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New Developments in East-West Economic Relations

by Alexander Predescu, Frankfurt *

The past four years have witnessed a marked increase in the economic activity between East and West. The volume of foreign trade rose strongly; but as Eastern exports showed only slight increases while their imports from the West went up by leaps and bounds, the deficits of the Comecon countries became ever greater — an imbalance which has given rise to a number of problems.

Three factors are exercising a decisive influence on trade relations between members of the Council for Mutual Economic Aid (Comecon) and Western industrial states; they are: the international and political atmosphere prevailing between the two blocs; causes inherent in their respective systems and integration processes at work in these blocs.

After the war and especially after Comecon had been founded early in 1949, the foreign trade policy of the Eastern countries was rapidly redirected: traditional links with Western states were severed; relations with each other were strengthened and all moved more closely into the Soviet orbit. Whereas in 1938 trade between these countries amounted to no more than 12.8 p.c. of their total foreign trade, this percentage had risen to 44.4 p.c. by 1948 and 79.6 p.c. by 1953. In the early seventies it accounted for about two thirds of their total foreign trade volume¹.

It must not be forgotten, however, that the extensive embargo lists of Western states, banning the export to the countries of the Eastern bloc of armament-materials, also contributed to the shrinkage of East-West trade. This ban was applied with particular stringency during the Berlin-blocade (1948–49); the Korean war (1950–53); after the erection of the Berlin Wall; the Cuban affair and the military intervention in 1968 by the Warsaw Pact countries in Czechoslovakia. Yet in the same year, 1968, the USA and the Soviet Union concluded an agreement in which they undertook, among other things, to cooperate in the peaceful exploitation of atomic energy. At the same time a campaign was launched in favour of a total abolition of the embargo on exports to the socialist countries. A progressive relaxation in trade relations was almost bound to happen.

During the periods 1956 to 1960, 1960 to 1965 and 1965 to 1970 the foreign trade of the Comecon countries developed quietly; trade exchanges

within the Comecon area showed a slight decline in terms of percentage, decreasing from 72.4 p.c. to 71.1 p.c. and then to 67.9 p.c., while trade with Western countries slightly increased from 19.9 p.c. through 20.4 p.c. to 23.1 p.c.²

In the few years since 1970 the foreign trade of the Comecon countries expanded by leaps and bounds, and this applies not only to their mutual trade but also to their dealings with the Western world (see Table 1). This resulted in the Eastern states accumulating ever increasing deficits in their trade with the Western industrial states — a trend which continued throughout 1974 and was still noticeable in the first few months of 1975. According to available statistics³ the imports of the Comecon countries still showed on average a larger increase in 1974 than their exports and consequently their deficits in their trade with the industrial states of the West grew further. Bulgaria, for example, added to the already existing deficits another \$ 200 mn, Czechoslovakia more than \$ 270 mn, Hungary roughly \$ 650 mn and Poland \$ 1 bn. Only the Soviet Union which ever since 1960 has been running up larger deficits with the West than any other Comecon country managed for the first time a surplus of nearly \$ 270 mn in its trade with the Western states⁴. Should present trends continue it may be assumed that the trade deficits of the Comecon countries will go on increasing, that is to say that for 1975 they will reach a total of \$ 18 to 20 bn, rising by 1980 to something between \$ 32 to 35 bn⁵.

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¹ Cf. J. Wilczyński, *The Economics and Politics of East-West Trade*, p. 46.

² *Jahrbuch der Wirtschaft Osteuropas* (Economic Yearbook for Eastern Europe), Vol. 3, Munich and Vienna 1972, p. 512, Table 1.

³ BfA/NfA — Bundesstelle für Außenhandelsinformation: *Länderberichte aller RGW-Länder am Jahreswechsel (1974/75)* — Federal Office for Foreign Trade Information: *Reports on all Comecon countries at the turn of the year 1974/75*.

⁴ DIW — *Wochenbericht* (Weekly Report by the German Institute for Economic Research), Vol. 42 (1975), No. 17, p. 134.

⁵ The figures are based on estimates.

Details about the balance-of-payments position of the Eastern countries are being kept secret, but there are reasons to believe that they show even larger deficits than these incurred on trade account. They may be estimated at roughly \$ 25 bn in respect of 1974, and if present trends continue, they may pass the \$ 50 bn-mark by 1980. The reasons for this trend lie partly in the structural development of the Comecon countries and partly in their economic policy.

