

Bolz, Klaus

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Klaus Bolz*

Implications of the EC Internal Market for Relations with Eastern Europe

The countdown to the realisation of the Single European Market at the end of 1992 is taking place parallel to drastic political and economic changes in Eastern Europe. Both of these processes will affect relations between the EC and the CMEA countries. The following article analyses the possible consequences.

Eastern Europeans were quite obviously taken by surprise by the new mood of dynamism in the European Community as it moves towards the creation of a single internal market in 1992/93. It was not until 1988 that academic economists and experts from trade and industry in the socialist countries seriously began to consider the implications of the European internal market for East-West relations, and for the development of their own countries. Underlying these questions in the beginning was, above all, the fear that consummation of the single market would drastically impair the conditions of access to the EC for socialist countries – that the internal market would become, as it were, an economic fortress. Since then, more than a few people have identified not only the challenge, but also an opportunity to which the only appropriate response is one of openly approaching the EC and seeking its cooperation.

The debate over the EC internal market is not without implications for the discussion on the stimulation of socialist integration, which has been waged intensively over the last few years in the CMEA. However, the talk of introducing new mechanisms of collaboration has run out of steam.¹ Even according to Eastern assessments, the necessary modernisation of the CMEA – if it is now to be pursued at all – will still take many years, which means that the individual economies within the CMEA cannot expect any development stimuli from this quarter for the time being. Therefore, in order to secure benefits for their own economic development, the socialist countries of Eastern Europe have for the most part directed their interest toward the EC. Good relations with the EC are the current watchword: in the short run, this means the signing of bilateral trade agreements with

the EC, and in the long run it could, perhaps, mean entry into EFTA, or even directly into the EC.

What the medium-term significance of closer economic ties with the EC countries may be for the CMEA is an open question. Currently, the politico-economic will toward CMEA integration seems extremely weak among all its members.² The organisation's monolithic character has also changed as a result of perestroika and new thinking; its members are increasingly taking on the role of full partners of equal status.³

Eastern European Fears

In the beginning, Eastern anxieties about the internal market were of a general nature; today, however, these fears are more clearly defined and occur on several levels.⁴ In Eastern Europe it is assumed that the removal of internal frontiers within the EC will lead to trade-diversionary effects and that market access for non-EC members will be impaired. This basic fear is presumably grounded on the view that problems encountered along the way towards establishing the unified internal market – such as difficulties with the competitive position of the new EC members – might be solved by way of compromises which would ultimately imply increased levels of protection against third countries. Either direct

¹ Cf. K. Bolz: A New Cooperative Mechanism for the CMEA?, in: INTERECONOMICS, Vol. 24, Jan./Feb. 1989, pp. 41 ff.

² Cf. Polityka, 1st April 1989; cf. also the report on an expert conference on "CMEA Reform" (RGW-Reform) in: Süddeutsche Zeitung, No. 98, 28th April 1989.

³ Cf., among others, G. Izik-Hedri: Möglichkeiten und Grenzen einer Zusammenarbeit zwischen RGW und EG (Lecture given at the University of Oldenburg on 12th June 1988).

⁴ Cf. W. Gorski, J. Tschepotarjowa: Einheitlicher Binnenmarkt der EG: Probleme für Drittländer, in: Außenhandel UdSSR, No. 12, 1988, pp. 35 ff.

* Hamburg Institute for Economic Research (HWWA), Hamburg, West Germany.

or indirect methods could be developed and deployed to this end.

Some third countries – above all the USA and Japan – can safeguard their position in the EC through extensive capital investment, and can take appropriate measures to combat EC import restrictions. In comparison, the CMEA countries are largely at the mercy of EC policy-makers, unable to make similar capital investments, and unable to wean themselves from their dependence on Western imports.

The existing quantitative import restrictions applied by individual EC countries to individual CMEA countries are especially viewed with suspicion, since they impair the already limited export possibilities of the CMEA countries. It is therefore expected that existing import quotas will not all disappear without something else taking their place, but that after 1992, when members can no longer control their own national quotas, they will be substituted by EC quotas or at least protective clauses. What that means in individual cases depends on what common denominator the EC twelve agree upon when it comes to the quotas for each individual CMEA country or else to the overall quota for the CMEA members taken together.

