

Bolz, Klaus

Article — Digitized Version

State and trends of economic East-West relations — A German view

Intereconomics

Suggested Citation: Bolz, Klaus (1977) : State and trends of economic East-West relations — A German view, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 12, Iss. 3/4, pp. 103-109,
<https://doi.org/10.1007/BF02928702>

This Version is available at:

<https://hdl.handle.net/10419/139459>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

State and Trends of Economic East-West Relations – A German View

by Klaus Bolz, Hamburg *

The trade of the Western industrial states with Eastern Europe has been the object of keen political interest in the past year or two although it accounts for no more than 5–6 p.c. of the total foreign commerce of the OECD countries. The current discussion about the future of the economic relations between East and West focuses on the greatly increased indebtedness of the East European countries to the West. The following review was presented as the introductory paper at a colloquium on the state and trends of East-West relations which was held at the end of February at the invitation of the Senator of Economic Affairs of Hamburg.

The indebtedness of East Europe is today undoubtedly the issue of cardinal interest to those concerned in business transactions with the East. The size and nature of the total East European indebtedness to the Western world are such that it has to be taken into consideration in all reflections – also from a national point of view – about the future development of the economic relations between East and West. In this respect the situation differs from what it was in previous years.

The justification of stepping up the discussion about credits for Eastern Europe has been questioned, especially in East European quarters: when two regions exchange more goods, so runs the main argument, proportionally larger credits are needed to finance the increased trade. The following figures show however very vividly that the credits for the East call for special treatment because of the quantitative relations if for no other reason. Especially is this so in the Federal Republic of Germany: within four years the export surplus earned by the Federal Republic from its trade with Eastern Europe has risen fourfold in relation to its total foreign trade surplus – from only 4.8 p.c. in 1971 to 20.8 p.c. in 1975 (for 1976 it is estimated at 19.0 p.c.). The Federal Republic's exports to the East (excl. the GDR) also increased relatively more than its total exports (by customer and buyer countries) but not nearly as much as the surplus, namely from 3.6 p.c. in 1971 to 6.6 p.c. in 1975 (the estimate for 1976 is 6.1 p.c.). That such a development will conduce to problems of finance is fairly obvious.

Various state and bank credits were conceded to Eastern Europe in the sixties already in addition to the short- and medium-term suppliers' credits which are customarily provided in international trade. France, Great Britain, Italy and the USA were the Western countries mainly concerned; the Federal Republic was still playing a minor role. It is impossible to give precise data; for the end of 1971 the total East European debt (excl. the Soviet Union) to the West has been estimated very roughly at about US\$ 7 bn.¹ But it was never felt that the volume of indebtedness was presenting a problem. Nevertheless the countries concerned were almost incessantly involved in controversies about the terms for these credits because they used them to different degrees as a competitive weapon. The discussion in those years about duration of such credits, number of grace years, rates of interest, nature and extent of any insurance cover, etc., has not been brought to a real conclusion yet. In the sixties it proved impossible to agree on more than desultory consultations.² As for last year's gentlemen's agreement on

* HWWA-Institut für Wirtschaftsforschung-Hamburg.

¹ Estimate by Edwin M. Snell, quoted from Lawrence J. Brainard, *Criteria for Financing East-West Trade*, in: John P. Hardt (ed.), *Tariff, Legal and Credit Constraints on East-West Commercial Relations*, East-West Commercial Relations Series, Special Study 1, Institute of Soviet and Eastern Europe Studies, Carleton University, Ottawa, May 1975, p. 7 ff.

