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Discussion Paper

Mutual and Balanced Force Reductions in
Europe - Some Political Aspects

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With the new sense of urgency that Mr. Mansfield's Resolutions and Mr. Breshnev's speeches have brought to NATO's long-standing proposal for troop reductions in Central Europe, MBFR has become the most concrete and topical item of East-West negotiations in the near future. A certain basis of understanding has already developed between the leading member countries of the Warsaw Pact and NATO on some of the aspects of troop reductions: they should not impair the security of either side; they can include both stationed and indigenous forces; the area considered for reduction is Central Europe. No doubt, many of these points are still highly ambiguous and there are others for which there is as yet no sign of an agreement even on principle not to speak of the highly complex military-technical problems which MBFR raises. But, whatever the ambiguities, doubts and open questions, East and West seem ready to get down to the wine tasting Mr. Breshnev has urged in his Tbilisi speech and it requires no high gifts of prophecy to predict that negotiations will start in 1972.

This paper is not about the military and technical problems of MBFR, it is concerned with the political importance of the issue. As it cannot pretend to offer a final answer, it will raise a number of questions and hopes that the discussion will clarify and even answer some of them.

1) Are mutual troop reductions a useful and even necessary contribution to East-West détente?

Both NATO and the Warsaw Pact have claimed this to be so in their communiqués (although the Budapest Communiqué of June 1970 is more cautious: the study of the question of reducing foreign armed forces on the territory of European states is believed to serve the interests of détente and security in Europe). But

contrary to the customary belief in the late Fifties and early Sixties that arms control arrangements in Europe would pave the way for political détente, this détente has developed in spite of the absence of any such agreements (there has even been an increase in the military forces deployed by the Soviet Union in the Eastern half of Europe, while American troops in West Germany have been reduced between 1965 and 1970 by some 25 % without any arrangement of mutuality). Real détente would even be impossible in a situation of insecurity, both for the East and the West. Military forces have far too long been equated with security in Europe and it can be argued that without them the various initiatives of détente would neither have been possible nor successful.

Mutually agreed reductions of forces might, but need not, create a greater sense of security. They could also have the opposite effect of undermining the basis which has enabled governments in the past to take what they would otherwise have regarded as political risks. As long as each side is concerned about the military strength of the other, a unilateral reduction of the forces of the perceived opponent would contribute much more to the sense of security and reduce the risks of détente. Mutually agreed reductions, however balanced, phased and cautious, are only a second best. To give an example for the Western situation: a significant unilateral reduction of Soviet troops in Eastern Europe would contribute to a greater sense of security and encourage détente in the West; but a mutual reduction including a significant number of American troops in Western Europe withdrawing across the Atlantic could have the opposite effect.

If either side sees the other in a stronger military position than itself, détente will not be promoted by mutual reduction arrangements unless either these provide for a sufficiently high degree of asymmetry to offset the other side's real or assumed strengths and geo-strategic advantages, or political relations have improved to such an extent that symmetrical mutuality no longer impairs the security situation.

However, it seems unlikely that these conditions will be met fully in forthcoming negotiations on troop reductions. The pressure seems to be mounting, not least in the United States, to achieve rapid

results, at the expense of serious arms control negotiations. They will bring mutual reductions of some sort, but to what extent this will contribute to détente, is by no means certain.

2. Can MBFR serve as a political instrument in East-West relations?

If arms control arrangements do not determine political détente they can still provide an instrument for political aims. In late 1967, the Centre d'Etude de Politique Etrangère proposed three models of East-West relations in Europe: détente, entente, co-operation. Arms control arrangements held an important place in the entente model not for their own sake but because of their political value; the aim pursued through them was to provide a greater rôle for the European states and to reduce the influence of the two superpowers. If that should still be the European aim today, it remains doubtful whether arms control would be a useful instrument to achieve it, for two reasons. First, military matters remain highly sensitive in Europe, and any attempts to "politicize" arms control arrangements would tend to be counter-productive. Secondly, an agreement on the reduction of forces, even if it would include all sorts of provisions to diminish the rôle of the superpowers and increase that of the European states, does not explain how the political situation that would allow this development will come about. If nations do not want structural changes in the existing security system they will not allow arms control arrangements to impose these changes, least of all a superpower.

For these reasons the political significance of MBFR in the East-West context is declamatory of, rather than instrumental to, political change. Arms control in Europe will tend to follow the political evolution, not precede it. Such a political linkage may not be inevitable in all arms control matters, and indeed the SALT talks have demonstrated that both superpowers can well talk about strategic weapons without letting their political antagonisms get in the way. But this has been facilitated by two factors: superpower status and parity. Linkage of military and political relations is the safeguard of the weak; the superpower whose basic security is not in doubt, can do without it, and, what is more,

cannot afford it since their global concerns and commitments and the high probability that their interests will be irreconcilable in at least some of these areas would mean that linkage could easily paralyse negotiations between them altogether. Secondly, SALT is intended not to find parity but to codify the existing strategic relationship between the United States and the Soviet Union. There is no such thing as "parity" in Europe, not even in the vague sense used in the strategic context, only a politico-military balance. MBFR will be successful if it achieves some elements of parity in conventional and tactical nuclear forces and weapons, but in doing this the political process of East-West relations will have to be taken into account. The linkage between military and political matters, subordinating progress in the former to the process of the latter reflects this interrelationship.