Import Quotas

But because of the similarity of the export structures of the new members of the EC with the export structures of the small CMEA countries, it is not out of the question that repeated attempts will be made to limit imports from the CMEA of quite a large number of products. Although his statement was made a considerable time ago, EC commissioner Le Clercq is still often quoted as having established quite unequivocally that there were certain sensitive goods for which national quotas could be replaced by Community quotas.⁵

Import limits imposed by the EC will affect individual CMEA countries quite differently. The small CMEA countries will be particularly adversely affected whereas the raw materials and semi-manufactured goods supplied by the Soviet Union face either no, or very limited, restrictions. However, as it increasingly diversifies its exports the USSR might also be more strongly affected. In comparison with the developing countries and the NICs, the small CMEA states fare even worse, since these Third World countries are allowed to continue to export their commercial products largely without limitations.⁶

How high the hurdles will be in the future for exports from the individual CMEA countries to the EC essentially depends on what concrete form the trade and/or cooperative agreement between the EC and the individual CMEA country actually takes. The quota policy of the EC seems to take a very flexible approach. If treaties between the EC and East Germany and Bulgaria are concluded in the next few months, the publication of the treaty details will make possible – at least for the next five to ten years – a more differentiated analysis of “import restrictions” against CMEA countries.

In this context it would behove the East European countries, in their expectations regarding the Community, to consider the special interests of the individual EC countries. Even if the EC Commission issues liberal statements regarding the reforming countries in the Eastern Bloc, one should keep in mind that this policy of “openness to the East” is still only beginning to come to fruition in many EC countries.⁷ Currently the Federal Republic of Germany is acting as the main advocate of political openness. This is based first of all on the special German concern for a resolution of German problems (GDR) within the framework of a concept for the whole of Europe, but also involves the pursuit of a long-term market strategy aiming to help supply the circa 400 million consumers in the East during the next few years.

Even if liberal notions prevail in the formulation of quotas, previously erected barriers for protection of the EC market will remain, in the form of price-auditing procedures and anti-dumping measures. These instruments are unlikely to be willingly renounced when bilateral agreements with individual socialist countries are arranged. The socialist countries perceive such anti-dumping measures as a form of discrimination directed especially against them. They also believe that, because of a general prejudice against the system of price formation in socialist societies, too many anti-dumping proceedings are initiated by the EC. Thus even if these anti-dumping tests do not confirm any breach of practice, the export of Eastern goods into the EC internal market is still placed at a disadvantage. It can, however, be expected that Western suspicions of Eastern dumping will arise less frequently if CMEA economic reforms result in more market-determined pricing, and fewer price supports. In the meantime, however, the number of anti-dumping cases involving socialist countries is still about six times higher than for other trading partners.⁸

⁵ Cf. J. Stankowsky: *East-West Trade and the CMEA – Approach towards EC Integration*, Vienna 1989, p. 8.

⁶ Cf. *ibid.*, p. 9.

⁷ Cf. report on a meeting of social democratic MEPs in Athens, in: *Frankfurter Rundschau*, No. 153, 5th July 1988.

⁸ Cf. W. Kostrzewa, H. Schmieding: *Die EFTA-Option für Osteuropa: Eine Chance zur wirtschaftlichen Reintegration des Kontinents*, Kieler Diskussionsbeiträge No. 154, Kiel 1989, p. 13.

The central problem for the socialist countries in the formation of the EC internal market will presumably be the intensified competition. In all EC countries, companies have been working for some time to improve their own market position in advance of the expected competition, and to prepare their entry into markets in other regions. The socialist countries, though, will not only face tougher competition as a result of the activities of existing companies in the EC, but in addition, they will have to withstand competition from newly formed enterprises, which are setting up business within the borders of the EC before the completion of the internal market. These include not only American and Japanese multinationals, but also in certain markets – chiefly growth markets – firms from the growing NICs of South-East Asia like Singapore, Hong Kong, Taiwan and South Korea.⁹

Awareness is growing in the socialist countries that if they are to hold their own ground on the EC market, or attempt to enter that market, they must be at least as competitive as the firms already situated there. Given the present production and market structure, the limited experience in marketing questions, and lack of financial and technological resources, it is becoming clear that very difficult times lie ahead for the socialist countries. That is the case even if the EC takes no direct measures to exclude outside suppliers. Unfortunately, attempts are also being made by some EC members to soften the competition they feel from within the EC by blocking

imports from outside. The automobile industry, in which France and Italy advocate a restrictive Community quota on Japanese cars, is probably the best known example.