² cf. Klaus Bolz, Hermann Clement, Petra Pissulla, *Die Wirtschaftsbeziehungen zwischen der Bundesrepublik Deutschland und der Sowjetunion, Entwicklung, Bestimmungsfaktoren und Perspektive* (The economic relations between the Federal Republic of Germany and the Soviet Union, development, criteria and perspective), Hamburg 1976, p. 99 ff., p. 159 ff. and p. 306 ff.

guidelines for export credit terms between several important Western industrial states (the Federal Republic of Germany, France, Great Britain, Italy, the USA and Japan), it remains to be seen what effects it will have. Bearing in mind how large the indebtedness has grown by now and considering further that substantial credit facilities were arranged for Eastern Europe (about US\$ 10 bn are still available to the Soviet Union until 1980) before the gentlemen's agreement, it is improbable that even without such an accord there would ever have been a real danger of the Western countries engaging in ruinous credit competition for East European contracts.

The Debt Situation

In the absence of comprehensive official debt surveys the East European borrowing in the West has been the subject of various estimates in the past two years. Although not free from contradictions and obscurities, these estimates have been received with amazement because of the magnitude and progression of the indebtedness indicated by them. The source for many of the data "bandied" in the West is Brainard³ of the Chase Manhattan Bank. International organizations (OECD, ECE, BIS) are also doing intensive work to elucidate the effective indebtedness of East Europe. They are rather reluctant to publish their findings but to go by what has become known there are no very wide differences between the more serious estimates. The picture emerging from the data available from various sources is as follows: The gross indebtedness of Eastern Europe (incl. the GDR debt to the Federal Republic) – the East European reserves are not taken into account – was at the

- ☐ end of 1973: about US\$ 17.5 bn;
- ☐ end of 1974: about US\$ 22.5 bn;
- ☐ end of 1975: about US\$ 32–35 bn.

The net addition to the combined Western debt of all CMEA countries in 1975 was almost equal to the total of their balance of trade deficits. For their overall indebtedness at the end of 1976 a figure of between US\$ 38 and 40 bn is mentioned most frequently. The Soviet Union was the principal debtor country in all the mentioned years. It accounted for between 30 and 50 p.c. of the total, and Poland was always second with approximately 20 p.c. Until 1974 Romania followed in third place; in later years it was the GDR. Hungary, Bulgaria and Czechoslovakia brought up the rear.

The leading creditor country is the Federal Republic of Germany with (according to an OECD estimate) approximately 25 p.c. of all credits. The

principal debtors of the Federal Republic at the end of 1976 were the Soviet Union and Poland.

Widely differing views are taken of this development in regard to the element of risk attending further credits. Formal quotas are very often mentioned in this context but would probably be of little use because of the lack to date of any generally valid criteria for the formulation of credit limits. It has been said for instance that if the annual interest and redemption payments do not exceed 25 p.c. of the annual exports from the debtor country its debtor status is satisfactory. This limit was probably reached about the end of 1975. In the case of the Soviet Union this so-called debt servicing ratio increased, according to American estimates, from 15 p.c. only in 1974 to 20 p.c. in 1975. The ratio of net indebtedness to exports is also often used as a pointer. In 1975 the total net indebtedness of Eastern Europe exceeded the exports from the area by 50 p.c.; in 1974 the two figures have still been equal. Bulgaria, Poland, Hungary and the Soviet Union were the countries chiefly concerned in this ratio deterioration⁴.

Credit Category Changes

The borrowings by Eastern Europe are being watched with close interest and even some concern not only because of the magnitude of the credits involved by now but, especially, because of the changes in the form of credits. In the past the bulk of the borrowing took the form of suppliers' credits and inter-bank loans relating to certain supply contracts. From about 1973 onwards the aim has been to draw – to a certain not definitely ascertainable extent – on financial credits which are not tied to specific contracts. Some of these credits are loans by one bank to another, but a large part of them takes the special form of a Euro-credit. Euro-market credits to Eastern Europe accounted, according to DIW, Berlin, by the end of 1975 for about half the total gross and net indebtedness – namely, US\$ 19 and 14 bn respectively out of a total of US\$ 34 and 28 bn.⁵ The DIW definition of the Euro-market seems to be too wide. The ECE which uses a much narrower definition puts the net amount of East European borrowings from the Euro-money market for 1974 at only US\$ 4.8 bn. However, even on this narrower definition the Euro-credit volume seems to have increased considerably because of the activities in 1975 and 1976 of not only the individual CMEA countries but, especially, the CMEA Bank for Economic Co-operation (IBEC). The World Bank which has been keeping a close watch on the Euro-market in the past few years calculates the accumulated credit

³ cf. Lawrence J. Brainard, op. cit.; the same author, Financing Eastern Europe's trade gap, the Euromarket Connection, in: Euromoney, 1976, January, p. 21.

