no higher a slice of the German import total than 3 p.c., and absorbing together no more than 4 p.c. of the entire German export account. Only Yugoslavia contributed to this total more than 1 p.c. (see Table 1).

An Underdeveloped Division of Labour

What is true of foreign trade relations between West Germany and Eastern Europe applies also to the entire European Common Market area.

Table 2
EEC Foreign Trade
Total and with the East-bloc (1960/67)

Year	Exports				Imports			
	Total		to Eastern Europe		Total		from Eastern Europe	
	in million \$ *	Growth in %	in million \$ *	Growth in %	in million \$ *	Growth in %	in million \$ *	Growth in %
1960	29,760	.	815	.	29,621	.	651	.
1961	32,353	8.7	902	10.6	32,216	8.8	719	10.6
1962	34,250	5.9	871	-3.4	35,817	11.2	803	11.6
1963	37,584	9.7	946	8.7	40,418	12.8	998	24.4
1964	42,594	13.3	1,157	22.3	44,928	11.2	994	-0.5
1965	47,904	12.5	1,287	11.3	48,991	9.0	1,144	15.1
1966	52,634	9.9	1,637	27.2	53,625	9.5	1,319	15.3
1967	56,135	6.7	2,048	25.1	54,938	2.4	1,437	9.0

* Round values.

Source: OECD, Commerce par Produits, Série C; cited after IFO-Schnelldienst, 21st year, No. 51/52.

Of EEC foreign trade, the imports from, and exports to, Eastern Europe represent not even 4 p.c. True, the growth rates of EEC members' foreign trade with Eastern Europe were on average much higher than those of the entire extra-area trade with the whole world during the period 1960-67 (see Table 2), but this above-average growth was often due to the very low levels from which this development started. In spite of above-average expansion shown by the EEC's East-West trade, the volume of this business has remained purely marginal. Of the export total of EEC countries' extra-area exports, it is true, the Comecon share has climbed from 2.7 p.c. in 1960 to 3.6 p.c. in 1967, and imports, likewise, climbed from 2.2 to 2.6 p.c. over the period, but this is still very little, and the very paucity of trading results is in direct contrast with the huge economic potentialities of the two regions. It reflects the undeniable fundamental differences between the two social, political, and economic systems prevailing in the West and in the East.

Trade between the two areas, furthermore, shows significant imbalances in structure. During the period under review, EEC member states exported to Eastern Europe types of goods, of which between eighty and ninety per cent were finished industrial manufactures, whilst their imports from Eastern Europe consisted mainly of food, drink, raw materials, and fuels (see Table 3). Any comparison with a structural breakdown of the entire foreign trade of EEC members outside their areas serves to underline the imbalance and the anomalies in EEC's Eastern trade, because its trade with other countries demonstrates clearly the keen competition between products fighting each other for substitution. The result of the comparison is surprising, since the history of world economy has shown that highly industrialised countries find an optimal equilibrium of their trade balances only after they have reached an exchange of goods mainly based upon substitutive competition, which leads to a maximum expansion of foreign trade volumes. But in the interest of a rigid execution of their government-imposed

economic plans, states where the government exerts a trading monopoly cannot afford to indulge in exchanges with other economic regions that go beyond a mere supplementation of production gaps. In other words, the international division of labour between communist areas and other countries is underdeveloped.

There Are Reasons for Close Cooperation

However, quantitative analysis does not supply sufficient explanations. The quantities shown are only the effect of a special form of motivation for trading abroad. Comecon is not a typical example of an association of countries based on deliberate economic planning, which is the case of the EEC, whose very method, convictions, and structure of carrying on business lead up to a large organic whole, of which the members supply what is lacking in other members. Comecon, in contrast, is an imposed political creation of the Soviet Union, aiming at political subjection of the Eastern European satellites through an overriding organisation. The lack of integrating institutions is explained by the fact that close economic cooperation between Comecon members is allegedly imperative and need not be steered by special institutions. The reasons for this necessity are said to be their geographical position, their lack of raw materials, and their technological backwardness (which exists only in parts of the area and in some of their industries), which compels them to sell their industrial products, since they are not up to western standards and thus not fully competitive, in the Comecon market which is protected against world market influences³. The protective wall surrounding the Comecon market is completely impenetrable, it consists of the foreign trade monopoly of the State which is enshrined in the constitutions of all the Comecon countries.