It is not without cause that several socialist countries fear EC companies will concentrate on the EC market even more than before, simply for reasons of self-preservation, and thus interest in trade with a socialist country, which in many cases would be the weaker partner, would automatically subside. In other words, this concentration on the EC market will, in many instances, negatively affect the socialist countries.¹⁰ (Herein may lie at least one explanation for the presently limited interest in participation in Eastern special economic zones. But on the other hand it must be pointed out that heightened competition inside the EC also offers additional opportunities for special economic zones, since advantageous collaboration with them might enhance the market positions of some EC companies.)

Uniform Standards

The imminent introduction in many fields in the EC of uniform technical standards and norms is, again, by no means simply welcomed by the East European

⁹ Cf., among others, W. Gorski, J. Tschebotajowa, op. cit., p. 37.

¹⁰ Cf. J. Stankowsky, op. cit., pp. 7f.

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In time for the direct elections to the European Parliament the Hamburg Institute for Economic Research (HWWA) published this book containing a series of lectures held at Hamburg University in the winter semester 1988/89. It presents a wide range of views and opinions on central questions which dominate the current discussion on Europe.

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countries as easing their canvassing of the EC market. Many experts fear that the introduction of uniform standards will be connected with the simultaneous raising of qualitative and quantitative parameters applied to products. With regard to the competition between the Single European Market and the USA and Japan, the EC's policy really will have to be one of setting norms and standards as high as possible. This will probably have a prohibitive effect on the socialist countries in many fields; e.g. the Soviet Union could be deprived of every chance of selling machinery and equipment inside the internal market.¹¹ But these types of norm need not always be of a technical nature (such as safety), for even social regulations could contribute to the formation of a Fortress Europe.

Nor would industrial collaboration with enterprises from the EC countries necessarily be simplified. This must be especially painful to the CMEA countries which have attached certain hopes of gaining a foothold in the medium term in the West European market, in spite of their weaknesses, to collaboration with businesses within the EC's borders.

Official Relations

With the signing of the joint declaration establishing official relations between the EC and the CMEA in June 1988, an anachronism which had its roots in the Cold War was finally overcome. The bilateral recognition and consequent normalisation of relations between the CMEA and the EC will, however, have no immediate effects upon the economic relations between the countries of the two integration areas. Nevertheless, the significance of this document for the future positions of the individual CMEA countries on the unified internal market of the EC should not be underestimated, because this declaration forms the basis for the establishment of official relations between the EC and the individual CMEA countries. This brings to an end what had been an unresolved legal situation since January 1975. The EC/CMEA declaration has destroyed the illusion that the CMEA could be a commercial partner of the EC. At the same time, the competence of the individual CMEA states in matters of trade policy was established.

The socialist countries now have the opportunity to exert a certain influence in negotiations with the EC – each country for itself – on the consequences the European single market might have for them, and on their own relations with the market. It is safe to assume that CMEA countries will obtain more favourable, and

above all more secure, trading positions in their individual bilaterally negotiated agreements than would be the case if the autonomous Eastern Bloc trade policy of the EC had persisted. That is true no matter how strong or weak the negotiating position of a CMEA country happens to be. A decisive factor in a country's bargaining position is the state of economic reform, and the overall concept lying behind it. This has once again just been shown clearly by the EC's new concessions to Hungary and Poland, whereby steps towards the liberalisation of imports have been taken earlier than planned.

Benefits of Harmonisation

The EC's harmonisation of technical standards and norms in various fields is mostly viewed positively in Eastern Europe. Once the individual socialist exporters have adjusted to the uniform norms and standards, they can extend their operations throughout the EC without legal problems and special formalities. In this respect the single internal market gives the socialist countries the advantage of being able to follow a uniform approach throughout the EC. This harmonisation benefits all exporters to the EC, but is a particularly crucial advantage to socialist countries which often lack the flexibility necessary to adjust to a variety of standards and norms in different countries. Moreover, the harmonisation of technical norms allows the production and marketing of goods on a larger scale, which can result in considerable cost savings. This factor could be particularly positive for the socialist countries, which generally have only a few marketable products. Harmonisation of whatever nature should also have a favourable effect upon East-West joint ventures inside the EC, because it will facilitate their expansion throughout the EC territory.