⁴ cf. Heinrich Machowski, Abbau des Ungleichgewichts im Ost-West-Handel (Abolition of the disequilibrium in East-West trade), in: DIW-Wochenbericht, Vol. 43 (1976), No. 39, p. 362.

⁵ *ibid.*, p. 361.

volume for 1975 at US\$ 5.7 bn and including 1976 at US\$ 6.4 bn. Recent developments in the Euro-market have given the question of the commercial risks attached to these moneys special prominence in the discussion about the whole East-West situation.

As regards the Federal Republic of Germany the situation at the end of 1975 was as follows: Of a total credit volume of DM 20 bn, DM 1 bn was accounted for by state credits (to Poland), DM 11 bn by suppliers' credits and DM 8 bn by so-called bank credits. The German state has incurred liability for a substantial portion — about two-thirds — of the credits through its export credit insurance scheme.⁶ Nevertheless the risk for more than DM 7 bn is borne by German private interests as the German banks own a not insignificant part of the capital of the so-called Euro-banks. These Euro-credits are in effect not fully insurable and receive special attention from the banks because of the high risk involved.

Greater Restraint by the Banks

While the particular happenings in the Euro-market are somewhat blurred, one seems to sense that the specialized banking institutes are currently exercising more restraint in regard to further lendings to East European countries. A factor which is obscuring the question of the Euro-credits to Eastern Europe is that Western subsidiaries of East European banks are playing a more active part in the Euro-market business. They are themselves borrowing large sums which must be counted as part of the total indebtedness of the East European countries. While many banks are making a point of the Eastern European countries' good record as debtors, especially in reference to the present Euro-market situation of large East European indebtedness combined with a rapid increase of fresh net borrowings, it must be noted that the spread (which reflects a debtor's credit status) on credits to some East European countries has been rising of late (to $1\frac{1}{2}$ – $1\frac{5}{8}$ p.c. above the normal interest rate). It has been reported, besides, that a few weeks ago a Euro-credit was for the first time refused to a CMEA bank: the loan in question was a medium-term Euro-credit to the IBEC for over US\$ 200 mn which was arranged as early as December 1976 but will not now be paid out. So at any rate said an announcement in London by the Bank of America as the consortium leader for this credit. The technical considerations relating to contract documents mentioned in explanation seem to be connected with the fact that the IBEC is not registered in Great Britain so that it could not be

sued in the English courts in the event of payment difficulties. Among the consortium members were the Chase Manhattan and the Citi-Corporation, two banks which are well known internationally for their heavy engagement in the credit business.

Rapidly Deteriorating Trade Position

The marked aggravation of the overall debt position of East Europe with the Western industrial countries during recent years is due to the rapid deterioration of the foreign trade position of all CMEA countries. While the trade balances of the state trading countries of Eastern Europe in 1975 were all in overall deficit, it was the shortfall in trade with hard-currency countries which had the most adverse effects. The large increase in the volume of trade between Eastern Europe and the group of OECD countries — from about US\$ 39.4 bn in 1974 to as much as US\$ 46.9 bn in 1975 — was the result chiefly of a big rise in exports by the OECD countries. The Western export surplus increased from US\$ 2.6 bn in 1974 to US\$ 8.2 bn in 1975, and credits by Western countries were the only means of financing the principal part of the extra surplus. The People's Republic of Poland and the Soviet Union in particular faced immense financing problems as a result of their deficits of US\$ 2.3 and 3.7 bn respectively in 1975.⁷