To say that MBFR negotiations and an eventual agreement will not serve as instruments for political change does not mean that they will be without political significance in East-West relations. If the linkage is maintained, they will provide a barometer of the state of political trustbuilding in Europe in an infinitely more concrete way than atmospheric improvements. By complementing the political process and manifesting its progress they will increase the difficulties and risks involved in a return to a climate of confrontation and military pressure in Europe - a modest contribution to détente but not a negligible one.

3. What type of arrangement would best serve this purpose?

The MBFR proposal is about the reduction of forces and weapon systems in Central Europe. But reductions are a major step, particularly if coupled with an undertaking not to return, and require a prior radical change in the political relationship. They seem - assuming both sides are seriously interested in arms control and not just reductions - to be the last step in the process, the final triumph of trust over suspicion, not the first step, certainly not at a time when military security is still inseparable from political security in Europe. If arms control is to follow political détente, other elements than reductions should be negotiated first. A quick agreement on troop reductions would be premature in a political climate which is not yet prepared to see them only as a contribution to peace. By

creating a precedent it would also harm the negotiation of a comprehensive arms control agreement. If MBFR has concentrated on reductions this is because one of NATO's motives in proposing it was to avoid unilateral American reductions. But it does not necessarily mean that the political situation is ripe for them, neither in the East nor in the West.

What could be first steps for an East-West arms control agreement in line with the political development? There seem to be three major stages. First a restriction of the sources of conflict emanating from the present number of troops and weapons in Central Europe: an agreement not to increase the number of forces or particular types of weaponry above the present levels and restrictions on manoeuvres conducted in the close vicinity of countries that are either members of the other alliance or non-aligned. Secondly, the prolongation of warning-time: mutual notification of forthcoming manoeuvres and major troops movements; the exchange of manoeuvre observers; a hot-line for rapid communication between NATO and Warsaw Pact supreme commanders. Thirdly, the reduction of forces and weapons: this would start with a period of definition what should be the basis for balancing the capabilities and reductions of both sides, the relationship between stationed and indigenous forces, the importance of verification and inspection, only then would the first phase of reductions be implemented.

Linking arms control to the political process has, no doubt, a serious disadvantage: there would not be very rapid and very significant reductions in the near future. Its great advantage is that it helps to maintain, in a period of multilateral détente, a feeling of security. Because it sees MBFR in the political context it is also more flexible: the term of balance and the importance of verification will vary according to the degree of political trust achieved. Similarly, comprehensive arms control arrangements in Central Europe can serve as a model for other regions in Europe much better than a percentage reduction which, after all, has been suggested for the Central European situation and would scarcely apply to Northern or Southern Europe. The

greater flexibility would also apply to the types of weapons and forces chosen for the first phases; it may well be, for instance, that for reasons of political confidence and security a reduction of tactical nuclear weapons might be preferable to a reduction in conventional forces.

4. What would be the effect of MBFR arrangements on the military groupings in Europe?

Mutual reductions will create a new network of interdependencies across Europe, and across the two military groupings, contrary to unilateral reductions. An agreement that covers only part of the territory of an alliance could create two different categories of alliance members: those inside and those outside the reduction area and this might split military integration and undermine alliance cohesion. Michel Debré has even warned in a recent article that MBFR would lead to the neutralisation of parts of Europe and thereby disappoint all hopes for a politically more united Europe.

Some of these fears may be exaggerated. Indeed, MBFR also contains more unifying factors, such as the need within the alliances to find a common position in the negotiations, and the requirement of "balance" which implies that those outside the reduction area are no less part of the balance than those inside. Yet the French are not alone in their worries about the politically divisive effect of mutual troop reductions. It is clear that they will challenge the political cohesion within each alliance system, and particularly in the West with its greater diversity of formulated defence interests. This may well lead, at least at first, to a greater emphasis on alliance discipline and could also encourage serious steps towards a closer West European integration in defence which might in turn lead to tighter discipline in the Warsaw Pact. At any rate, the effect of MBFR on the cohesion of the military groupings will have to be considered, and this would tend to give priority to arrangements which stress unity rather than diversity: all members of the two military treaty systems to take part in the negotiation; the area of reduction to be chosen as large as possible to include the territory of all major countries in Europe; all member countries, and not only those whose forces are actually reduced, to have a rôle in the

implementation and supervision of the agreement. But whether neutrals will agree on this priority - which would mean, for instance, that France would have to give up her opposition to MBFR, or that the Soviet Union would have to accept that part of its territory should be included in reduction or in verification, etc. - remains uncertain at this stage.