However, before they can avail themselves of the benefits of harmonisation, the CMEA countries first require the flexibility to switch over to the new norms. In other words, they must undergo an intensive but absolutely necessary learning process before they can achieve success. The sharpened competition of the EC internal market will demand hard work from the socialist countries. But if they succeed in identifying and occupying market niches, the opportunities for profits inside the single market are incomparably higher than they would be in the individual EC countries, because homogeneous products may be sold in much larger quantities without the need for technical or other alterations. The profitability of investment in production and marketing in their own countries and/or in the EC will thus be able to increase in future. In addition to that,

¹¹ Cf. W. Gorski, J. Tschebotarjowa, op. cit., p. 35.

because of the general growth expected to be brought about by the realization of the internal market and the increased demand thus created, the socialist countries also stand a greater chance of increased revenues.

It is not out of the question that competition in certain markets of the EC will become so tough that established suppliers already in the EC will only be able to produce competitively priced products for the EC market if they cooperate with third countries. Such cases would not infrequently also involve economies of scale; that is, producers would have to look for opportunities to sell considerable quantities of certain types of products in markets outside the EC. Because of the sheer size of the Soviet market, possibilities of cooperation with EC companies could therefore increase in the future for Soviet enterprises.

The sooner the socialist countries take up the challenge of the European internal market, the greater their chances of success will be in the medium term. The socialist countries face the same fundamental problems as before, i. e. how to bring competitive products to the market. The single market and associated processes have exacerbated this problem, however, and it will get worse still. It is clear that despite overall increased marketing opportunities, time will not be on the side of those who miss the boat by not fundamentally reorganising their entire economic policies, along with their political systems.

Prerequisites

Although the EC does not wish to interfere directly in Eastern European economic reform, an intensification of economic collaboration will presumably only be possible according to the rules of the market. These are the prerequisite for an extensive opening of the EC market, and for the development of relations between West and East European firms in a spirit of partnership. In concrete terms this means that the socialist countries must meet the following requirements as soon as possible:

- elimination of state export monopolies,
- equal rights and responsibilities for all forms of property ownership,
- market prices for internationally traded goods,
- convertible currencies.¹²

The fact that the socialist countries let the so-called "little tigers" dislodge them from several growth markets in West Germany and other EC countries during the past 15 years should be viewed with seriousness in Eastern

Europe.¹³ The European Community cannot by itself do anything directly to increase the competitiveness of the socialist countries, but can only support their efforts from the sidelines. Given the existing political conditions in the world and the social changes taking place in Eastern Europe, socialist partners in the East can count on a considerable amount of benevolence from the European Community and its official bodies, as the aid programmes for Poland and Hungary exemplify.

In the last year and a half, since the signing of the joint EC-CMEA declaration, various bilateral agreements between the EC and East European countries have been signed, whereas others are still in various stages of negotiation. The situation regarding individual countries is as follows:

Hungary

Following the signing of the joint declaration between the EC and the CMEA, Hungary was the first CMEA country to establish diplomatic relations with the EC, and at the end of June, 1988, expressed the wish for bilateral negotiations on an economic agreement with the Community. The trade and cooperation agreement signed in September of the same year provided for the removal of quotas in three stages until 1995, most of them to be removed by 1992. Those items which were not to be liberalised until 1995 included goods which are very important to Hungary such as chemical fertilizer and other chemical products. In recognition of Hungary's reform efforts, and in order to support them, the EC has in the meantime predated the removal of import quotas to January 1st, 1990. The old agreements remain valid for textiles. The Joint Commission which has been formed will negotiate on possible mutual concessions in trade in agricultural products.¹⁴

The trade and cooperation agreement brings to an end a lengthy phase of trade policy confrontation with the EC. In future, relations will be normal. With this agreement, the danger has been reduced that the completion of the single European market could virtually push Hungary out of the circle of European trade relations and that it would become practically impossible to make good the economic and technological shortfall which exists at present. The previous Deputy Prime Minister, Marjai, had repeatedly pointed out this danger.¹⁵

¹² Cf., among many others, W. Kostrzewa, H. Schmieding, op. cit., pp. 17 ff.

¹³ Cf. J. Bethkenhagen: Osthandel 1988: Auftriebskräfte noch immer schwach, in: DIW-Wochenbericht, No. 16/1989, pp. 175 ff.

¹⁴ For more details cf. G. Izik-Hedri, op. cit.