Table 1
Comecon's Trade with Western Industrial States
(1970—1973)

	1970	1971	1972	1973
Foreign trade, total (in US \$ bn)	14.3	15.7	19.5	29.3
Imports of Comecon-states	7.6	8.3	10.8	16.4
Exports of Comecon-states	6.7	7.4	8.7	12.9
Changes from preceding year (in p.c.)				
Foreign trade total		+ 9.2	+ 24.5	+ 50.5
Imports of the Comecon-states		+ 8.2	+ 30.9	+ 51.2
Exports of the Comecon-states		+ 10.4	+ 17.3	+ 49.6
Comecon's surplus or deficit in their trade with Western industrial states				
Total (in US \$ bn) ¹	— 5.4	— 6.3	— 8.5	— 11.9 ²

¹ Cumulative values from 1960 on.

² Returned as — 13.6 in the weekly report of the German Institute for Economic Research (DIW), No. 4/1975, p. 27.

Source: DIW — Weekly Report, 40th Vol. (1973), No. 46, p. 418; and Weekly Report, 42nd Vol. (1975), No. 4, p. 27.

The pyramidal structure of the East-European countries with their one-party system and their uniform social structure finds its tangible expression in their central planning system. The planning authorities of these countries in working out their figures must take account of the requirements of the "objective law of the systematic, proportional development of the national economy". Planning methods are based on "material balance sheets" which quantitatively and qualitatively are supposed to contain the essential elements needed for the desired economic development. The structure of the economy, its priorities and objectives are all determined by planning, for in this way it is hoped to achieve the right proportions in the economic development in order to obtain a balanced and rapid growth of social production. The most important proportions which characterize the entire process of social reproduction are the following: production/consumption; accumulation/consumption; investment/consumption goods production; industry/agriculture and others ⁶.

In imitation of the Soviet model all the other Comecon countries accord the same priorities to their national economies: the pace of the industrialization process is speeded up by giving absolute priority to the development of heavy indus-

try and particularly to construction machines industry as well as chemical and petrochemical industries. As the latest technologies are of very great importance in ensuring economic efficiency, the Comecon states are understandably keenly interested in acquiring Western know-how and Western machinery and plant installations.

The Role of the External Trade in Comecon Countries

The foreign trade occupies an important space in the state plan. Its main function is to meet the needs of the national economy through imports; exports are to earn the means with which to pay for the required imports. "Material balance sheets show either surpluses or deficits which, broadly speaking, determine structure and total turnover of the foreign trade if an overall balance sheet adjustment results." ⁷

"For this reason it is essential that the foreign trade plan is in accord with the internal plan because on this harmony depend the entire development and supply of the economy: excessive exports and insufficient imports can lead to internal supply shortages just as insufficient exports and excessive imports can result in intolerable balance-of-payments deficits." ⁸

Table 2
Average Economic Growth 1966—1970 by Sectors
(in p.c.)

Country	National Income	Industrial Production	Agricultural Production	Foreign Trade
Bulgaria	8.6	11.1	3.5	10.3
Czechoslovakia	6.8	6.5	4.8	6.9
GDR	5.2	6.5	1.5	9.9
Poland	6.0	8.3	1.8	9.4
Rumania	7.7	11.8	1.9	11.8
Hungary	6.8	6.2	2.9	9.7
USSR	7.6	8.5	3.9	8.6

Source: UN-Economic Bulletin for Europe, Vol. 25 (1974), p. 24, and J. B. C. Mohr, Integration of the European State-Trading countries, p. 179.

The Comecon countries are finding it far from easy to apply these theoretical principles in practice. What causes these difficulties are the great differences which still exist between the economic potentials of various Comecon countries, their different development levels, the inadaptability of the system to changes in the international field and other similar factors. In these

⁶ V. Rausser, Das Planungssystem der Volkswirtschaft in Rumänien (The planning system of Rumania's National Economy), in: Economic Yearbook for Eastern Europe, Vol. 3, Munich and Vienna 1972, pp. 439.

⁷ Jozef M. van Brabant, Theoretische und praktische Probleme des Bilateralismus im Intra-RGW-Handel (Theoretical and Practical Problems of Bilateralism in Intra-Comecon Trade), in: Osteuropa-Wirtschaft (Eastern Europe's Economy), Vol. 18 (1973), No. 1, pp. 3.