5. What is the best forum for MBFR negotiations?

There are three procedural possibilities for negotiations: within the framework of a Conference on European Security; between the two pacts; and between the countries directly involved, i.e. only the United States and the Soviet Union when the reduction of their troops are being discussed.

The Conference on European Security and Cooperation cannot leave the arms control problem aside. But this does not mean that it will have to be the primary forum for MBFR negotiations. The forces and arms of the two military pacts are in question, not those of Sweden, Switzerland, Yugoslavia or even Andorra and the Vatican. The main emphasis will, therefore, have to be on pact-to-pact negotiations. The argument that all other European states will be affected by an MBFR agreement and should therefore take part in the negotiations is intriguing but not compelling. After all, the neutral and non-aligned states of Europe have also been affected by the security efforts of both pacts without participating in them. These countries will have a secondary rôle in the process of European arms control in helping to supervise agreements, liaising between the two military organisations, etc. But the primary responsibility rests on the pacts and their members.

Of course, the argument against the participation of neutral and non-aligned states might also be used to justify limiting participation to those alliance members whose forces or territory are immediately affected, e.g. the Soviet Union and the United States negotiate bilaterally the reduction of their troops in Europe, or only the countries included in the area of reduction and verification negotiate among themselves. But this would not only put considerable strain on the cohesion of each alliance; it would also be extremely difficult to reconcile with the basic assumption of military integration that all member countries are interdependent in their military efforts, their military planning and their military

organisation, and that national forces cannot be looked at in isolation. A reduction of American troops in West Germany will affect the whole defence structure in Europe, not only in Central Europe, just as a reduction of Soviet troops would in the East. Military integration does not only apply to efforts of armament but to efforts of arms control as well. Therefore, at least those members of the two pacts should take part which are integrated in the military organisations of NATO and Warsaw Pact.

This will make, no doubt, for rather cumbersome negotiations. Why should Turkey be concerned about troop reductions in Norway or Bulgaria about restrictions of movement in East Germany? Indeed, arms control requirements differ from one region to the other, and the actual implementation of the MBFR principles will vary considerably in scope, types of weaponry, methods of verification, etc. between Central Europe, the Northern Flank or the Balkans. But the principles themselves should be applicable for all regions, and only after the negotiations have reached an understanding on these principles can separate regional negotiations be considered.

6. What safeguards are needed to assure that the agreements will be kept?

Verification is not just a technical question, it is a highly political one. Too much emphasis on verification could either block an agreement altogether or give rise to fears of interference, suspicions, and distrust between East and West. Too complacent a view on verification, on the other hand, might not only positively invite infringements of the agreement but also miss the opportunity to increase trust between East and West by even modest control arrangements.

With modern technical developments the supervision of troop reductions, movements and reinforcements seem possible by "national means", i.e. without inspections on the spot. The need for mutually agreed verification is, therefore, less felt today than only a few years ago. The argument for verification has thus become more political than technical: to what extent can verification on the spot and can the exchange of observers and of information help to build up a relationship of trust in the sincerity of the other side? This cannot be answered once and

for all as it depends on the overall political development. The need will be felt in the first stages of MBFR much more than after a successful period of troop reductions, and it will require very delicate political judgement to determine how far verification must go in order to serve this political purpose, and how far it can go without becoming counter-productive.

Verification is only one means of safeguarding an MBFR agreement. The other, complementary one, would be to introduce sanctions against an offender. They could consist either of the threat of reciprocal action, of not moving to the next phase of negotiations or of excluding the offender from participation in the negotiations altogether. Of course, these sanctions will only work if there is in both military pacts an overriding desire for continual progress in arms control agreements; they will backfire if this is not the case and can then be used to sabotage the whole exercise. But troop reductions and restrictions on military activities will only be achieved anyway if the interests of East and West, at least that of the two superpowers, coincide; without the consent of the major countries serious arms control measures for Europe will not see the day.

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Notes on the Significance and Prospects of Industrial
Cooperation in the context of East-West Economic Relations

Industrial cooperation between countries with differing socio-economic systems is not a new development. In various forms it has been encountered throughout the post-war period, but it is only in recent years that it has become a talking point absorbing the attention of economists, managers and politicians in East and West alike.

Among the factors contributing to the increasing importance of productive cooperation in the contemporary economy, pride of place is due to the growing process of industrial specialization in the developed countries which, at the present stage of the scientific and technological revolution, is continually stepping up requirements with regard to the scale of production, its break-even levels and degrees of concentration.

The factor of economies of scale which exerts a particularly strong influence on the rate of return in capital-intensive and research-intensive industries is making it necessary to organize production on a basis of narrower product-ranges and longer series in a given enterprise coupled to a widening and diversification of its linkages with other plants.

