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Better Prospects for Trade with the East?

Recent weeks have been overshadowed in the Federal Republic of Germany by the ratification of the eastern treaties by the Bundestag. Since a few deputies had changed their party affiliations, neither the Government nor the opposition were able to muster a majority in Parliament, and the fate of the treaties depended on agreement being reached by Federal Chancellor Brandt and Opposition Leader Barzel on a joint resolution of the Bundestag which was to form a constituent part of the treaties. It was only after a tenacious struggle that the two sides — with cooperation by the Soviet Union — found a common denominator for the resolution, so that the treaties of Moscow and Warsaw could be ratified on May 17 — although only with the votes of the Coalition and by vote abstention of the Opposition. Nothing seems now to stand in the way of the ratification, likewise, of the new trade and cooperation treaty which was concluded by the Federal Republic and the Soviet Union on April 7, 1972.

A few years ago a new commercial agreement was still expected to lead to a break-through in German-Soviet trade. But implementation of such an agreement was impeded for nearly ten years by the question of its application to West Berlin and by the after-effects of the pipe embargo of 1963. Today the Soviets accept a Berlin clause, and, with the trade volume nearing DM 3 bn, commerce is thriving rather well, so that Germany takes the second position among the western countries. Furthermore, German industry is for the agreement, seeing that it offers a solid foundation for business, and the Soviet Union is also taking a positive view of the opportunity for an expansion of trade, all the more so because a number of Soviet wishes have been met by more liberalisation for Soviet goods, extension of Hermes insurance to deals with Russia and credit guarantees for large joint projects.

It is now more likely that a number of important transactions which German firms and Soviet foreign trade enterprises have long been negotiating about will go through. Too much however must not be expected in the way of business with the East. For one thing, the severity of the competition in the eastern market between western countries should not be underrated — as the USA has also been willing of late to commit itself on a larger scale — and, for another, it is impossible

to eliminate the cardinal problems bedeviling economic relations between the state trading countries of eastern Europe and the industrialised countries of the capitalist world by a trade agreement alone. The mutual exchanges of goods between the two sides are still structurally unbalanced: finished and investment goods make up about 80 p.c. of exports from the Federal Republic, while raw materials and foodstuffs account for a similarly high proportion of its imports from the Soviet Union. On the German side the producers of consumer goods are especially dissatisfied because they do not yet see any outlets for their goods at all. The Soviet desire for a balance being struck bilaterally between exports and imports remains as an impediment to faster expansion.

Two sets of facts, operating in opposite directions, make it difficult to forecast any solid prospects for overall western commerce with the East. That the Soviet Union will activate its economic relations with western countries is likely in view of the big industrial projects of which evidence is to be found in the five-year plan for 1971–1975. This is the only explanation for the frequent negotiations with West European countries in the course of the past few months. Despite this great interest in economic relations with the countries of Western Europe, however, growing concern is being felt in the COMECON about the eastern deficits in world trade. Some COMECON strategists have been arguing in favour of increasing intra-trade, and the current foreign trade plans of the COMECON states are already reflecting this. By 1975 these countries want to increase the share of other eastern countries in their trade by 10.4 p.c. (against 8.3 p.c. in 1966/70) and that of the West by 4.4 p.c. (10.9 p.c. in 1966/70) only. The Soviet Union is showing noticeable reserve; it has planned for 2.4 (13.2) p.c. growth in western trade.

In the light of these facts the future trend of East-West trade is quite uncertain. Experience to date suggests however that, the plans notwithstanding, the COMECON countries will engage in substantially more trade with the West so as to overcome their frequently recurring internal difficulties. When the new trade agreement has been ratified, West German firms are likely to have a better chance of securing an appropriate share of this business for themselves.

Klaus Bolz