⁸ Theodor D. Zotschev, Die Außenwirtschaftlichen Verflechtungen der Sowjetunion (The ramifications of the Soviet Union's Foreign Trade Relations), Tübingen 1969, p. 18.

circumstances the less developed countries like Bulgaria and Rumania felt obliged to make greater efforts in the field of industrial development than the other members of Comecon. At the same time it must be stressed, however, that in the period from 1966 to 1970 the basic elements of the national economies of all Comecon countries developed at roughly the same pace (see Table 2).

The Comecon Council held its 25th session in July 1971; it was on that occasion that the foundation was laid for the economic integration of the Eastern bloc. The coordination of planning of the Comecon countries — their technical, industrial and general economic cooperation — is to lead in the next twenty years to a structural integration of their national economies. Foreign trade is to play an important part in this grand design. For "it is a task of the utmost urgency to integrate all the forms and tendencies of the mutual economic relations of the socialist countries into one organic whole... and to establish a close link between the various production, currency, finance, and trade forms as well as the different ways in which the socialist states conduct their foreign economic policy"⁹. How the economies of the Comecon countries have been developing between 1971 and 1974 may be seen from Table 3.

It is clear from Table 3 that in the years 1971 to 1974 the national economies of the Comecon countries developed not according to plan, but contrary to the theoretical "objective basic law of systematic expansion". The planners were thus obliged to adapt their plans to reality, and this led to fluctuations, declines and recessions. In some countries original target figures were subsequently reduced (USSR in 1973 and Bulgaria in 1975). In Czechoslovakia, the planners, being more cautious, opted straightaway for lower target figures and in Rumania's new five-year plan for 1976–80 the authorities have this time contented themselves with increases of the order of 9 to 10 p.c. as against 14.1 p.c. in the seventies.

Structural Variations in Plan Fulfilments

The degree to which individual branches achieve the objectives set for them in the plan frequently varies considerably. For Bulgaria, Poland, Rumania and the USSR agriculture, having to produce 20 p.c. of the national income, plays a very important role. Its role is relatively less important in Czechoslovakia and the German Democratic Republic where its allotted share in the national income is only about 11 p.c. Farm produce occupies an important position in the Comecon countries'

trade balances: agricultural exports bring in valuable foreign exchange; agricultural imports are a drain on resources. In the years 1971–1974 for example harvests were poor and in 1973 the USSR was obliged to import grain to the value of \$1.1 bn and this in spite of progressive mechanization, the application of larger quantities of fertilizer and seed imports from the West. This state of affairs is not solely due to unfavourable weather conditions; it is also ascribable to faults in the system which for a long time had been neglecting the farming sector in order to speed up the country's industrialization.

Industry has continued to encounter difficulties which by now have become traditional: delays in delivery of plant equipment, building materials and other supplies as well as scarcity of skilled labour. This in turn led to delays in starting up of important investment projects. Consequently, goods were simply not there which in the "material balance sheets" established by the planning authorities figured as counterparts of imports; their production could not start in time.

Table 3
The Economic Development
of the Comecon-Region by Sectors 1971–1974

Country	yearly growth rates in p.c.				Foreign Trade 1973/4 in p.c.
	1971	1972	1973	1974	
Bulgaria					
NI	7.0	7.0	8.7	7.5	+ 23.6
IP	9.5	8.3	10.6	7.4	
GAP	3.1	4.8	3.0	3.0	
Czechoslovakia					
NI	5.2	5.6	5.2	5.5	+ 22.2
IP	6.9	6.4	6.3	5.8	
GAP	3.2	3.9	4.7	3.0	
GDR					
NI	4.5	5.8	5.5	6.3	+ 17.0
IP	5.6	6.3	6.8	7.4	
GAP	-	10.7	-	-	
Poland					
NI	8.2	9.5	10.0	10.0	+ 31.5
IP	8.3	10.8	12.0	12.2	
GAP	3.7	8.4	7.8	2.0	
Rumania					
NI	12.8	10.0	10.8	12.5	+ 38.3
IP	11.7	11.7	14.7	15.0	
GAP	18.2	9.2	0.2	0.0	
Hungary					
NI	6.5	5.0	6.5	7.0	+ 47.7
IP	7.0	5.6	7.2	8.2	
GAP	9.0	2.7	5.0	3.7	
USSR					
NI	6.0	4.0	6.8	5.0	+ 26.2
IP	7.7	6.5	7.4	8.0	
GAP	1.0	- 4.1	14.0	- 3.4	

Note: NI = National Income; IP = Industrial Production; GAP = Gross Agricultural Production.

