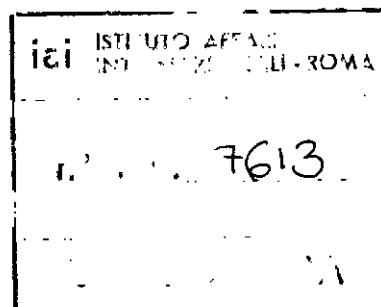


"IMPROVING EAST-WEST RELATIONS"
Institute for East-West Security Studies, Milano, 18-20/IV/1986

- (1) programma e lista dei partecipanti
- (2) Improving East-West relations - a conference report
- (3) Hardi, Peter: "East-West relations: present and future: an East European perspective"
- (4) Soldaczuk, Jozef: "Trends in East-West economic relations during the last decade and their implications for the future"
- (5) Vogel, Heinrich: "Improving East-West relations in the late 1980s: economic relations"



(1)

1986 Institute for East-West Security Studies Conference
Hosted by the Italian Ministry of Foreign Affairs
April 18-20, 1986
Palazzo delle Stelline
Milan, Italy

PROVISIONAL PROGRAM

Arrivals

The conference will officially begin at 1530 on Friday, April 18, 1986. Participants are welcome to arrive at the Palazzo delle Stelline after 0900 hours on Friday, April 18. Special lodging arrangements at the Stelline can be made for those who wish to arrive on Thursday, April 17th but meals cannot be provided on that day.

The Palazzo delle Stelline, a restored 16th century palace, is conveniently located in the center of Milan on Corso Magenta 61. Telephones 802975 or 803171. Telex 323331.

FRIDAY, APRIL 18

1315 Lunch for early arrivals

1530 - 1600 **OPENING SESSION**

Welcoming Remarks and Introduction of the Conference
Chairman.

Keynote Address: "Improving East-West Relations in the Late
1980's" by the Conference Chairman, H.E. Mr. Giulio Andreotti,
Minister of Foreign Affairs of Italy

1630 - 1700 COFFEE BREAK

1700 - 1845 Plenary Panel Discussion—"Improving East-West Political and
Economic Relations: Issues and Challenges"

Chairman: H.E. Mr. Giulio Andreotti
U.S. and USSR Speakers - To be announced

1900 - 1930 FREE TIME

2000 - 2030 COCKTAILS

2030 - **BANQUET**

Speaker: The Honorable Helmut Schmidt

SATURDAY, APRIL 19

0730 - 0845 BREAKFAST

0900 - 1030 **SUB-PLENARIES**

A) Sub-Plenary on Economic Issues

Papers delivered by:

Professor Heinrich Vogel, Director
Federal Institute for East European and International
Studies, Cologne

Professor Jozef Soldaczuk, Head of the Foreign Trade
Institute, Warsaw

B) Sub-Plenary on Political Issues

Papers will be delivered by:

Dr. Stefano Silvestri
Institute of International Affairs, Rome

Dr. Peter Hardi, Krupp Foundation Senior Associate
IEWSS, New York (on leave as Editor of Kulpolitica,
Hungary)

1030 - 1045 COFFEE BREAK

1045 - 1245 WORKING GROUPS

Six economic and political groups

1300 - 1500 LUNCHEON

Speakers:

- Donald Kendall, Chairman, PEPSICO, Inc.
- Soviet Trade Official (to be announced)

1500 - 1745 FREE TIME

1745 - 1930 WORKING GROUPS (discussions continue)

1930 - 2015 COCKTAILS

2030 - BANQUET

Speaker: Finnish Prime Minister Kalevi Sorsa, (tentative)

SUNDAY, APRIL 20

0800 - 0900 BREAKFAST

0900 - 1030 PLENARY SESSION: Report on the Political Working Groups and
Discussion

1030 - 1100 COFFEE BREAK

1100 - 1230	PLENARY SESSION: Report on the Economic Working Groups and Discussion
1230 - 1245	CONCLUDING REMARKS by the Conference Chairman
1300 - 1400	LUNCHEON
1430 - 1830	Free time or tour of Lake Como region for all participants (except members of the Board of Directors of the Institute for East-West Security Studies - Board session from 14:00 - 19:00 hours)
2000 -	Evening at La Scala and Banquet