On the internal market this requirement is being met by vertical and horizontal integration within or between particular industries carried out either by means of expansion of the sub-contracting system or the setting-up of new and highly centralized manufacturing organizations of the multi-plant type.

Productive cooperation on an international scale must, therefore, be examined in relation to the internal changes taking place in the economies of the industrialized countries, since its growth is a reflection of the objective processes whereby the organization of production and commerce is being adjusted to the development of productive forces in the contemporary world.

Recognition of the objective nature of the new forms of international economic ties is an important factor in assessing their durability and an essential premise for any conclusions about their future. It is, however, only a general, if vital, point to bear in mind. The actual content, form and extent of industrial cooperation depend on the specific motives of the partners involved in this process. Despite their common interests, these motives tend to vary, and their nature determines what sort of collaboration is finally chosen. Differences in motivation play an especially prominent role in patterning the model of productive cooperation between East and West.

The factor which is now of decisive significance in selecting the directions of productive cooperation is the current state

of economic exchange between East and West. It is in this context that we wish to indicate a number of problems whose discussion might make it easier to arrive at answers to two questions : where can we find elements of joint interest in the expansion and amplification of cooperation and what barriers stand in its way ?

Specific features of the present stage of development of East-West trade

In the last few years there has been a marked upswing in trade between the countries of Eastern and Western Europe. Both the growth-rate figures for exports and imports and the information to hand regarding the number and the scope of the agreements on future turnover concluded by particular countries are evidence that the cold-war deadlock in commercial relations has been broken and the outlook for further progress is hopeful.

Not wishing to elaborate unduly on this familiar proposition, I shall only cite two fairly revealing facts in support.

First, the growth-rate of total imports in Eastern ~~and~~ from Western Europe has been climbing in recent years and in the 1963-68 period reached the relatively high level of 13.1. per cent /compared to 10.4 per cent for 1960-68/.

Second, the coefficient of elasticity of manufactured imports from Western Europe computed in relation to the industrial output of the East European countries has grown from 1.76 /1960-68/ to 2.56 /1963-68/ and, more to the point,

was much higher than the coefficient of elasticity of their total industrial imports /1.02 and 1.04 respectively./^x

Both those facts point to East-West trade being far from stagnant, with the markets of the socialist countries showing a clearly growing capacity to absorb imports from Western Europe. The quantitative indicators of growth do not, however, give a full picture of the situation in this sector. In the first place they tell us nothing about how the actual level of development compares with the potential opportunities, secondly, they fail, naturally enough, to provide the qualitative particulars about the course of the processes in question.

The latter point is of special interest in the context of the subject discussed here since it concerns the levers and mechanisms propelling the interflow of commodities and services between different countries and economic regions.

A qualitative picture of the progress of economic exchange can only be obtained from an analysis of its structural changes as regards both the pattern of interdependence between particular markets and the shifts in the importance of different commodity groups in international turnover.

The conclusions which emerge from such an analysis are less optimistic and indicate serious weaknesses in the economic ties between East and West. These are evident in

x/ See Jerzy Sołdaczuk, "Handel Wschód-Zachód a rozwój gospodarczy w Europie Wschodniej i Zachodniej", Sprawy Międzynarodowe, September 1971.

three main forms :

one: pronounced fluctuations in trade from year to year ;

two: lack of symmetry between the internal and the external turnover of particular economic groupings and sub-regions;

three : the inadequacy of the structure of trade in relation to the structure of the production capacities of the East and West European countries.

As has been observed, the past decade has been marked by a relatively high rate of growth of imports in Eastern and Western Europe. Closer scrutiny of the short-term changes reveals, however, that the increases have been subject to exceptionally large annual swings.

Percentage Changes in the Overall Exports and Imports of the West European Countries to and from Eastern Europe

Year	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	/1st half/
Imports	6	8	14	18	13	13	4	6	11	14	
Exports	9	10	-	8	20	13	17	7	11	20	

Source : Economic Bulletin for Europe, Vol.22, No.1,1971

In the period in question the annual increases in imports oscillated between 4 and 13 per cent, and in exports between 0 and 20 per cent. A report produced by the Secretary of the

Economic Commission for Europe has found that the fluctuations in East-West turnover are more than twice as great as in trade within these sub-regions^{x/}. This is evidence of a high degree of instability in the relations between them and of the inordinate influence of factors which have nothing to do with the actual course of economic processes. .

Another weakness in East-West trade is brought to light by analysis of the interdependencies of particular sub-regional markets and the structure of the commodity flows between them.