This close relationship to the EC does not mean a break from Hungary's CMEA partners, and especially not with the most important of them, the Soviet Union. Hungary is presently putting its relations with the other CMEA countries on a world market basis, i. e. Hungary wishes to establish world market conditions regarding trade pattern, quality, service and, above all, with regard to the settlement of accounts.¹⁶ Hungary's adjustment to the European Community should be seen in the light of sweeping and necessary processes of modernisation of the international division of labour and is part of the economic and social opening of the country. It cannot be excluded that within the next few years Hungary may be prepared to take even greater steps in this direction, i. e. perhaps to request association with the EC.

Czechoslovakia

As in the case of Hungary, Czechoslovakia had already striven to stabilize its relations with the EC years before the bilateral declaration. In light of the fact that the reforms in Czechoslovakia have been considerably more moderate, it is not surprising that the trade agreement between the EC and the CSSR signed in October 1988 was only for a period of four years and did not contain any substantial concessions on the part of the EC with regard to the removal of quotas. Instead, during this four-year period negotiations were to take place on the question of preferential treatment for Prague.¹⁷

At the beginning of 1989 the CSSR's Minister of Foreign Trade, Jan Strba, emphasized that the EC's 10% share of Czechoslovakian foreign trade must on no account be allowed to fall, if damage to the functioning of the Czechoslovakian economy were to be avoided. For certain areas of production deliveries from the EC were essential and could not be replaced by purchases elsewhere.¹⁸

It should be mentioned here that Czechoslovakia had already signed agreements a number of years previously with the EC regarding certain sectors, e.g. steel, textiles and lamb meat.

¹⁵ Cf., among others, A. Inotai: EG, EFTA und COMECON, in: Europäische Rundschau, Vol. 17, No. 2, 1989, p. 40; cf. also Budapest Rundschau, No. 250, 20th June 1988.

¹⁶ Cf. Népszabadság, No. 54, 4th March 1989.

¹⁷ Cf., among others, G. Izik-Hedri, op. cit.

¹⁸ Cf. Ecotass, No. 4, 23rd January 1989, p. 4.

¹⁹ On the Polish preparations for negotiation, the draft agreement and various adjustment programmes cf. E. Waszuk: Polen-EWG, in: Polens Gegenwart, No. 4, 1989, pp. 5 ff.; cf. also rynki zagraniczne, Nos. 19 and 46 of 14th February and 18th April 1989, under the heading in both cases "Common Market 92".

In the past, official Czechoslovakian representatives have been fairly reticent about making statements regarding their strategy towards the EC. Following the revolutionary changes in the country it can now be expected that relations with the EC will soon – similar to those of Hungary – become closer.

Poland

The joint declaration of the EC and the CMEA in June 1988 induced a multitude of activities in Poland. In September of that year, Polish representatives took up first contact with the EC Commission, whereby it was possible to reach a basic understanding on certain questions regarding trade, marketing etc. The draft for a bilateral agreement which was presented to the EC Commission before the end of 1988 showed that Poland did not wish to lose any time in regulating its relations with the EC.¹⁹

Poland from the very beginning not only wanted to put forward demands during the negotiations, but also had something to offer. Thus, the European Community did not first have to negotiate an opening-up of the Polish market, for Poland already had a largely open market to show, compared to other socialist countries, and could prove this by the fact that imports to the tune of about US \$ 2 billion had already been financed by firms out of their own funds. The market was described as being largely deregulated, i.e. there were *de facto* no barriers to imports.²⁰ Poland was very self-confident and aimed in the negotiations not to accept both the reduction and removal of quantitative import quotas by the EC and at the same time clauses which limited their effectiveness, as had been the case with Hungary.²¹

In July 1989, the EC and Poland signed an agreement on trade and on economic and trade policy cooperation. Ignoring goods for which separate agreements already existed, the contract envisages the liberalisation of imports in several stages. Like Hungary, Poland is now profiting from the concessions made by the EC, to predate the removal of quantitative import barriers to January 1, 1990 and to reduce import duties drastically. The duties on textile products and agricultural products are also to be reduced in order to increase their competitiveness. Correspondingly preferential treatment for coal and steel is not intended.²²

Bulgaria

Bulgaria had more or less continually sought contact to the EC ever since the responsibility for trade policy was finally given over to the European Community at the end of 1974. Bulgaria's exports, which were laid down in special agreements, were as a whole unsatisfactory to

Bulgaria. These agreements covered trade in textiles, ferrous metals, goats, sheep and meat. Bulgaria had always regarded the quotas on other Bulgarian goods set annually by the EC member countries as discrimination. In May 1986 the Bulgarian Foreign Minister contacted the EC and indicated that his country was prepared to put its relations with the EC on a firm, legal foundation by concluding a comprehensive trade agreement. The discussions between experts which took place in September 1988 were thus based firstly on Bulgaria's 1986 declaration, and secondly of course also on the EC-CMEA joint declaration of June 1988.