When the Soviet Union demanded the creation and maintenance of a closed socialist supra-

³ see W. Gumpel, *The Economic Situation ... in the Comecon* (in German) in "WIRTSCHAFTSDIENST", Volume 48, No. 5, p. 267.

Table 3
Shares of the East Europe Trade in the EEC
Foreign Trade according to Groups of Merchandise 1960/67
(In %)

Year	Total		Foodstuffs and Luxuries		Raw Materials and Fuels		Manufactured Goods	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
1960	2.7	2.2	0.7	4.5	1.7	2.9	3.1	1.2
1961	2.8	2.2	1.3	4.8	1.8	2.5	3.1	1.2
1962	2.5	2.2	1.6	4.7	1.5	2.6	2.8	1.2
1963	2.5	2.5	2.8	5.7	1.9	3.7	2.6	1.2
1964	2.7	2.2	2.2	5.0	2.1	2.4	2.9	1.2
1965	2.7	2.3	1.7	5.3	2.2	4.2	2.9	1.3
1966	3.1	2.5	2.5	5.5	1.9	2.5	3.3	1.4
1967	3.6	2.6	1.5	6.4	1.8	2.6	4.1	1.4

Source: IFO-Schnelldienst, 21st year, No. 51/52.

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national economy, this was also due to the inescapable needs of its own system.

It is highly characteristic that neither Marx nor Engels ever wrote anything about the foreign trade of socialist countries. It was only in occasional asides that they mentioned foreign trade, more precisely, foreign trade relations between typical trading nations. They welcomed the liberalism of foreign trade as a harbinger of the final breakdown of capitalism. Other Marxist theoreticians, likewise, have rarely discussed foreign trade. Where they did this, they did no more than pass some remarks about the presumed relations between socialist and capitalist countries but never about how socialist countries ought to trade with each other. Allegedly, this is so because socialist countries do not need foreign trade at all, as they form a solitary, monolithic bloc, and socialism has no need for nationalism.

Interests Are Not Identical

Who is interested in loosening the shackles that hold down East-West trade? Not the Soviet Union; on the contrary, it must be against all such "liberalisation". For the Soviets, this is not even a political problem, but simply one of operating a regional economy which does not preclude the Soviet Union, wherever this does not contradict

its own overriding plans, from trading with western countries. For the Soviets' attitudes and decisions, it will be always its own central plan, and this also covers the subsidiary economies of its satellites, which is decisive.

Planners will always find it simpler and more secure to call only upon the known resources of their own area of planning. If some imports become necessary, any socialist planner, apart from political considerations, will first turn to other socialist countries because he can negotiate with them extremely long-term supply contracts. This means that imports may be entered as fixed items, known quantities that embody neither political nor economic risks, upon the central planning sheet. And socialist planners in socialist states need not fear any embargoes imposed by governments in their own sphere of dominion, which might badly disarrange their beautiful plans. In addition, price fluctuations for late deliveries would render deliveries difficult as they may be expected after a longish period of waiting. Among socialist partners in state-run economies, price fluctuations need not be anticipated.

On the other hand, the smaller East European states, in contrast to the Soviet Union, have an active interest in expanding their foreign trade beyond the narrow confines of Comecon. Rumania and Czecho-Slovakia have openly demonstrated their need through their actions. Yugoslavia, being outside Comecon, has done everything to intensify its trade relations with Western countries. Eastern European countries are naturally interested in growing trade with the West, because of their historical economic development. Their growing industrial maturity, reflected by preferential treatment of their production of investment goods, by their neglect of industrial consumption goods production and by above-average growth rates, on the other hand necessitates the import of high-grade investment goods which are available in the East only in inferior quality. In order to be able to buy the required goods and equipment in the industrialised countries of the West, the Comecon countries supply mainly consumption goods to the West, or they offer the services of their tourist industries.