MONDAY, APRIL 21

0800 - 0900	BREAKFAST
1100 -	DEPARTURE

**NOTE TO MEMBERS OF THE INSTITUTE FOR EAST-WEST SECURITY STUDIES
ACADEMIC ADVISORY COMMITTEE:**

Members are expected to arrive at the Palazzo delle Stelline on Thursday, April 17 by 1800 hours for a Working Dinner at 2000 hours. The AAC meeting will resume on Friday morning at 0900 hours and adjourn at 1400 hours.

Other participants who need to arrive on Thursday, April 17 will be accommodated at the Palazzo delle Stelline but will be responsible for their own meals on April 17.

Not for public release
until April 19, 1986

(3)

East-West Relations: Present and Future

An East European Perspective

by

Peter Hardi

Krupp Senior Associate
Institute for East-West Security Studies

Conference paper presented to the Conference on "Improving East-West Relations" sponsored by the Institute for East-West Security Studies (New York) in cooperation with the Italian Ministry of Foreign Affairs, Milan, April 18-20, 1986

EAST-WEST RELATIONS: PRESENT AND FUTURE

AN EAST EUROPEAN PERSPECTIVE

Looking back on the past one year one might justifiably have concluded that it has been a year of continuous change in the atmosphere of East-West relations. Hopes were raised for a significant, genuine improvement in Soviet-American and, consequently, East-West relations. The culmination of hopes -- at least on the Eastern side of the old continent -- came immediately after January 15, 1986, after the release of the new Soviet disarmament proposal. Some analysts have already begun looking for the elements of a post-nuclear deterrence era.

And now everything seems as before. Soviet-American relations have deteriorated again, and even the old rhetoric has reappeared. The general atmosphere is tougher and the protagonists seem to be less flexible than immediately after the summit. The increasing Western criticism directed against arms control and disarmament proposals may well have the effect of discouraging Soviet leaders, among whom there are already many skeptics concerning American intentions. Time, measured in political terms, seems to be limited. Does this mean that our hopes were unjustified? What should we believe in? Which indicators are more important, those which raise hope or those justifying the pessimism of the skeptics?

If we limit our analysis to the surface of events, I am afraid that we shall be hopelessly lost amidst the rhetorical chaos of charge and counter-charge. To understand the present situation and the tendencies inherent in it, we have to go beyond the surface of day-to-day political events accompanying rhetoric.

Rhetoric, of course, is many times an indispensable, perhaps even necessary element of political relations, both international and domestic. The problem with

rhetoric is its effect on threat perceptions and its preestablished nature. Rhetoric at times represents a "just in case" attitude, i.e., one does not actually have to know what one's adversary does because you a priori know its nature. One had therefore better refuse any proposal, no matter how many new or significant points it contains, because it comes from the wrong place. This attitude strongly reminds me of the well-known prisoner's dilemma of game theory, where the simplest, and even rational option is to "defect" and not cooperate with the other. If we keep on using the game theoretical analogy it is clear that the first priority is to establish a system of incentives for lasting cooperation instead of mutual defection. This is in the first instance a problem of communication, which is why rhetoric is so harmful.

Benevolent rhetoric, however, can also be problematic. Around the time of the summit there were several interpretations which intentionally or unintentionally treated either the Soviet proposal or the American SDI as simply rhetorical visions with entirely beneficial outcomes. That kind of treatment can mislead public opinion, raising false expectations which, when reality prevails, end in disappointment and uncertainty, exactly as happened in the spring of 1986. Fortunately, rhetoric (and the ideology behind it) is not identical with policy (though sometimes it may substitute for it). So what lies beyond the rhetoric? What lies beneath the surface of events?

