

Bolz, Klaus

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Few Impulses for Economic East-West Relations

Today it is more difficult than ever to foretell the future of economic relations between East and West. Fundamental changes have recently occurred in external conditions of crucial import for these relations. One characteristic however seems to be common to their major determinants: they are most unlikely to provide strong impulses for an intensification of the economic East-West relations in the near future.

An essential prerequisite of the steep uptrend of East-West trade and its financing in the first half of the 'seventies was the policy of *détente*. During these years the economic relations between the East and the West could for the first time develop in closer accordance with the economic interests of the participating partners. The deceleration of the expansion of economic East-West relations during the second half of the 'seventies was also essentially due to economic considerations, namely the wish to secure a sound credit policy. Since that time the socialist countries of Eastern Europe have succeeded in significantly slowing down the further increase in their external indebtedness which in the preceding years had shown a strong expansion. This was possible through the socialist countries' heavy efforts to achieve a balance between their exports to and imports from the West. Of late the price increases of the Soviet Union's principal export commodities even led to a turn in the trend of its net indebtedness: its debt level went down from US \$ 8.1 bn in mid-1978 to US \$ 5.7 bn in the autumn of 1979. On the other hand, a number of CMEA countries were not able, in recent years, to reduce their current account deficits, and thus their new debts, by increased exports alone, but had time and again to curb their imports.

Nevertheless, only a few months ago many Western experts still expected that the Eastern countries' policy of consolidation, which was considered necessary from the economic point of view, would soon again be pursued merely by expanding exports to the West faster than imports from there. In view of the steadily increasing demand for Western goods imports were anticipated to rise steeply in the course of the 'eighties, even if this would result in a renewed substantial expansion of borrowing from the West.

The Soviet invasion of Afghanistan altered the situation drastically as the consequent cooling of the international climate is bound to exert an influence also on the economic East-West relations. So much is certain even though no reasonable basis exists for quantifying the consequences. The US grain embargo, the suspension by the USA of deliveries of computers and drilling technology, the debate about an extension of the COCOM list and about cuts of credits and their safeguards are anything but conducive to a more active export policy vis-à-vis the East; as far as imports of Eastern energy and raw materials are concerned, the security of supplies and the question of dependence are once again receiving more attention. The socialist countries cannot ignore this reaction in the West. The Soviet Union in particular is likely to seek to protect itself against the Western attempt to employ the economic relations as a political instrument when it draws up its foreign trade plans for 1981-1985.

Despite these unfavourable factors it would be an error to believe that the effects of the policy of *détente* on economic relations – advantageous to both the East and the West – could be nullified by Afghanistan. The economic relations are today marked by greater

independence from other East-West relations; to a larger extent than formerly they obey economic "laws" of their own.

Not only do some industrial countries in the West look on the foreign trade as an instrument of a policy of *détente* from which they must not swerve, but the majority of the major Western trading nations wish for purely economic reasons – to different degrees since circumstances vary from country to country – the economic relations with the East to go on. They have an interest in gaining and enlarging big markets in the East and also in obtaining raw and energy materials as well as various low-price manufactures. Several West European countries are mindful of their purchase contracts – some long-term – for various primary commodities: they do not want them to be put at risk by changes in their East trade policy. German spokesmen, amongst others, always stress that current contracts must not be affected by new policies.

The East has also reiterated on almost every possible occasion in recent months that it is still greatly interested in economic East-West relations. There is evidently no wish to dispense with Western technologies which benefit the Eastern economies. The smaller CMEA countries probably even believe that they cannot manage without modern Western technologies.

If this rough sketch of prevailing attitudes gives no cause for undue pessimism, there is certainly little reason either to take an optimistic view of the opportunities for more active East-West relations in the economic sphere. The various economic factors bearing on these relations cannot be expected to give them much of a positive impetus.

Economic growth will probably continue at a slowed pace in Eastern and Western industrial countries in the coming years. Structural factors apart, the Western economies find it more and more difficult to cope with the higher cost of energy, raw materials, the factor labour and protection of the environment. In the East economic growth was in the past mainly held back by problems concerning the efficiency of the economic systems. The rising cost of energy, raw materials and pollution control has now a more marked effect on the results of productive efforts. It is also limiting the scope for economic action. In some socialist countries the last few years have time after time yielded unsatisfactory economic results. Major indicators of economic performance are showing a downward trend. The five-year plan targets for 1981-1985 will probably afford proof of caution. Thus it may be anticipated that the rather weak demand impulses on both sides will do little to stimulate East-West trade.

As far as energy supplies and prices are concerned, the position of the USSR has improved, both *vis-à-vis* its CMEA partners and the West. The smaller CMEA countries however are in an exactly opposite situation. Any rise of energy prices weakens their position and lessens their chances as buyers and sellers in Western markets. Their energy bills will become more burdensome also because they will probably have to cover a larger share of their requirements, especially of oil, in the world market.

No clear answer can be given at present to the question to what extent the East-West trade could be stimulated by making an appreciably larger volume of credit available for it. Due to political considerations the West is at present not very keen to provide credits; the slender development prospects in the Eastern economies also impose limits; and not insignificant sums out of the financial credits wanted by the socialist countries would be used for extending previous credits rather than for raising the demand for goods from Western markets. On the other hand, the readiness of the East to incur more debts is dampened by its own economic situation and the risks still presented by international developments. It may be assumed that fresh credits will have to be sought in the future to finance necessary energy imports as well as to carry forward old credits due for repayment.

In the near future the East-West trade will thus show no great dynamic force. As a prerequisite of further expansion in the medium term Western and Eastern countries will have to become more active so as to consolidate the level so far attained in the economic East-West relations.

Klaus Bolz