Bulgaria attaches great importance to the negotiations with the European Community being seen in the light of Decree No. 56 of the State Council, which regulates economic activities in Bulgaria for both citizens and foreigners.²³ Since Bulgaria has also abolished the monopoly on foreign trade in the course of its reforms, all enterprises are now free to import. Bulgaria will therefore no longer be prepared to commit itself to particular quantities of imports within the framework of a trade and cooperation agreement with the EC. The EC is largely prepared to accept the Bulgarian demands for the removal of discriminating quantitative barriers. The negotiations will, essentially, hover around the question of agreeing on a timetable for liberalisation. Bulgaria will not be granted the liberalisation free of charge, however, but will have to accept the inclusion of a protective clause in the agreement. The question as to when the bilateral agreement will be finalised probably depends to no small extent on the finding of a solution to the problem of the Turkish minority in Bulgaria.

Romania

Romania is the only Eastern European country which has not yet taken up diplomatic relations with the EC since the signing of the joint declaration in June 1988. The negotiations with Romania were interrupted by the EC at the beginning of March 1989 for an unlimited period because no possibility could be seen of coming to an agreement on economic cooperation for the time being due to the continued violation of human rights in that country.²⁴ Following the revolution in Romania in

December 1989 the EC Commission can be expected soon to examine whether negotiations should now be continued.

Soviet Union

The Soviet Union took up diplomatic relations with the EC very soon after the EC-CMEA joint declaration. But before negotiations on a trade and cooperation agreement between the EC and the Soviet Union could begin, a clarification of the interests of both parties was necessary. The Soviet Union had declared its intention to conclude not just a simple trade agreement but a trade and cooperation agreement with the EC since at least March 1989. The EC on the other hand – due to the reservations of several member countries – was not automatically prepared to discuss other areas of cooperation straight away before a bilateral trade agreement had been tried and tested. It is therefore not surprising that various exploratory talks on the form of the agreement were necessary.

The way to negotiations was freed in June 1989 when the twelve EC Foreign Ministers agreed on the framework for a trade and cooperation agreement with the Soviet Union. The contract signed in December 1989 envisages extensive cooperation, in which Euratom is included. The agreement covers commercial goods excluding coal and steel products and is for a period of ten years. The fields of textiles and fisheries are being negotiated separately.²⁵ Some details of the agreement: mutual most-favoured nation clauses were agreed. The EC committed itself to the removal of import quotas by the end of 1995, with a few exceptions. A joint committee will examine during this period whether quantitative barriers can be removed earlier. In order to avoid conflict, it has been expressly agreed that trade should be conducted at prices conforming to market trends. Both sides reserve the right to protect their markets in critical situations.

The section of the agreement covering trade-policy and economic cooperation names a very large number of areas of cooperation: statistics, standardization, mining, raw materials, environmental protection, energy, transport, currency, banks, management, vocational training etc.

The Soviet Union, for its part, assured the EC that it would be treated in a nondiscriminatory way, particularly as regards the distribution of foreign exchange to Soviet enterprises for imports from the EC. The USSR has also

²⁰ Cf. *Polityka*, No. 40, 1988, Supplement *Polityka-Export-Import*, No. 19, October 1988, pp. 17 and 20.

²¹ Cf., among others, World Economy Research Institute: *Poland – International Economic Report 1988/89*, Warsaw 1989, pp. 96 f.

²² Cf. *Frankfurter Allgemeine Zeitung*, *Blick durch die Wirtschaft*, No. 199, 13th October 1989.

²³ Decree No. 56 of the State Council of 11th January 1989 "On Economic Activity in the People's Republic of Bulgaria".

²⁴ Cf. *Frankfurter Rundschau*, No. 65, 17th March 1989.