What western countries think of the East-West trade is generally free from political considerations, and their interest is purely in a potential new marketing outlet. Naturally, we must not neglect the fact that higher imports which will be the inescapable effect of higher sales in the western markets cannot be judged wholesale and in the abstract. If East-West trade grows, West German investment goods manufacturers will find new trading outlets, whilst West Germany's consumption goods manufacturers will feel keener competition through the inflow of more eastern consumption goods. This relationship will stand under the unique influence of factors in-

separable from trade between a free market and a state-run socialist economy.

Wherever two market economies of about equal weight enter into trade relations, it may be assumed that the two new trading partners are economically equivalent. But this will not be the case when a free market economy and a country under state trading regulations enter into trade relations. The fundamental difference between the two economic and social systems will produce completely different market positions for each of them.

Overall Changes in the System of Import Quotas

Free competitive economies, as a rule, need not employ special tools for protecting themselves against the market strength of their trading partners, but in dealing with state-planned economies, the forces of the market fail to give the free economy sufficient protection. The nation with a free market will therefore always attempt to prevent an abuse of the power of State monopoly by forbidding discrimination through all its trade treaties. But such attempts have not been very successful up to now.

This means that even the free market economy, in dealing with a planned economy, is forced to give up its true form of operation, free competition, and to set a counterweight creating approximate equilibrium as against the overwhelming power of a state-run monopoly in the market. One such counterweight may be the association of exporters and importers of free market economies in a type of foreign trade cartel. If it is possible to keep the internal structure of such a cartel so that it will ensure the observation of competitive rules between the members, turning its own monopoly power only towards the monopolistic foreign trade partner, this might create sufficient weight to counterbalance the deleterious influence of the planned State monopoly, without doing structural harm to the internal market constitution of the free country.

Wholesale opening of the gates of trade to the imports of state-trading countries is not the most suitable way for boosting East-West trade. Such wholesale abolition of all quotas would increase the structural anomalies in the composition of East-West trade, instead of supplementing it rationally. Eastern countries naturally wish to

obtain increased import quotas from the Federal Republic of Germany and other western countries in fields of production which show capacities surplus to the eastern economies. On the other hand, increasing the import quotas for goods that cannot be supplied in sufficient quantity anyway by eastern countries makes no sense. On the other hand, western quota policies can only be operated in relation to the interests of their own affected industries. If they would agree to a general increase in quotas for importing consumption goods from countries with low price levels, among which especially the countries of the Soviet Bloc are prominent, this would result in a heavy burden to be borne by our own economy. Therefore it appears advisable to use some reticence in opening the gates for imports from eastern countries, and thus to keep the growing load of imports from the countries under state management within the limits that have been already reached.

Political Impositions to be Dismantled

East-West trade is structurally deformed because most state-run economies have surplus capacities in manufacturing certain consumption goods. These surplus capacities have been induced by politically planned economic distortion⁴. If western countries are to be used as the safety valves for blowing off steam from these overheated boilers, this would not, in the long run, lead to a sound development of East-West trade. Long-term growth of East-West trade is only possible on condition that both partners mutually supply to each other growing volumes of well-balanced selections of goods. Raising these deliveries, however, has to follow actual needs and must therefore not lead to the imposition of the condition that the western countries must absorb all the goods in oversupply because of state planning. Only when East-West trade will be, once for all, be liberated from the political impositions ruling the market in the East, and from the structural weaknesses and distortions set up by these impositions, it will develop steady long-term growth and gradually assume genuine traits of an integral part of worldwide international trade.

⁴ see U. Lütj e, Oesthandel krankt nicht an Einfuhrkontingenten (What's wrong with Eastern Trade is not the Import Quota System), in Bulletin of the Frankfurt Chamber of Industry and Commerce, No. 5, 1968, p. 129.



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