Among the OECD countries the Federal Republic of Germany experienced special extremes in the goods exchanges with the socialist countries of Eastern Europe. The German exports to the socialist countries increased up to 1974 year after year at such an exceptional rate that the volume of German exports to Eastern Europe trebled in 1971–1975 (after having only doubled between 1960 and 1970!). On the side of imports the rate of increase was much smaller so that they lagged distinctly behind the exports also in volume terms. In the years from 1971 to 1974 the exports rose by 17.4, 33.9, 40.8 and 44.1 p.c. Only at the end of 1974/beginning of 1975, when all CMEA countries except the Soviet Union and Bulgaria experienced a short reaction to this explosive trade upsurge did the trend moderate to a certain extent. The surge of trade was accompanied by a burst of export surpluses — from DM 770 mn in 1971 to DM 2.0, 3.8, 6.6 and finally 7.8 bn in 1975. About one-third of these annual surpluses — more than 50 p.c. in 1975 — was at the expense of the Soviet Union. In 1976 the German trade surplus with Eastern Europe was probably still around the DM 5.5 bn mark although the Eastern trade seen as a whole was better balanced.

⁶ Deutsche Bundesbank, Monatsberichte der Deutschen Bundesbank, Vol. 28 (1976), No. 7, p. 14.

⁷ Hermann Clement, Ansätze zur Feststellung der Verschuldung Osteuropas (Approaches to an ascertainment of Eastern Europe's indebtedness), to be published as HWWA-Report, 1977, S. 7.

In the past when Eastern Europe strove in principle to keep the trade with the individual trading partners in balance, the existing export-import structure had proved an obstacle to further expansion of the commercial transactions. Up to date this structure has however improved only to an unsatisfactory degree. This fact, combined with the strong uptrend of exports to Eastern Europe, has been the principal reason for the heavy Eastern deficits, for while the existing production and export structure of the Western countries — and the Federal Republic in particular — enabled them to supply virtually unlimited quantities of the products and plants of high technical standards which Eastern Europe wanted, the supply structure of the Eastern European countries was still unfavourable and impedimental to a large increase of exports to Western countries. Moreover, the economic situation in the world during the crucial period of 1974/75 tended to hamper an expansion of exports from the socialist countries.

The Attitude of Western Lenders

The rapid development in recent years goes back to decisions taken in the sixties which created essential requisites. Following the re-appraisal of the role of foreign trade for economic growth in the East more active use was made of transactions with the capitalist countries for the purpose of technology transfers. In the Western countries the sixties also saw decisive changes in the assessment of East-West trade in the ambit of the economic relations of the Western industrialized countries with third countries. Previous impediments to the exchange of goods with Eastern Europe were accordingly removed. A brief list of measures taken includes: relief from embargoes, liberalization of purchases from Eastern Europe, cutting-out of red-tape and attempts to harmonize the foreign trade policy in the EC. The Federal Republic which had for many years looked askance at the Eastern trade and especially at credits for the East went further by lifting the restrictions from a very important area: Until the mid-sixties the Federal Government had held out against state guarantees for credits to Eastern European trading partners but now Eastern Europe was brought in quick stages into the existing system for other countries. In the last few years in particular the amount of insurance cover has been enlarged, especially for joint ventures with Eastern Europe which are to be furthered. A much wider field has thus been opened to state guarantees. The credit insurance cover for Eastern Europe has by now reached such proportions that it is being asked whether action is not called for against disproportionate use of this finance guarantee instrument in favour of Eastern Europe.

In retrospect it may be stated that the — largely uncoordinated — credit assistance by Western countries was ultimately decisive for the emergence of large export surpluses; for the East had no other significant sources of finance on which to draw. The proceeds from Soviet sales of gold amounted to no more than about US\$ 1 bn in 1975; the revenue from the sales of arms needs also taking into account but cannot be estimated.