The first point that needs to be made is that the share of Western Europe in the overall turnover of the East European countries is incomparably higher than the reverse proportion. Although this imbalance can be partly accounted for by the differences in the productive capacities of these two sub-regions, it is too glaring to be explained away altogether by this factor. What is particularly disturbing is that recent years /for which statistics are available/ have, if anything, brought changes which aggravate rather than remedy the existing disproportions. Thus in 1968 the share of East European imports and exports amounted to 4.3 and 4.6 per cent of the total turnover of the West European countries, whereas their share in the imports and exports of the East European countries was 20.7 and 23.8 per cent. In 1969 the share of Eastern Europe in

x/ Analytical Report on the State of Intra-European Trade,

West European trade shrank to 4.1 and 4.4 per cent respectively while that of Western Europe grew to 21.7 per cent of East European imports and 24.4 per cent of its imports.^{x/}

Further deficiencies in the present state of East-West trade emerge clearly from a closer scrutiny of the changes in its structure. These are illustrated in Table 2.

Table 2

The Structure of West European Imports
and Exports from and to Eastern Europe

Commodity Group	Imports from E.Europe		Exports to E.Europe	
	1957-59	1966-68	1957-59	1966-68
Food, beverages, tobacco	22.6	22.1	15.1	10.0
Crude Materials	23.1	21.2	15.4	8.8
Fuels	23.3	20.5	0.1	0.3
Base Metals	8.6	9.9	21.0	11.3
Engineering goods	9.9	10.4	29.9	42.3
Other manufactures	9.7	10.6	17.6	24.8
Unclassified	2.8	5.3	2.9	2.5
Total	100.0	100.0	100.0	100.0

Source : Economic Bulletin for Europe, Vol.22, No.1, 1971

The structural pattern of trade revealed by these figures is very distinct. The most noteworthy feature is

^{x/} Economic Bulletin for Europe, Vol.21, No.1, 1970,
Vol.22, No.1, 1971.

that the share of manufactures, including plant and machinery, in total turnover is on the rise. In the case of imports, however, this tendency is faint /a growth from 19,6 to 20 per cent in the periods compared/, on the other hand, on the export side it is very marked indeed /from 45.5 to 67.5 per cent/.

The asymmetry of this pattern is too obvious to make more detailed comparisons necessary. One should only beware of a certain over-simplified and, unfortunately, far too current interpretation. There can be no doubt that the structure of West European exports to Eastern Europe should be regarded, in comparison with their imports, as more in keeping with the modern trends in international trade. It is equally beyond question that the changes on the import side have not made any appreciable difference to its traditional structure. It would be hard, however, to find justification on objective grounds for this state of affairs, especially in the light of the changes taking place within each of the economic sub-regions and groupings. The pattern of interdependence in this field is illustrated by Table 3.

Table 3

The Share of Manufactures in Overall Exports /%

From:		To:		
	Year	EEC	EFTA	Eastern Europe
EEC	1957	65.2	70.5	78.6
	1967	77.1	79.6	90.4
EFTA	1957	59.3	59.2	68.0
	1967	72.2	74.6	84.7
Eastern Europe	1957	26.7	32.2	53.5
	1967	26.7	41.6	70.6

Source : United Nations Monthly Bulletin of Statistics

These figures prompt a number of important observations about the presence of distinct anomalies in the conformation of international economic relations.

In the first place it ^{should} be noted that in the past decade there has taken place a clear concentration of trade in manufactures within each sub-region and economic grouping. It is also significant that the internal structural changes are very much alike. Attention has already been drawn to the relatively small shifts in the make-up of East European exports to Western Europe. On the other hand, as Table 3 shows, the evolution in the structure of trade between the socialist countries has not lagged behind that in Western

Europe, the share of manufactured exports rising in this period from 53.5 to 70.6 per cent, ie. almost to the level of the indicator characterizing the share of industrial exports from EFTA to the EEC /59.3 to 72.2 per cent/. Set against such dynamic changes in the turnover of the East European countries among themselves / and they are a reflection of a far-reaching re-structuring and modernization of their manufacturing apparatus/, the indicator for the share of exports of industrial goods from this region to the EEC has shown absolute stability /26.7 and 26.7 per. cent/.

A number of reasons could be found to explain, though not justify, this pattern of magnitudes. Among them are a number of barriers, each of which impedes to one extent or another the attainment of a re-structuring of trade in line with the actual division of labour on an international scale. Mention should be made of, on the one hand, the protectionist policies of particular countries and economic groupings in the West which have discriminated particularly strongly and over many years against the socialist countries and, on the other, of the inadequate competitiveness of many of the lines of articles offered by the industry of the socialist countries and its insufficient capacity for adapting to the changing requirements and standards of western markets.

Without a doubt another handicap lies in the organization of foreign trade and the currency and credit difficulties arising out of separate monetary systems. Last but not least, there is the politico-strategic factor which is playing no mean part in deforming the structure of turnover.