In my paper I try to analyze some of the structural determinants of East-West relations, focusing on the socialist countries and their policies. I try to find answers to such questions as:

- o What are the inherent limits on East-West cooperation?
- o What kind of balance can we expect between cooperation and competition?
- o How can we avoid conflict, and turn it into competition or in the best case into cooperation?

In order to answer such questions we have to consider such long-term determinants as structural issues (system stability, patterns of development and modernization, etc.), and such short-term determinants as immediate issues (the state of East-West trade,

management of crisis situations, developments in arms, etc.). Both long- and short-term determinants can be grouped into three categories:

- (a) the international (sometimes global) political context (in a somewhat simplistic way: East-West relations);
- (b) the domestic (sometimes also intra-alliance) political context; and
- (c) the strictly military context.

In the realm of everyday politics as well as in the political literature there are several notions describing or designating the most common issues of these three different contexts. The global one is characterized as the triad "cooperation, competition, conflict", the domestic one is characterized as the triad "computing, control, coordination" while the military one is characterized as the triad "command, control, communication" (or C3--"C cube"). In the international arena the most important problem of East-West relations (from an East European point of view) is this: how can we enhance cooperation, reduce competition to peaceful methods, and exclude the possibility of conflict, especially military conflict? In the domestic arena the most important problem -- now again from an East European point of view -- is this: how can our societies modernize our economies, create an adequate management system to meet the challenges of "advanced socialism" and the intensive stage of economic development, and accomplish this while at the same time preserving political stability and popular support. I do not intend to deal in detail with the military arena, where the "C cube" has a well established meaning. I do want just to reinterpret these concepts from a political perspective, stressing the problems of decision-making, management and resource allocation posed by these sets of military issues to the political leadership. I also attempt to find the links between the domestic and the international arenas, to understand how they influence each other, and the relative priority of one over the other.

The International Arena

Despite several negative developments in the last few months I think it is still true that chances for better East-West relations and a more secure Europe are better than a year ago. First of all, the experience of the summit is still valid. It demonstrated the possibility of dialogue between the adversaries and was the beginning of a process. We have seen a new disarmament proposal which would not have been possible without the Geneva summit and which was substantial in the sense that it could change military strategy and planning. (It is obvious that our entire way of thinking about military issues would be changed if there were no nuclear weapons.) This proposal is by no means an ultimatum but rather a concept demonstrating a change in the Soviet Union's perception of security. There are now better chances to come to a significant Soviet-American agreement than one year or even five years ago. The West, and especially the U.S., should take into very serious consideration these changes as well as the significance of several changes in the top Soviet leadership. They indicate both a serious will to negotiate and a determination to search for other channels for improving international relations if the Americans should prove unwilling to cooperate.

If we want to find further answers, we have to make some additional analytical distinctions, such as the distinction between the political and technical conditions for overcoming the present hostility. Both must be addressed. Yet neither of these conditions really exist at the moment. Certainly, there are some technical and scientific possibilities, currently rather distant, to overcome the present military logic and replace nuclear deterrence with a new and more defensive, or non-nuclear approach. These might be sufficient to start meaningful negotiations if there were genuine political will on both sides to conduct such talks. These possibilities, however, are still in conflict with the traditional political paradigms.

In the introduction I referred to several development which influence the present stage of East-West relations and security perceptions. Two of these -- the summit and the Gorbachev proposal -- can also be considered in a broader perspective and related to another development significant for East Europeans: the 27th Congress of the CPSU. The Congress can be regarded both as a reaction to long-term domestic problems and as a catalyst for setting up priorities to solve these problems. In other words, the new leadership had to reveal its plans and concepts in a fairly detailed way and the Congress legitimized them. Without going into an analysis of the Party Congress itself, I intend only to emphasize one crucial fact influencing security and East-West relation issues.

The Gorbachev report reinforced the view that the first priority for the Soviet Union is economic development. (There is an interesting, though apparently superficial similarity between President Reagan's and General Secretary Gorbachev's first year in office: both were preoccupied by their own economic problems and both came out with a new -- though in their comprehensiveness different -- arms control proposal towards the end of their first year in office.) This is also the priority in all East European socialist countries, many of whom have already had or are preparing for their own Party Congress.