Changes in the Services Sector

With reservations due to the paucity of information it seems beyond doubt that also the earnings in the services sector cannot make a decisive contribution to the closing of the finance gap. A few figures will illustrate the situation: In 1975 the USSR's total earnings in the services sector did not exceed US\$ 150 mn. The tourist traffic with the European Community yielded only a few hundred million DM to all the socialist countries together. Tourist visits to Eastern Europe (the major surplus item on the East European services account) cost the Federal Republic about DM 550 mn in 1975 (exclusive of intra-German travel however).

In the transport sector the developments of recent years were apparently not to the advantage of the East European countries. The transport sector surplus vis-à-vis the six European Community countries fell off in the early seventies; the Federal Republic was indeed already in surplus (DM 136 mn in 1975). The sea transport services of the East European countries earned smaller surpluses from the Federal Republic in recent years, despite the much criticized activities of the "Red Fleets". Although there are no precise figures, it is therefore reasonable to think that the transport sector regarded as a whole cannot earn more than a very small surplus to set against the deficits from the exchange of goods.

It may indeed be surmised that we are now at a turning point: the services sector, and especially the transport sector, is more likely to weaken the Eastern balance of payments than to restore it. All services together (tourism, transport, insurance, capital earnings and miscellaneous services) did not earn more than DM 300 – 500 mn a year for the overall payments balance of the state trading countries with the Federal Republic in the first half of the seventies.

The Experience with Joint Ventures

Aware that new ways were needed in addition to more intensive trade between East and West in order to extend their mutual economic relations, the two sides began in the late sixties to give

more thought to the opportunities for industrial cooperation. By now we can look back on ten years of practical experience with East-West cooperation of this kind. German firms have taken a major part in it but we must really admit that however useful this form of economic cooperation has proved in individual instances, it has, so far, not been an effective means of setting those changes in the European supply structure in motion which were one of its aims and might have improved the balance of trade. It will still serve a useful purpose if the industrial cooperation is promoted as one more kind of East-West cooperation but one should not count on miraculous effects on the structural processes in the East European countries.

Pointers to Future Trends

It is the primary purpose of the following remarks to pinpoint a few problem areas which are relevant to the future development of East-West relations. Let us begin with a personal assessment of the likely trend of East-West relations in the coming years: Taking various factors of relevance to the economic relations between East and West

into account, it may be presumed that the efforts which the East European countries have been observed to be making since late 1974 to balance their purchases from and sales to the Federal Republic presage a change of trend: it may be anticipated that the East European countries will persist in their efforts to achieve a more evenly balanced trade with all Western countries in the next years and that as a result much lower growth rates will be registered in the goods exchanges between East and West in the coming years than most recently.

The factors to be discussed in the following will be related to two broad questions. The first of these questions is this: What pointers can we discern in Eastern Europe to possible developments in the economic relations between East and West? The second question concerns the objectives which we in the West – and in the Federal Republic more particularly – are pursuing in regard to the Eastern trade and the objectives which we ought to pursue. An integral part of both these question-complexes is the credit issue. What further credits should the West provide, and what further debts does Eastern Europe want to incur?

PUBLICATIONS OF THE HWWA-INSTITUT FÜR WIRTSCHAFTSFORSCHUNG-HAMBURG

NEW PUBLICATION

Klaus Bolz, Hermann Clement, Petra Plissulla

DIE WIRTSCHAFTSBEZIEHUNGEN ZWISCHEN DER BUNDESREPUBLIK DEUTSCHLAND UND DER SOWJETUNION

(Economic Relations between the Federal Republic of Germany and the Soviet Union)

A thorough analysis of the hitherto existing quantitative and structural development of trade, of the cooperation and credit relations is the basis of the assessment of future development opportunities of the German-Soviet economic relations offered in this study. The development of the Federal Republic's and the Soviet Union's economies, the integration of both economic partners into the EC on the one hand, and into the CMEA on the other hand, the USSR's order regarding its external economy and the external relevance of the Soviet economic plans are being examined in respect of their corresponding effects. In addition, the competitive positions of Soviet goods on the German market and of German goods on the Soviet market are being investigated and the influence of the political climate, and the policy of concluding agreements on economic relations is being assessed. Finally, a forecast of the external relations for the period up to 1980 is being deduced by comprising the effects of all individual components. (In German)