²⁵ Cf. *Handelsblatt*, No. 112, 14th June, 1989.

promised a favourable investment atmosphere and that joint ventures and licensing agreements will be made possible.²⁶

German Democratic Republic

Whereas the GDR already took up diplomatic relations with the EC in August 1988, the EC Commission did not receive its mandate to begin negotiations with the GDR until December 1989.

The purpose of an agreement with the EC for the Honecker government was essentially to secure the status of inner-German trade. In contrast to almost all other CMEA countries, the GDR was reticent about formulating further-reaching goals and interests regarding the EC. The present Modrow government has declared its intention of concluding a far-reaching trade and cooperation agreement with the EC. The GDR has formulated its aims clearly in a memorandum: it wishes cooperation in business, trade, science and technology, environmental protection, transport, fisheries, standardization and statistics, as well as in humanitarian fields, culture, education and information.²⁷

The EC Commission seems prepared largely to meet the GDR's wishes. The contents of this agreement will be similar to the trade and cooperation agreement between the EC and the Soviet Union. Cooperation in atomic energy is not foreseen, however. The duration of the agreement is to be 10 years. Barriers to imports are to be reduced step-by-step over 5 years. The European Community is probably basically prepared, however, in the case of continued economic reform in the GDR to allow the removal of import quotas to come into effect very much sooner. Both parties have agreed on mutual most-favoured-nation clauses. The agreement does not cover coal or iron and steel.

In recent weeks the EC has confirmed on several occasions that the special status of inner-German trade will not be affected by an agreement between the EC and the GDR. At the same time it is repeatedly alleged that Brussels would possibly no longer be prepared to allow the maintenance of this special status if inner-German economic relations are strengthened, because the future volume of inner-German trade could possibly lead to disturbances on the markets of other EC member countries, if the rules connected with the special status were not strictly adhered to.²⁸

Future Cooperation

In conclusion, the basic possible forms of future cooperation between the countries of Western Europe and the East European CMEA countries can now be briefly discussed.²⁹

In addition to bilateral treaties, which ideally would establish bilateral free trade agreements, three more possibilities for EC/CMEA relationships have been discussed recently:

□ The creation of a free trade zone between the EC and CMEA is out of the question in the present situation because, as has been mentioned before, the CMEA is not comparable to the EC in terms of internal unity, and will probably not develop in this direction in the future. Any fundamental alteration of the organisational structure of the CMEA is not very likely, nor is the required transfer of sovereign rights from the individual countries to the CMEA as a whole expected in the foreseeable future. Instead, an increasing number of problems among the individual socialist countries is accumulating, and these must first find solutions. Moreover, and this is the most important point, not all the socialist countries want to carry out a clear change in the direction of a free market economy in the short run.

□ The question of full membership of CMEA countries in the EC is also hardly likely to be seriously considered, at least in the foreseeable future. There are political reasons for this, based on the two different groupings involved, i.e. NATO and the Warsaw Pact. East-West differences still remain to be overcome, by a worldwide resolution of tensions, before individual members of the Warsaw Pact can become members of the EC. Moreover, it is to be assumed that for the time being, the EC will concentrate on the realisation and operation of its internal market with the present 12 members, and will not enter into serious negotiations with further applicants.

□ Another solution might be that the socialist countries first become members of EFTA. This way it would not be necessary for them to give up national sovereignty, and gather under the same political roof. Admission to EFTA would only carry economic implications. Once in EFTA, each socialist country could then close a special trade agreement with the EC, just as the other EFTA members have done in the past. But this approach also demands that the CMEA countries fulfil the same prerequisites they would have to if they entered into the bilateral agreements discussed above.

²⁶ Cf. Handelsblatt, No. 229, 28. 11. 89, and No. 244, 19. 12. 89; Neue Zürcher Zeitung, No. 277, 29. 11. 89 and No. 295, 20. 12. 89

²⁷ Cf. Wirtschaftswoche, No. 50, 8. 12. 89

²⁸ Cf. Neue Zürcher Zeitung, No. 270, 27. 11. 89; Börsenzeitung, No. 248, 23. 12. 89; Neue Zürcher Zeitung, No. 296, 21. 12. 89; Handelsblatt, No. 5, 8. 1. 90.

²⁹ Cf., in particular, the interesting ideas aired by W. Kostrzewa, H. Schmieiding, op. cit.

Leonhard Firlus

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