It would certainly be wrong to underestimate these obstacles, which still exist and will continue, until such time as they are completely eliminated, to interfere with the development of economic relations. It should be emphasized, however, that all of the barriers mentioned here have been tending in recent years to decline in force and impact. The long-term trend in contemporary protectionism in the capitalist countries is clearly towards a shifting of the emphasis from the defensive, ie. the safeguarding of the domestic market, to the offensive, ie. expansion on external markets. Both the mounting process of internationalization of production and the discovery that a policy of trade restrictions cuts both ways are working towards this. Given the growing role of foreign trade in the contemporary world as one of the more powerful boosts to economic growth, it is likely that the weakening of tariff protectionism in trade in manufactures, distinctly evident in recent years, will become more pronounced. Although it may seem decidedly rash to refer to this tendency just when the drastic measures taken in the United States last August in the field of tariff or semi-tariff policy have made it painfully clear that old-fashioned expedients for protecting the domestic market are still in vogue and can be exploited on a wide scale in the mechanism of international competition. I believe that the objective trends in international trade, among them the movement towards liberalization, will steadily make headway despite the numerous setbacks and twists that lie ahead. East-West trade is an integral part of world trade. It is scarcely probable that the process of

tariff liberalization should be curbed in the future in this particular sector.

Of course, a great deal depends on developments in another of the afore-mentioned spheres where there are potential dangers to international economic cooperation : in the sphere of politics. Recent years, which have brought considerable relaxation in Europe, have seen, as was indicated earlier, an appreciable stimulation of trade exchange. Hopes of a further easing of the operation of political barriers may, therefore be tied with the advancing process of normalization of political relations in Europe.

Another obstacle to the expansion of economic ties between East and West is being removed by the reduction of the differences in the economic maturity of the countries of the two European subregions. This is also an objective process of the gap between industrialized nations at different stages of technological advancement being closed more swiftly than in any preceding historical period. It has sprung both from socio-political change and from the worldwide acceleration of the diffusion of technical progress in the present phase of the scientific and technological revolution.

I would not want what has been said to leave the impression that I make light of all the indicated barriers standing in the way of the development of East-west trade and cooperation. These are still very serious. All I maintain is that endeavours to overcome them fit in with an objective tendency which is diminishing their role and influence in international

economic relations. However, while a number of traditional barriers are giving way, increasing significance is being assumed by one which has, in a sense, grown out of the development of East-West economic relations to date and which I would therefore call, in contra-distinction to the traditional barriers, the barrier of tradition.

What I mean by this term is the established system of commercial habits and production tie-ups and the whole institutional infrastructure which induce manufacturers to look for partners within, rather than outside, a given economic sub-region. The point is that, other things being equal, the selection of a supplier is pre-determined by the nature of previous dealings, the technical simplification of contacts, good market intelligence, confidence in a tried and tested contractor and the incentive provided by a reasonable certainty or hope of profitable reciprocity in future transactions. These are natural motives and in most cases free of political overtones or non-economic considerations. But they operate with particular force in the sphere of trade in manufactures, especially machinery and other capital goods, where the ground rules in external relations are laid down by a buyer's, not a seller's market. These motives are augmented by the tide of mergers sweeping West European industry both nationally and regionally, the ramification of capital involvement, the rise of conglomerates, etc. In Eastern Europe the barrier of tradition is chiefly to be found in the still limited export orientation of manufacturing enterprises, ie. the units of the national economy on whose operation the development of external economic ties depends in the last resort.

Despite the fundamental alterations that particular countries have made in the sphere of trading policy, plants are only just beginning to change their role in this field. The mechanism of direct management of production, which took shape in conditions of weak contacts with outside markets, especially in the West, is not yet sufficiently tuned to the performance of the rapidly growing tasks involved in expansion of the external market. This is natural enough if we remember that the basic re-structuring of the economies of the East European countries was put into operation at a time when economic priorities tended to emphasize import-substitution rather than export promotion. It does not, therefore, appear to be the state monopoly of foreign trade which is the specific form taken by the barrier of tradition in their case, as numerous western authors frequently and, I believe, quite wrongly maintain, but the inadequate mobility and flexibility of the manufacturing enterprises which are a part of this monopoly. In this context the problem of developing new forms of economic ties, and industrial cooperation in particular, takes on a new significance.

Before discussing the question of its expansion, something needs to be said on the subject of classification. The diversity of the forms which have sprung up in this area in recent years has made it essential to clear the ground at least intellectually, quite apart from the increasing controversy aroused by the word "cooperation" itself in the

light of the legal regulations governing international trade. For the purposes of this analysis I propose to distinguish three basic types of partnership:

1. Simple cooperation, based on a sub-contracting system of manufacturing components for a finished product under long-term agreements between industrial organizations;
2. Complex cooperation, involving the launching of joint ventures for the purpose of turning out a final product which is the work of the collaborating units;
3. Organic cooperation, consisting in the organization of manufacturing enterprises run on the mixed capital of the two collaborating parties.