Large octavo, 647 pages, 1976, price paperbound DM 48,—

ISBN 3-87895-149-3

VERLAG WELTARCHIV GMBH - HAMBURG

In accordance with the monopolistic nature of the foreign trade in Eastern Europe all decisions on external economic matters are always taken centrally, with the result that in the past little information could be gleaned about the concrete intentions of individual socialist states for their external economy and especially their trade with the West. If these had been known, it would have been easier for the Western trade partners to appraise their own import and export chances. The new Five-Year Plans of the various socialist countries which have just come into operation again give very little away about their intentions as regards the trade with the West. Nevertheless the Western countries have to use them as the basis for an assessment of their own opportunities or at least for a trend appraisal of the East-West trade since they cannot draw on any other and better official data.

Plan Projections in Eastern Europe

For most relevant national economic items the growth rates indicated in the new Five-Year Plans for 1976–1980 are deliberately cautious in comparison with both the target and the final figures for the past five-year-plan period, and it seems therefore in the light of the present overall situation in the East-West trade that the goods exchanges with the industrial countries of the West are in general to be slowed down. It is however impossible to be definite about the implications of the economic growth orientation towards consolidation for the external relations of the individual socialist countries with the West. If the East European countries can moderate the rise of their imports from Western countries in the ambit of their economic plans, it is indeed – according to deductions by the DIW in Berlin – quite feasible that the socialist countries will reach a state of more or less perfect import-export balance in trade with the Western industrial countries by the early eighties.⁸ This is however conditional upon the East European countries increasing their exports faster than their outputs, as they have done in the current five-year-plan period.

It is in the nature of the East European systems that major problems are encountered by them in the adoption of technological advances, and these may impede the realization of the presumed intention of the socialist countries to achieve the aim of consolidation without unduly large imports from the West. In the past these problems were in the end surmounted largely by departing from the original intentions and putting more reliance on imports of Western technology. In view of the existing level of indebtedness, as well as other fac-

tors, it is however to be assumed that the socialist countries will make greater efforts to meet their technological requirements as far as possible through trade exchanges between CMEA member countries.

There are so far few pointers in the expectations of the individual CMEA countries themselves in regard to the development of their Western trade under the new plans.⁹ Hungary for instance hopes to improve its position slightly by 1980; the exports to Western industrial and developing countries are to be raised by 60 p.c. while imports from them are to increase by 40 p.c. only.

Poland aims in the new Five-Year Plan apparently mainly at adjusting its balance of current transactions with the Western countries. Hence special efforts are to be made to increase production for exports. It is to go up about twice as fast as the total industrial production. The exports to Western countries alone are to rise over the five years by 140 p.c. The existing imbalance between imports and exports with the West however is such that any increase in imports will have to be kept very low.

In Czechoslovakia the efforts are directed at cutting down the import surplus in trade with the West. Relatively large exports combined with only small imports are to help towards this end.

How difficult it is to appraise the overall situation is shown by the example of the Soviet Union. While all CMEA countries have directed their external economic activities in the past years at reducing the imbalance, the Soviet Union alone – as far as can be seen at present – allowed its total imports from OECD countries in 1976 again to rise more than its exports to them.¹⁰

Less Willing to Borrow

It must not be inferred from the East European countries' intention to lessen the imbalance that the willingness to incur debts in the West and the Federal Republic in particular has declined or disappeared everywhere in the East. As things are at present, the socialist countries could hardly reduce their imports from the West to the level of their own exports to the West without doing actual harm to their own economic development. The implication is that they will go on seeking further credits from Western countries or the Euro-market year after year. It is however most likely that the individual socialist countries taking up fresh credits will examine more carefully how much and how soon such credits will help them to strength-

⁹ *ibid.*, p. 363.