Sources: UN-Economic Bulletin for Europe, Vol. 25, p. 24; Börsen- und Wirtschafts-Handbuch (Stock Exchange and Economic Handbook) 1974, pp. 276-283; Statistisches Bundesamt Wiesbaden — Länderberichte (Federal Statistical Office — Reports on Various Countries) for 1974.

⁹ J. Schirjajev, Probleme und Perspektiven der wirtschaftlichen Zusammenarbeit der Mitgliedsländer des RGW (Problems and Perspectives of Economic Cooperation between Member States of Comecon) — in Russian, Moscow 1965.

A chapter in itself is the unproductive expenditure on armaments. In 1972 the Soviet Union is estimated to have spent 11.0 p.c. of its GNP on defence¹⁰. As, according to reports by NATO, the military potential of Eastern Europe has grown much stronger, it may be assumed that these expenditures have become a great financial burden for the whole of Eastern Europe. Thus the circular flow of economic reproduction can no longer be maintained by normal means.

Bearing this in mind, the expansion in 1974 of Comecon's foreign trade by more than 28 p.c. (1973: + 19 p.c.) must be considered to have been out of proportion. The excessive nature of this rise becomes even more manifest, if one takes into account that trade within the Eastern bloc increased by only 5 p.c., whereas the East-West trade is estimated to have expanded by nominally about 45 p.c. The deterioration of the terms of trade in the West was a factor which also adversely affected the Comecon countries as has been frankly admitted by Hungary and Czechoslovakia¹¹.

On the other hand there is the new price-fixing procedure according to which Intra-East-bloc prices will henceforth be fixed, not as before every five years, but every year. This new arrangement, which came into force at the beginning of 1975, favours only the Soviet Union as the supplier of energy and raw materials at the expense of the raw-material importing countries. An added burden for the Comecon countries are the higher prices for oil from Western countries.

Cooperation — No Solution to Economic Problems

In the past four years the Comecon countries have thus witnessed in their economic development disproportionate and contradictory trends and fluctuations which turned out to be harmful. These trends are not in accord with the basic principles which govern the national economies of these countries and hinder smooth progress within the Eastern bloc towards integration. The reasons are inherent in the system itself, i.e. in the wrong view taken of the general economic developments and the imperfect execution of the plans. In the light of the above-mentioned phenomena, it is reasonable to assume that Comecon countries no longer dispose of the material and human resources they need to carry through in time the planned forced growth of their industries. There is furthermore reason to believe that they have reached the limit of what can be achieved by mutual aid and that their economic and financial

difficulties are in reality much greater than used to be commonly supposed.

The "orientation" towards the West, which started almost simultaneously in all the East-bloc countries is a natural consequence of these developments on which various attempted "solutions" proved to be of only limited effect. Cooperative arrangements with Western firms may be of mutual benefit to the parties concerned, but they are no long-term solutions to the existing problems. Such cooperative arrangements simply increase still further the growing deficits of the Comecon countries, and to implement them the Eastern countries have to engage the very productive capacities (material and labour) which they should employ in fulfilling their norms set them in their plans. The well-known problems of quality and competitiveness on the Western markets, especially as far as machinery and heavy plant is concerned, remain unsettled. It is common knowledge that the Comecon countries are mainly dependent on exports to pay for their imports. (The only exception being the Soviet Union which has gold at its disposal). In contrast to Yugoslavia, for example, they receive no money transfers from any nationals working abroad. Other possible "solutions" or consequences would be: harder work; longer hours; diversion of goods from the internal market to sell them abroad; still more encroachments by the state on the economy; fear of reforms or reorganisations and greater strain on the balance of trade and the balance of payments.

Foreign trade has demonstrated how much it depends on the general economic situation and how incapable it is of solving such problems. It is not foreign trade of which too much is expected; it is the economy as a whole. Foreign trade was simply used as an instrument of general economic policy to overcome temporary difficulties. As the native resources proved insufficient, imports rose inordinately causing deficits which were temporarily covered by credits from Western countries.

In this situation, practical solutions would be:

- ☐ The establishment of correct relations and priorities for their own national economies.
- ☐ Agreement on new investments and acceleration of investment projects already started; as well as
- ☐ Cuts in unproductive expenditures.

Economic relations between East and West are not becoming closer as a consequence of "détente". On the contrary, it is the Comecon countries' present situation which makes détente for them a material necessity.

¹⁰ Cf. Report by the "Skandinaviska Enskilda Banken" for 1973/74.

¹¹ Hungaropress, Economic Information No. 6/75, p. 6, and Statistické Přehledy (1975), No. 3.