All three cases, apart from the production aspects, entail elements of joint organization of procurement and marketing and cooperation in the exchange of technology.

The feature of the first two forms is collaboration between parties each operating independently and on the basis of its own separate accounting. Simple cooperation differs from the traditional trade in semi-finished products only in containing mutual obligations relating to the implementation of the technological process and provision of the means essential to the fulfilment of the contract. This difference may, on the face of it, seem small, but it possesses a fundamental significance from the point of view of the economic effectiveness of the international division of labour and the prospects of its development.

The first of the forms enumerated is often a preliminary to deeper-reaching ties and opens the door to complex cooperation. Considerable hopes should be attached to both types in view of both their specific features and the role they are already playing in the development of international co-production. As has already been said, the prospects of productive cooperation are governed by its function in relation to the present situation in trade and economic collaboration between East and West. As regards the weaknesses and barriers in the development of international commerce referred to earlier, industrial cooperation is, theoretically speaking, a medium ideally suited to overcoming them.

In the first place, the fact that it is a form of collaboration based on long-term production tie-ups is of fundamental importance in dealing with excessive short-term fluctuations in turnover. Secondly, since it involves trade in manufactures it can help to improve the antiquated structure of West European imports from Eastern Europe. Thirdly, since it embraces an exchange of commodities, services and operations in the most dynamically expanding sector, it can be instrumental in raising the /in absolute terms/ low level of total turnover and thus bringing the processes underway in the sphere of international exchange more closely into line with the actual pattern of the international division of labour.

What chances do these expectations stand of fulfilment ? A lot depends on the degree to which the emergent model of industrial cooperation conforms with the motivations, and harmonizes the interests, of the partners whom it is intended

to serve. It seems relatively easy to map out the area of joint advantage if the problem is viewed globally and on the macro-scale. Both sides have an interest in overcoming all the short-comings I have listed in the current state of international trade. Nobody can reasonably pretend that large swings in turnover, its low level and structural deformations are good for either of them. However, the economic motives for trying to promote livelier relations are not always identical. I am not, of course, thinking of the general motives which mutual interest in international exchange by reference to the still current Ricardian theory of comparative costs. What I have principally in mind are the motivations specific to the present stage of development of trade relations. In the case of the East European countries they stand out fairly conspicuously in the structure of their imports which, as we have seen, is dominated by manufactures, chiefly capital goods. If, therefore, the primary /though not, of course, the sole/ concern of this group of countries is to enrich their domestic market with commodities which are crucial to the process of intensifying social production, raising its technological level and assuring a qualitatively higher standard of consumption, the pressure of this type of motivation is much smaller in the West European countries. In their case, however, other economic priorities come to the fore which are connected with the development problems they are now beginning to encounter. Among the basic ones we should include the problem of realization, and

especially the question of the size of markets as a prerequisite of attaining an ever growing scale of production. It is for these reasons above all that the East European market is becoming increasingly attractive to the West. There is no denying that the import capacity of the socialist countries is a function of the demand on western markets for commodities originating from Eastern Europe. From the point of view of the interests of the West European countries, speeding up the growth of imports, especially by means of structural changes, can pave the way, therefore, to opening up of new outlet markets and the overcoming of bottlenecks in reaching a desired scale of production.^x

^xThe reason for mentioning it is also to the West's advantage to re-structure its imports is the obvious fact that, given the steadily decreasing income elasticity of raw material and food imports, failure to replace them with manufactures may bring trade relations altogether to a standstill. This is an important, though separate, aspect of the general danger that might be created interests all-round by drastic cuts in food imports from Eastern Europe. It has to be faced that these will continue to fall, in absolute as well as relative terms. However, a shake-up in the structure of foreign trade can only be effected by means of equally abrupt reductions in overall turnover, which could have irreversible repercussions for the long-range development of East-West commercial relations.

This is a fairly obvious interdependence, but valid on the macro-, not the micro-scale. The contradiction which is looming in this field between the micro- and the macro-approach is directly connected with the motivations for developing industrial cooperation and is, I believe, a fundamental problem for its future expansion.

The point is that an enterprise which increases its volume of orders under a simple cooperation scheme does not thereby automatically create additional demand for its final product on the part of the sub-contractor. We know, for instance, that a plant supplying components for type of machine tool is not capable of increasing its demand for these particular machine-tools proportionally to its deliveries. In other words, in contrast to the situation characterizing turnover on the scale of the whole market, a growth in the sub-contracting imports of a given enterprise is not tantamount to a growth in its export capacity, since it does not produce a direct expansion of the import capability of its partners. Sub-contracting orders boost, without a doubt, the capacity of the market in which they are placed, but this growth in demand may equally well be directed to completely different goods manufactured by completely different firms. Thus the inducement to expand simple cooperation arrangements is confined at the enterprise level solely to the traditional incentive connected with the immediate profitability of a deal, ie. to the

selection of the partner who asks a lower price for goods or services than the competitors. In fact, this is an incentive which has become far less attractive in contemporary trade than ones which hold out the promise of expanding and increasing the scale of operations. This is a point that needs to be kept firmly in mind in modelling the system of industrial cooperation.