¹⁰ Bundesminister für Wirtschaft, *BMWi-Tagesnachrichten*, Bonn, February 19, 1977, No. 7360, p. 5.

⁸ cf. Heinrich Machowski, *op. cit.*, p. 362.

en their export capabilities. The lenders in the West will also wish to have more influence on the practical use of arranged credits.

The various socialist countries have certainly very different views about taking up fresh credits. The Soviet Union in particular and possibly also Poland — both countries with a relatively broad raw material basis — will be much less reluctant to make use of credits than the smaller socialist states. In particular the Soviet Union probably believes that it can still afford to increase its indebtedness to the West. It is pointing to its great economic potential on the one hand and its large raw material capabilities on the other which should be of interest to Western partner countries, not least in connection with barter deals.

Cyclical Aspects of East-West Trade

It should be mentioned at this point that the East European objectives can be accomplished only if they correspond to the aims of the Western partners or are at least not incompatible with them and if the development trends of the Western merchandise and capital markets do not run counter to the East European intentions.

To do justice to the complex economic implications, one should not take the decision whether to aim at more, less or an unchanged volume of Eastern trade before the diverse consequences of the alternative objectives for the economic trend, employment, structural policy, imports, lending and credit risks have been examined. Put differently: It has to be borne in mind that not only will any decision involve economic advantages for the Federal Republic in the short and medium term, but an economic price may have to be paid for it, also in the short and longer term.

The cyclical aspects of the Eastern trade have been receiving increased attention in the context of this part of German foreign trade, at any rate since the economic downturn in the Federal Republic began. The mounting export surpluses in trade with Eastern Europe did not prevent the downturn, it is true, but their mitigating effect was considerable. In the circumstances it is not surprising that the generation of employment by the Eastern trade is receiving much attention in the discussion since the labour situation is still unsatisfactory even though the economic situation in general has improved.

How many jobs are provided by work on exports for Eastern Europe cannot be established with any degree of accuracy. There is, it must be further borne in mind, an inherent risk in reflections on their effect on employment in that it is only a short

step from such reflections to the use of the Eastern trade as an instrument of employment policy. Greater exports to the East would certainly provide more jobs. However, before a decision is taken in this direction, consideration should be given to alternative employment policies. It should be asked for instance whether in the interest of job creation more credits could not be made available for public contracts to be placed with the economy or for exports to developing countries.

A fact which is easily overlooked when the Eastern trade is viewed purely under employment aspects is that additional exports to the East must in the short term be financed by fresh credits. This raises the justified question what amount of finance and what additional risks are involved. Some of the CMEA countries at any rate would probably be willing to accept credits from the Federal Republic, and they would refer to the improvement of their production structures and the commissioning of various large-scale projects for actual production (Soviet Union) as evidence of their ability to repay credits. On closer consideration it appears however that the employment problem is in reality only deferred: before long the East European countries will have to be offered transfer possibilities for their goods so as to enable them to repay the credits. At the present time at least it seems very doubtful whether the German or any other Western market will be capable of absorbing the requisite amounts of goods at a future date. It has also to be borne in mind that the scope for further import concessions in the form of larger quotas is still very limited. Such opportunities as exist are to be found mainly in the textile and clothing sector. At present measures of this kind certainly do not seem to be consistent with the employment trends foreshadowed for the next years.

The effect of East European export activities on our economy will be the more palpable the higher their indebtedness to the Federal Republic rises and the better they can adapt their production structures to our market in the next years. One is sometimes struck by a suspicion that, in spite of all the talk about changes in the structure of East European exports, there is no real desire to see such changes taking place fairly early because they could involve us in unfathomable structural and employment problems. We can only hope that if and when the East European countries improve their supply structure we shall not again have to listen one day to calls for protection of Western markets in order to escape the necessity of solving our own structural and employment problems by other measures.