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Multilateral Policies for East-West Trade

by Dr Klaus Bolz, Hamburg *

Trade between eastern and western industrial nations amounts to barely 4 p.c. of the total foreign trade of the latter, yet the interest in this part of world trade is disproportionately great. A number of many-sided studies have been devoted to East-West trade, and their results have given sufficient knowledge of the special difficulties which accompany East-West trade transactions.

During the fifties, the foremost obstacles in the ways of this trade were export embargoes and strict import quotas against goods produced in the "East", but in the sixties, after much progress had been made in consolidating trade relations between western industrialised countries, a start was made towards liberalising East-West trade. Only the United States retained a restrictive policy on eastern trade up to about 1970, and this influenced also the actual development of other western industrialised countries' deliveries to the East, for which a striking example was the German embargo of 1963 against the export of steel pipes. More recent activities in eastern trade prove that official US attitudes have undergone a fundamental change, thus adapting themselves largely to the wishes of the business community.

Trade Promotion

Socialist countries adhere to the principle of balancing international payments bilaterally, and this was a major obstacle to trade growth right from the beginning. As long as this system is adopted literally, any given western industrial nation can export to a given socialist country goods only up to the same value as it imports from it. Any strict observation of this rule has been found, more or less, impossible, because trade balances between individual socialist and capitalist countries were, after a while, always in deficit for the former. Socialist countries remained, as a rule, unable to supply sufficient volumes of goods in demand in the West, which meant that they could not earn sufficient western currencies for the payments required. The socialist countries made therefore increased efforts to pay for their rising imports by expanding their exchange deliveries.

In the long run, such barter, which was due to western willingness to promote trade, was not blessed by lasting success either. Western exporters had to accept, in exchange for their exports, usually goods for which they did not know the markets, and which they frequently were able to sell only at a large discount. From about the middle sixties, more western credits have therefore been used for facilitating exports to socialist countries and at the same time redemption periods have been extended far beyond the limits agreed upon under the Berne Union more frequently, side by side with the promotion of imports from the East and with barter trade.

It is, however, only natural that credit financing of exports to the East cannot and will not be a permanent solution of the problem. There will always be a point beyond which a western partner will not increase a given credit volume. Accumulating more debts, the eastern partner will, one fateful day, become hopelessly insolvent — a state of affairs equally undesirable both for eastern and western contracting parties.

Cooperation as a New Way

This is not the least important reason why socialist states are interested in cooperating with the West in the most varied forms. Between processing contracts and coproduction, there is a wide gamut of cooperative structures which lift from the shoulders of socialist countries all the major burdens hitherto operating as obstacles to mutual trade, but at the same time bringing them all the blessings of obtaining western investment goods. Such agreements are free from the aforementioned foreign exchange and barter problems. Economic cooperation, is, of course, not intended to replace trade but to lift economic relations between East and West to a new and higher level of quality and continuity.

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Yet in spite of this new reinforcement, it can only be expected that the increase of volume in east-western trade will be limited, and this has caused a number of national associations for promoting economic international cooperation to consider new measures for strengthening economic east-western relations¹. The result of intensive exchanges of ideas between national US, Japanese, West German, French, British, and Swedish associations² has been recently published by the US Committee for Economic Development, together with a review of US eastern trade policies. This joint statement attempts to show new ways for enlivening east-western trade relations by their increasing multilateralisation. Unlike other suggestions, this statement does not, predominantly, put forward proposals for national measures such as liberalisation of imports, making more and cheaper credits available, or determined promotion of cooperation, but speaks of the possibilities of using multilateral negotiations and organisations to reduce the impact of hitherto unresolved problems. It is primarily devoted to sketching an institutional framework within which the multitude of individual difficulties of east-western cooperation could be overcome.

Private International Initiatives

A number of international organisations have taken umbrage at this joint statement, and especially the USA has been reproached with deliberately going behind the back of existing agencies. Therefore, it must be emphasised that all the above-named national associations have cooperated in drawing up, and have signed, that paper. Moreover, there is no possible connection between this paper and the recent turn in US trade policies towards the East, implying more liberalisation, since before the statement was published in September 1972, many years of talks and discussions had preceded it, among other places in London and Paris. Even though the Committee for Economic Development, which sponsored the publication, may not be considered to be completely independent of the US Administration, the paper itself has had as its co-authors mainly representatives of private enterprise.