I attach such importance to the domestic, economic developments in socialist countries because they are key factors to estimating and anticipating the approach of these countries to East-West relations. The political motives of maintaining balanced and relaxed East-West relations are fully identical in the socialist countries. The emphasis given to some motives and some of the priorities may differ from country to country. In the case of the USSR the emphasis is more on a relative decrease of the economic burdens of the arms race than on direct Western involvement in the modernization of the economy. Some East European countries, on the other hand, have a big stake in relaxed East-West relations because that is a precondition for significant Western cooperation in their modernization programs.

The Domestic Arena: Modernization

Let me spend some more time to elaborate on this point. The present stage of development of the socialist countries is more complex and more contradictory in its character than was expected. Economic problems in the period of transition to a more advanced stage create tensions and in some cases even situations of political crisis. Another peculiarity of this period is that both the tasks and the problems are structurally very similar in nearly all East European countries, which makes it difficult to rely on each other's help (a fact that also explains several problems within the CMEA). The lack of sufficient material and financial resources, the relative backwardness in the high-tech field on the one hand, and the availability of these resources and technologies in the West on the other, upgrades the significance of East-West cooperation for these countries. Of course, the role of economic cooperation differs from country to country, but the overall goal to be achieved is identical: to improve their socialist economy and to develop a more efficient socialist structure. All countries yield to methods which best fit their national characteristics. It is of outmost importance that Western politicians and their constituencies should see the situation clearly: none of the socialist countries is interested in East-West economic cooperation either per se or for switching to capitalism, but rather to find other effective means to promote socialist development. The latter is the end, and East-West economic cooperation is just one means toward that end. This distinction helps explain why the USSR has given a different emphasis to this problem. The Soviet Union is self-sufficient in most of the basic resources and possesses an economy of enormous size in which any likely degree of Western involvement would be relatively insignificant. The entire structure of the Soviet economy, its level of development and geographic pattern call for a modernization and reorganization based overwhelmingly on domestic resources. As it was very clearly stated during the Congress and afterwards, the essence of the reform is in the first place to modernize the role and function of the power centers, both political and economic. In others words, the

emphasis is on the "computing, control and coordination" set of problems. General Secretary Gorbachev needs and is in search of new and more effective techniques for solving the problem of central management. This is first of all a political task and only indirectly an economic one.

Eastern European socialist countries, simply because of their structural characteristics, need a relatively more significant degree of Western economic involvement in their modernization programs, as I have already mentioned. Some of them are in a stage where the priority is not to find more effective political methods but instead to find a proper balance between political management and the economic system.

Economic development also requires integration into the world economy on a larger scale. The world economy, however, is regulated basically by capitalist economic laws. Integration, therefore, means accommodation to a market regulated structure. Capitalism, in the form of economic contacts with the West, thus happens to be a relatively important factor in the present period of socialist development. This basic contradiction helps clarify most of the ambiguities of East-West relations in this area. Here one point needs a strong emphasis. The general concept of East European political leadership is to try to cooperate with the West and accommodate to the world market without adapting a capitalist regulatory structure to the socialist system. The overall structure must remain socialist; market regulatory techniques can only assume a complementary function.

In Europe there is a mutual interest in the stability of the respective systems. The reasons for the West European interest in the stability of the socialist part of Europe -- beyond the obvious fear of the military consequences of any serious destabilization -- can be easily explained by historical, geographical and immediate economic reasons, but that lies beyond the scope of this paper. East European countries -- again, beyond the military factor -- are interested in the stability of West European capitalist systems because any larger scale economic crisis would decrease the possibilities for cooperation

with the West as well as depress the entire world market situation, thereby retarding economic progress in the East.

Though really long-term, historical perspectives may include a perception of the change of capitalism into socialism, such change can not be induced by force from outside, nor is it particularly immediate. It is definitely not a policy determinant for socialist leaderships in the foreseeable future. One of the seriously mistaken points of the rhetoric of the Reagan administration is its insistence on attributing immediate intentions for overthrowing capitalist systems to the Soviet Union.

