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East-West Business Needs More Promotion by Socialist Partners

By the mid-Seventies economic experts in East and West were agreed that the rapid boom in East-West business of the early Seventies – parallel to the policy of détente – would not be able to continue into the Eighties. In particular, both the pace of the growth of indebtedness accompanying this development, and the debt volume which was reached, forced a reversal of the CMEA countries' trade policy towards the West.

The process of consolidation which was begun in the second half of the Seventies and which is characterized above all by import restrictions, but also by efforts to increase exports, is still not concluded today. This is at present sometimes overlooked. The somewhat suppressed development of East-West trade relations is often attributed purely to the disturbance of détente by the events in Afghanistan and Poland and to the unsatisfactory economic trends in the countries concerned on both sides. These factors certainly have a negative effect on East-West trade relations; but on the other hand it cannot be denied that until now there was no serious inroad into these relations.

On the one hand, economic interests have prevented an inroad being made; for example, the Western banking community seems to be at pains not to block the market for Eastern credits completely in spite of the worsening of the overall situation. On the other hand it was the politically stabilizing effect ascribed to economic relations which prevented the erection of extensive obstacles to East-West trade on the part of the West. The policy of embargo, pursued under military considerations – even in its present intensified form – does not contradict this statement. This policy, which is being pursued under security considerations, should be compatible with efforts to advance East-West economic relationships which should, even in times of increased political tension, be seen as part of a long-term process of détente, and to which there is, indeed, no reasonable alternative, especially from a European point of view.

It would certainly be easier to advocate the expansion of East-West economic relationships without the political problem of Afghanistan and without the political and economic problem-complex of Poland. But even without Afghanistan and Poland considerable success in this direction could probably only be achieved if various obstacles which have been affecting East-West trade for a long time now were finally removed. The rapid boom at the beginning of the Seventies only veiled over these problems since it was able to draw its dynamic from Western lending. But since credits can in future assist East-West trade only in a relatively moderate way, an effort will have to be made to improve the other preconditions for trade relations. And these efforts will have to be made above all by the socialist partner countries.

It is a precondition for the optimal development of trading, credit and cooperation relationships that the interested partners for one thing recognize the appropriate opportunities, i. e. they must be able to procure the information necessary for their decisions, and that in advance. More or less global allusions to the advantages of cooperation become less and less adequate as foreign trade interdependence between East and West increases. A Western firm, which wants to act effectively as a buyer or seller in a socialist country, requires information about that country's demand or its production and ability to supply. A company which is ready for industrial cooperation requires more than simply global allusions to the branches and projects which come into question. It needs even more information than a trader about the concrete opportunities in the socialist country in order to be able to assess the risk of a long-term commitment and, thus, the chances of making a profit.

Whereas until recently credits were still being granted on the basis of information about the creditor's solvency which was inadequate according to Western standards, in future credits will seldom be granted without further information clarifying the specific country risk more than has been the case up till now. While Poland's problems naturally intensified the Western demands for more information, they certainly did not evoke them: may be that it only became clear to some bankers after Poland, just how generously Eastern credits had been granted up till then – perhaps in the vague belief in the continually sworn umbrella theory, according to which the USSR would stand surety for its brother states. Poland only made it clear that an adequate provision of information is a precondition for sound functioning credit transactions.

Industrial cooperation is a particularly striking example of the fact that the conditions in the socialist countries are far from adequate for more intensive collaboration. This form of economic cooperation between East and West has been practised for over a decade. Granted that cooperation has certainly not been without success, its form and volume have been far from the expectations in the West and, especially, in the East.

Both the anticipated savings in foreign exchange and the structural improvements – above all in regard to exports – have remained small. That no great advances in form, intensity or duration of industrial cooperation could be recorded in recent years is due to the fact that the basic preconditions have not been adequately improved. The lack of information, the partner's low flexibility and lack of authority to decide and the system-immanent disinterest of Eastern firms are factors which in the end reduce the chances of profit of the Western firms involved and thus do not exactly have the effect of advancing cooperation.

As was recently seen at an East-West conference in Bulgaria, Eastern Europe is highly optimistic that cooperation and trade will develop well, to the advantage of both sides, when the political climate has improved. Information problems and other obstacles to East-West business relations for which the Eastern partner must answer are simply underestimated. The preparedness to recognize these problems and to draw conclusions from them is largely lacking; it is not understood that most of these problems result in higher costs for the Western partner and thus make trade and cooperation projects unprofitable for him. Instead, a great deal of hope is placed above all in the positive effects of the long-term framework agreements concluded at governmental level and it is ignored that such agreements can, at best, have a certain signalling effect for Western firms.

With every loyalty to their own economic system the socialist countries must free themselves from the belief that the provision of more information would be a dangerous concession to the Western partner. Information is for the Western partner a necessary precondition of a responsible balancing of the risks and opportunities of economic activities. And these questions will gain relatively great importance for future development once again as it is not to be expected that the favourable conditions of the early Seventies in East-West trade will be repeated in the foreseeable future.

Klaus Bolz