Its text makes it clear that governments of western industrial countries, when negotiating for bilateral agreements on east-western trade,

bear a heavy responsibility, although on the western side trade and cooperation are the business of private firms. The fact that these agreements are bilateral has the effect that only national, and not international, organisations are briefed for hammering out the legal and administrative details. From 1973 onwards, unless the socialist states prevent it, the EEC, as the first supra-national authority, will have a direct influence on building this framework. Japan's agreements and the most recent ones made by the USA for eastern trade are also of the bilateral type.

New International Institutions

Whilst recognising the importance of several multilateral organisations also for east-western trade relations, the statement points out that neither OECD nor the Coordinating Committee on Export Controls (CODOM) nor the Agreement of the Berne Union nor the General Agreement on Tariffs and Trade (GATT) nor the United Nations nor, in particular, the United Nations Conference on Trade and Development (UNCTAD) have dealt exclusively or with sufficient thoroughness with east-west trade. Questions which arise from the differences in the two economic and social systems do need specialised treatment by an institution specifically competent for them. This is true both of the problems deriving from the fact that eastern partners negotiate deals only through their foreign trade monopolies, whilst their partners in the West are usually private companies, and of the dumping problem which arises from different methods of price calculation, etc. Economic reforms carried out in socialist countries, except those in Hungary, have not, so far, cleared away these problems.

All the above-named international bodies have searched, among existing agencies, for one that would be suited for regulating east-western trade relations – but they have failed to find one, because the basic condition for being so suited is that all the countries taking part in east-west trade should be affiliated to them. It is true that the Economic Commission for Europe (ECE) is sufficiently experienced in this field, and among its members are not only all western and eastern European states but also the USA and Canada, but unrepresented in it are the important countries of China and Japan. Nor is ECAFE, ECE's opposite number for Asia and the Far East, eligible for the purpose, since most of ECAFE's members are not concerned with the problem in hand. UNCTAD, whose principal task is to deal with the trade of LDCs, is even less suitable. And only a few socialist countries belong to GATT, the most important absentees being the Soviet

¹ cf. Committee for Economic Development (USA), *Multilateral Policies for East-West Trade and Payments*, in: *A New Trade Policy Towards Communist Countries*, New York, Sept., 1972, pp. 37 et seq.; also: CEPES, *Ost-West-Handel – eine gemeinsame Politik für den Westen* (East-West Trade – a Common Policy for the West), Frankfurt, 1965.

² in Japan: Keizai Dokuyai (Japan Committee for Economic Development); in Germany: CEPES (Europäische Vereinigung für wirtschaftliche und soziale Entwicklung); in France: CRC (Centre de Recherches et d'Etudes des Chefs d'Entreprises); in the UK: PEP (Political and Economic Planning); in Sweden: SNS (Studieförbundet Näringsliv och Samhälle).

Union and the People's Republic of China, and its main attention is directed upon countries with a system of private enterprise.

The paper therefore comes to the following conclusion: "There are three major problems of East-West trade which are not satisfactorily dealt with by the GATT. *First* is the difficulty of applying rules of nondiscrimination to imports of Eastern Europe from the West. Procedures have not yet been devised whereby nondiscriminatory behaviour on the part of state-trading countries can be established to the satisfaction of noncommunist exporting countries. *Second*, in the absence of common principles of price formation, the Western countries cannot adduce criteria other than market disruption to justify the application of dumping regulations to imports from the Eastern countries. And this, in addition to offering an inadequate rationale from the point of view of market economics, will sometimes appear arbitrary for the Eastern countries. *Third*, disruption can also be caused in third markets when the Western countries reexport products received from the East under coproduction arrangements or bilateral trading agreements. The disruption arises from the absence at present of an adequate test of the true cost of such products. In view of the geographical and operational limitations of existing organisations, we recommend creation of a new global economic organisation representative of the countries of both East and West in order to develop a new and comprehensive framework for resolving the problems of East-West trade".³

Use of Existing Organisations

For the time being, however, the attempt should be made for finding, within existing and fully developed institutions and agencies, new ways for enabling fair trade to flow as smoothly and as little obstructed as possible between East and West. As fertile as, one day in the future, discussion about East-West trade may become in a new institution which will count all the interested parties among its members, this should not prevent existing organisations, which have been formed by noncommunist states—e.g. the OECD—from continuing their talks about east-western economic problems most actively. COCOM should continue administering the embargo lists, but with a view to making them progressively shorter, and to their containing only embargoed goods of major technological importance, whose exports to eastern countries will remain blocked. "The COCOM list should be revised periodically to ensure that it does not contain items other than processes and products of advanced technology that are important for military purposes".⁴