There is a significant shift in the perception of capitalism within the Soviet Communist Party which is widely shared by different parties also in the international communist movement: capitalism is a more lasting and even more vital socio-economic formation than was earlier expected and still displays a remarkable vitality and scientific-technological productivity in spite of its own crisis phenomena: so we have to anticipate a whole era of coexistence. And this is only one side of the coin. The other is the military aspect. The balance of power, nuclear parity and MAD constitute the foundation of a primary interest in relaxed East-West relations and prolonged coexistence.

One should also include a number of global issues which reinforce East-West cooperation. These global issues require joint efforts on a global scale (e.g., environmental problems) though they are not currently determining factors in East-West relations. If, however, we consider a nuclear war as the most catastrophic global event to be prevented, it then constitutes the most important global issue requiring cooperation. Western analysts and politicians should pay more attention to the new international priority of communist parties, which are pursuing not the spread of socialism but the preservation of peace and prevention of a nuclear holocaust.

The Domestic Arena: Stability

Up to now I have addressed the issue of cooperation. There are, however, limitations on the extent to which Eastern Europe can engage the West in full-fledged cooperation. The most important security issue for the East European leaderships is to maintain social and political stability. This means preserving a stable socialist society under the leadership of a communist party. The question of physical survival is subsumed in the broader alliance framework and is determined by the Soviet Union's military capabilities and nuclear arms. So, in some East-European countries the security of the nation-state against outside threats and related military issues influence only indirectly the problem of social and political stability. In some other countries, especially those having common borders with NATO countries or facing the decision of deploying, e.g., short-range nuclear missiles, military issues influence the perceptions of stability more directly, but still not as directly and immediately as in the case of the Soviet Union, which must in the final analysis depend upon its own efforts to maintain its essential military-security interests.

Now, why does the issue of stability (beyond the military field) pose limitations on East-West cooperation? In political science there is a distinction between three types of security: regime security, system security, and nation-state security. In East European countries these are roughly equivalent to political, socio-economic, and military security, respectively. But the overlap of these three spheres is more obvious with the East European countries than in the West. In capitalist societies regime and system security can diverge significantly: a political crisis may result in the collapse of a government without challenging capitalism as a socio-economic system; in a socialist country a political crisis can result not only in the collapse of a government but also seriously endanger the system itself. The reasons for such a strong overlap between regime security, system security, and nation-state security in Eastern Europe deserve separate

analysis. Nevertheless, in interpreting regime and system security, Western analysts have to broaden their notion of system to include socialism as a social formation.

On the other hand, in Eastern Europe a change in the system would immediately mean a change in regime, so the two types of security are really strongly interrelated in the perceptions of the decision-making bodies. And in this context even nation-state security -- which is paradoxically the least endangered in present-day Europe, safeguarded not only by the Warsaw Treaty Organization's (WTO) military-nuclear force but also by political contracts and agreements like the Helsinki Final Act -- is dependent on system security because of the political nature of the military alliance. To underline this interdependency let me call attention to the fact that, despite the two types of modernization strategies in the USSR and Eastern Europe, there is general agreement on the overall political limits of cooperation with the West. There are two significant political facts which perfectly well symbolize these limits: one is the renewal of the WTO in spring 1985, the other is the approval of the CMEA long-term program for scientific and technological development. What do these examples symbolize? The former, obviously, ensures the stability of the member states as allied socialist countries in the international environment; the latter indicates the inherent possibilities of inter-socialist economic collaboration, and thus of the relative subordination of cooperation with the West, whose extent ultimately depends on political preconditions.

One might conclude from the above that even good and extensive East-West relations can be perceived as external threats to the stability of a socialist regime, i.e., that external threats may occasionally be "interiorized" into a kind of domestic threat, thereby serving a definite mobilization function for the regime. To be more specific, East European countries now have to deal with Western countries which earlier have been characterized as enemies and which were regarded as inferior in most walks of life. Now they are not only attractive in the popular consumption-oriented view but superior in many fields (most importantly in the crucial economic-technological one) even by official

admission. This change requires, and has received, an ideological and political explanation, but for many who are involved in decision-making it also calls for greater precaution and awareness of a trend which implies the undermining of socialism and socialist value structures, requiring, in certain cases, measures to prevent subversion by the perceived hostile influence.