I have devoted so much attention to this matter because I feel that the success of simple cooperation is of basic importance to the whole system of industrial cooperation. It is the form which setting up an organizational framework is relatively straightforward while the limiting factors arising out of institutional and currency barriers operate on a narrower scale than elsewhere. Furthermore the contradiction I mentioned is not one that cannot be resolved. Its effect at present is that cooperation schemes are most easily concluded between multi-plant organizations in the socialist countries and big western corporations of the conglomerate type, partly because it is simpler to meet the requirement of mutual promotion of turnover where the range of products offered in exchange for cooperation deliveries is much wider and more diversified.

The contradictions referred to also mark out the limits of the independence and autonomy of the state enterprises entering into cooperation arrangements. While it seems beyond dispute that in the organization of productive cooperation and responsibility for the contracted undertakings the most appropriate model is direct communication and close

technical and organizational linkages at the enterprise level, I think that the regulation of turnover and the handling of the marketing side should be the province of specialized trading agencies of a national compass. To leave the enterprises with autonomy in this field would simply mean saddling them with obligations beyond them and in effect restricting, not increasing, their economic freedom of action. A large step forward in removing the contradictions of simple cooperation is its conversion into complex cooperation.

The problem of inducement inherent in the possibilities of expanding the market is in this case easier to solve, even though many elements of the contradictions in question still persist. However, since the result of this form of cooperation is a jointly manufactured final product /often given a twin or common trademark/, both parties are interested in promoting sales in the countries of Eastern and Western Europe alike.

The highest form, as it were, of industrial cooperation is the organic type involving the employment of mixed capital^x. In view of this, the partners do not, in contrast

^xIt should not be confused with the specific form of international cooperation in the investment field in which industrial projects are undertaken on the basis of purchase of a foreign licence and the provision of credits or technical assistance. This type of economic cooperation is outside the scope of this paper since it forms a separate subject which does not belong among the forms of industrial cooperation enumerated here.

to the two preceding forms, operate on their own account in the separate areas allotted to them, but conduct joint calculations and share the profits in accordance with agreed criteria.

This is a form which has not yet developed on any particularly great scale, the reason for this lying I would say, in a variety of difficulties of an objective nature. Among the most important we should include, first, the question of finding the right method of calculating costs, profits and prices and, second, the problem of working out a serviceable formula for management and organization which can knit the operation of mixed capital enterprises into a system of direction of the entire national economy.

These are awkward problems. The difficulties over calculation and accounting have produced a tendency for mixed capital to be invested so far mainly in areas where both inputs and outputs can be easily computed in comparable units /for instance, the hotel business orientated to the tourist trade, where the capital outlay in foreign exchange can be related to the revenue earned in the same medium from foreign tourists and the problem of calculating costs is simplified to the maximum by the absence of such elements of current expenditure as raw materials, semi-products, etc./. It is also easier to find an appropriate management formula since the ties between the branch

involved and other sections of the national economy are very limited and its final output - in this case, a service - is not passed into further circulation and does not affect production in other sectors.

From this point of view another sphere where uniformity of product facilitates economic calculation is mining industry. It can also be seen that accounting considerations place no barriers in the way of combining capital as the basis for a joint venture when the investment is to be made in a Western market. In this case the contribution of both partners /in both goods and capital/ can be directly related to the effects of economic activity which is expressed in the same units of measurement.

The situation is incomparably more complicated when the area of mixed capital investment is manufacturing industry in an East European country. The basic differences in price relations ^{on} the markets of countries with differing economic systems create very formidable obstacles to the twin calculation of production costs, ie, in a convertible currency and in the national currency. While it is much less complicated to estimate the purchasing power of the national currency in terms of a convertible currency for individual commodity groups /for instance, by approximation of the tourist ^{on} exchange rate/, specification of a uniform exchange rate might ^{be} extremely misleading when calculation ⁱⁿ involves virtually every conceivable combination of input structure. There are unfortunately no immediate prospects of ironing out this contradiction. Although we can observe

an increasingly distinct tendency towards closer alignment of the price relations on East and West European markets /which is also an indispensable condition of convertibility/ this cannot by its nature be an abrupt process nor "decreed" by means of a single decision forming part of even the most perfect price reform.

It is, however, a hopeful sign that despite these difficulties numerous attempts are being made to overcome the existing contradictions and work out the most appropriate formulas for the operation of mixed enterprises.

The success of these efforts will depend on the scale of the experience, both negative and positive, that will come out of practice. It is satisfying to be able to emphasize that the climate for them is becoming increasingly favourable and that the fields of possible application are growing wider.