The Statement also deals briefly with export credits. Nowadays, the Agreement of the Berne Union is observed more in the breach than in obedience to it, which means that novel solutions will have to be found in the field of credit financing. OECD has assumed responsibility for dealing with these problems. Direct private investments in socialist countries for the purpose of transferring technology and funds are not possible, which makes it desirable to find new forms of credit adapted to the special features of trade between the East and the West: "We recommend that in its negotiation of inter-governmental agreements on credit terms the OECD make provision for such special types of financial agreements as may be needed to facilitate East-West economic cooperation".⁵

System of Multilateral Payments

Certain ideas—though only very general ones—were also brought forward about developing a system of multilateral payments. They had to remain fairly vague, since hardly any progress has so far been made towards a multilateral clearing of payments. To date, there are no agreements in force between the International Monetary Fund (IMF), to which only one eastern country has become affiliated, and the beginnings of a multilateral clearing within COMECON, with which, likewise, no western country is connected.

As East-West trade has, so far, remained bilateral, and so have East-West payments, this has prevented any growth of multilateralisation. However, from the point of view of the socialist system, for which central planning and state monopolies of trading are typical, it is not even absolutely necessary always to achieve full equilibrium between trade volumes flowing from one individual socialist economy to one given western economy, and vice versa. There is no compelling need for preventing any socialist country from making a surplus from trade with one western industrial country and using it for purchase in any other western country. For quite some time already, the Soviet Union has made such purchases within the sterling area. At the present time, however, also most western countries are clearly opposed to their trade being in deficit, bilaterally, with eastern countries. It might be possible that new international monetary agreements will make the policies of western countries more flexible in their bilateral clearings in eastern trade. "We suggest that the member governments of the OECD discuss how far they are willing to offer state-trading countries the opportunity to run

³ Committee for Economic Development; loc. cit., pp. 41 et seq.

⁴ loc. cit., p. 42.

⁵ loc. cit., p. 43.

trade surpluses with some Western countries to the extent that they are offset by deficits with others".⁶

Though there should be no difficulty about it, so far it seems to be the case that socialist countries are not prepared to allow other socialist countries to use the formers' surpluses on trading account with western countries for financing the trade deficits of the latter, though this could serve to make a start with genuinely multilateral trade also between socialist countries. The efforts now being made by socialist countries for overcoming pure bilateralism within COMECON have, so far, not given the impression that they are capable of mastering the difficulties that stem mainly from the system of central economic planning and management, and from socialist price formation.

That is why expectations expressed in the Statement that the COMECON states could, after having successfully built a multilateral system among themselves, extend this process to their relations with western countries, make sense only in the very long run. But only then could the time arrive when western countries might supply international liquidity to COMECON countries, which means that the latter can start to integrate genuinely in the network of international trade.

Assuming that this aim had been reached one future day, the most efficient way to supply liquidity would then be by agreement between the IMF and COMECON's International Bank for Economic Cooperation. If, however, some or all the socialist states of Eastern Europe, should have applied for IMF membership and been accepted as members, multilateralism could be achieved directly, and the deep ditch which to-

day really still yawns between two different worlds of trade could then be gradually be filled in. "We recommend that the countries which participate in the negotiations for reform of the international monetary system consider how they would co-operate with the Eastern countries in arranging a multilateral source of international liquidity should the Eastern countries indicate that they are prepared to move toward multilateral trade and payments in their dealings with the market economies".⁷

Aims of the Statement

Even though this Statement—similarly as a paper published in 1965⁸—does not deal with questions of liberalisation, enlarged import quotas, credits, dumping, etc., in great detail, all its signatories largely express themselves in favour of liberalisation. In this respect, the participating European associations repeat what they had stated in 1965, whilst the Americans have used the new paper mainly for pointing out how their trade policies have progressed from 1965, when they had cast a minority vote in favour of restrictions.

It is true that the present Statement basically only outlines the general direction in which multilateralisation of East-West trade should make progress, but it makes it clear that, after decades of bilateral eastern trading, it is now high time for building an all-embracing system of East-West trade supported by all the interested parties. The need for creating a new worldwide economic organisation was substantiated mainly by the European associations.

⁶ loc. cit., p. 44.

⁷ loc. cit., p. 44.

⁸ see footnote No. 1.

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