These constraints to East-West cooperation inherent in the policy of socialist countries are the consequences of a threat perception which is based on the at times overt, at times more subtle Western efforts to seek changes in the domestic power structure or political system of these countries (the most well-known example is the clash over the human rights issues). East European regimes do not consider economic cooperation as a means to change Western systems in any way; their goal is to stabilize and develop their own systems. If this were also true of Western intentions behind economic and cultural cooperation, there would be significantly less limits to such cooperation. The limits imposed by the stability interests of the East European regimes are considered as necessary means so that their Western partners accept the reality of their socialist existence.

The dilemma that most East European socialist leaderships must contend with is that modernization is a necessity without which the socialist system itself would be in economic (and indirectly social) trouble and would lag far behind all industrialized Western countries and in many respects behind the newly industrializing countries of the third world. But modernization, especially when applied in a mistaken way, can destabilize the system and make society less governable by normal methods. Modernization based on reliance on cooperation with the West and on Western resources may enhance economic vulnerability in extreme situations yet modernization without Western cooperation is hardly an option for the foreseeable future. This dilemma has been present in many decisions of different East European parties and governments in the early 1980s. Differences in domestic structures and in structural-political constraints

have called forth different decisions and foreign political responses, but the dilemma *per se* is relevant to all socialist countries.

Modernization creates another type of security problem. A thorough reform of the system of economic management sooner or later will raise the possibility of some modifications in the systems of political institutions. While some such modification may seem reasonable to the political leadership this must not challenge the stability of the prevailing structure of political power in the given country. Modernization also entails a reallocation of economic and social resources and to some extent even the reallocation of political power (sharing vital information, involving certain groups like economists into top decision-making, etc.). This is the meaning of the "computing, control, and coordination" problem, where we can now substitute computing with high-technology oriented modernization, control with maintaining a stable society based on traditional socialist values, and coordination with resource and power reallocation. It is clear that a perfect solution to all these issues is impossible because of the gap between the objectives and the availability of effective means. I assume that these questions will be reevaluated by East European political leaderships both during the 1986 party congresses and beyond. The 27th Soviet Party Congress, combined with the expectations in Eastern Europe concerning new policy directions by the Soviet leadership, will accelerate and even impose a thorough discussion of this situation, which is precisely one of the distinguishing features of the first half of 1986 in Eastern Europe.

The dilemma of political stability *v.* modernization with Western involvement involves another factor to be considered. Problems, and especially a crisis, in one socialist country can very seriously affect the others. While the exact impact of such a crisis cannot be foretold, it is quite clear that in such a case the East European leaderships will favor a more cautious policy. So, looking only at the economic-systemic issues I do not anticipate a dramatic turn or broadening in East-West cooperation even in light of a possible improvement in Soviet-American relations. In the not too distant

future the East-European countries, which already have extensive ties with Western countries, will likely reach a point where the trade-off between the cost and benefits of cooperation will reach an equilibrium and the priorities of system stability and political continuity will make East-West competition more prominent.

Another interesting characteristic of this period is that the possibility of an improvement in Soviet-American relations first, refocused our attention on the dilemmas of East-West cooperation; second, will not accelerate or expand automatically the existing levels and forms of East-West cooperation; and third, in certain fields it will make competition more visible (to mention just one example related with modernization or "computerization": i.e., the field of information and communication as a domestic and international political issue).

The Military Arena: Politics

Usually domestic and international factors are complementary in their impact on policy-making in any single country. During the period of detente there was a continuous and conscious effort to find a new, complementary balance between domestic and international interests in strategic-military policy-making. By the eighties the conditions of that complementary balance had been changed and the tensions between them had increased. In the international arena the competition was quite obvious — both military and non-military conflicts between East and West have proliferated. During 1985 we could witness small signs of a will to break this tendency and at least to stop the further increase of conflicts. By November 1985 we hoped for the reversal of the earlier process back to a competition oriented more toward cooperation instead of toward conflict. Many experts on East-West relations shared the view that an agreement on arms control seemed to be the necessary (though not sufficient) condition to make that reversal complete. By spring 1986 this hope seems very faint indeed.

Ex-President Nixon declared several weeks ago that both containment and detente

have been bypassed by events. Though I cannot agree with such a blunt characterization, I suppose he was referring to the fact that, although we cannot expect the kind of good relationship between the leading powers as in the mid-seventies, it is also unreasonable for the U.S. to pursue a hostile policy toward the Soviet Union. While the present American administration has clearly not given up the principles and methods of containment, it would not seem impossible for it nevertheless to incorporate Mr. Nixon's analysis, i.e.: if we cannot anticipate genuine cooperation between the U.S. and USSR, at least let us try to avoid conflict. This would involve, at best, a regulated (in other words a negotiated) competition, which is actually, the embodiment of the 1972 U.S.-Soviet Basic Principles Agreement and the 1974 Vladivostok accord. Is there, however, any chance for a new agreement to set up norms for the international political competition between East and West? Could these norms actually be implemented? Such a question cannot be answered without extending the analysis to a number of other fields.

Up to this point I have focused my attention on the political, structural and economic factors influencing the present stage of East-West relations. It is time to reconsider the military and arms control field too, especially from the special twin angle of competition and conflict. One might suppose that the real obstacle in the path of a comprehensive new arms control agreement is the development of new military technologies. The existing framework synchronizing military and political decision-making would hardly survive a crisis situation if the political establishment had no control over the technological processes.

And yet West European politicians do not consider the situation dangerous, simply because war is unlikely. Instead of focusing on the problem of technological development they are disturbed by the possibility of actually getting rid of nuclear weapons. They are concerned more than ever that escaping from the nuclear framework is dangerous, that reduction is destabilizing. A very characteristic feature of the present stage of security thinking is that this approach has now come so explicitly to the surface. Some elements

of it are in obvious contradiction both to popular demands ever since the late seventies and to government positions adopted in 1981, at the time of Reagan's zero option proposal. All these developments put several issues into a qualitatively new perspective.

First, it calls our attention to the much more complex nature of arms control negotiations and potential agreements than was assumed a decade and a half ago. Beyond that it calls our attention to specific concepts and issues which make the present negotiating positions very complex, even tortuous. Finally, it warns us how unproductive it can be to be stuck to some of the language of a proposal instead of understanding its spirit. I am referring to the Western reactions to the Gorbachev proposal.

It is of primary importance to understand that the proposal is also a most significant political message. If the West "decoded" it correctly, it would find a will for striking a new modus vivendi with the United States. Now, the most probable way to proceed to meaningful U.S.-Soviet negotiations in the present situation is evidently the arms control field. And even within the broad field of arms control the issue where a possible agreement is most likely soon is the issue of intermediate-range nuclear forces (INF). If this interpretation is correct, it would confirm the view that the problems of East-West relations and even of strategic stability are primarily political ones (in contrast with a widespread American view according to which the latter problems are basically military-technical ones).

If we interpret the Soviet proposal as a plan which displays a willingness for cooperation and accommodation (see especially the new points of the proposal) and as part of a possible process, we won't be sidetracked by technical details. I do not want to trivialize the significance of technical or strictly military issues, but even they assume their proper significance in a broader perspective. With that in mind we can return to the military-technical problems.

The Military Arena: Detail

Without going into all the details, I would like to designate several important issues and put them on the table for further discussion during our conference. One of these new issues, brought to light by the new Soviet proposal, is the problem of stability in the intermediate period (i.e., between the first phase of nuclear disarmament and total nuclear disarmament). Here the elaboration of new definitions and working hypotheses has just been started and a considerable time will pass while a new conceptual framework containing acceptable guarantees to both sides is elaborated.

Another issue which, while not new, has received a renewed emphasis after the Gorbachev proposal, is the role of crisis management techniques, communication, and trouble-shooting channels between national leaderships. Furthermore, there is an increasing interest in linking nuclear and conventional disarmament issues, especially in the European theater. This is directly related to West European concerns of insecurity after nuclear disarmament in Europe. A sub-problem of this is the case of conventional first-strike weapons.

Among the most well-known problems one can mention issues related to the ABM treaty and to verification. The latter especially demonstrates that nowadays many military-oriented question could be solved by technical means (as in the case of verification, where there are no more such types of technological obstacles as ten years ago) if there were a political will to do so. In other words, a further characteristic of this period of East-West relations is the transformation of technological problems into political ones.

Here we arrive at a point where the need for new thinking on security is obvious. The question, "is there a common security?" assumes particularly great importance in Europe. The dilemma -- "who threatens whom and how?" stresses the changes in threat perceptions and in the conditions of vulnerability.

Nowadays, especially in light of SDI and the Gorbachev-proposal, some "methodological" problems deserve greater attention. These include the issue of anticipating security threats. Radical changes in technology or in strategies raise the question: What happens if political (and military) leaders and strategists set up political priorities and options based on projected threat perceptions which happen to be wrong? On the other hand, can security be defined at all except on an a priori and inherently subjective basis? Even technically it is extremely difficult if not impossible to measure security. While one can count the number of weapons, the effectiveness of weapons systems etc., it is almost impossible to quantify the security supposedly gained by those arms. The consequence is that security is a highly hypothetical notion. The different types of threat perceptions and definitions of security create an open field for political, and in the worst case military, conflicts. Negotiations have a decisive role in reducing areas of conflict by clarifying threat perceptions in a common process. If there is a real significance to confidence-building measures (CBMs) it is exactly in this area. Probably that is the best way to reduce the spheres of possible conflict. Consequently I can even imagine a comprehensive treaty of non-aggression and friendship between the Soviet Union and the United States (maybe with an emotionally less overheated American administration).

Security is not only hypothetical but in the age of deterrence it is paradoxically the product of vulnerability. And here I stress the final point among the novelties of our present situation of East-West relations: After the recent Soviet disarmament proposal there is a renewed interest in the possibilities of a post-nuclear deterrence era. Unfortunately the short-term prospects for entering that age are very mediocre. We have not bypassed the nuclear age and are still condemned to live together with nuclear weapons. Usually we hear the justification that nuclear arms have deterred war in Europe and between the two leading powers. And while we cannot falsify this tenet it is important to keep in mind that there is no verifiable causal nexus here.

I emphasize this point because I am convinced that the military-technological aspects are only one, and most of the time not even decisive, element of East-West relations. This suggests what should be a commonplace: that reducing the number of arms does not automatically solve the problem of security. It is therefore possible to conceptualize a post-nuclear deterrence that would leave our world no safer (especially considering the mass destructive and first-strike capabilities of some new generations of conventional weapons). Stability is in large part independent even of arms control negotiations. This does not mean that in certain periods such negotiations can not play a leading and even determining role in the relationship. Even a preparatory stage can accelerate a change in the political climate. The essence of such negotiations should be first to find the lowest possible level of armaments. Because of the a priori and subjective nature of our mutual perceptions of threats and security, even such a minimal level would be higher than a desirable and technically feasible -- what I would call an "ultra-minimal" -- level. (That was the meaning of my statement earlier which referred to the existing clash between technical progress and traditional political paradigms.) And that is the reason one can be optimistic now, even after a setback in Soviet-American relations. A radical proposal -- even if we can be skeptical about its feasibility because of the tremendous resistance one can expect in too many quarters -- can have the lasting merit of reorienting our thinking toward a search for a significantly reduced level of nuclear armaments and for a much more limited -- perhaps ultra-minimal -- level of deterrence.

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I started this paper with a structural analysis of the conditions of East-West cooperation within the East European countries. Towards the end of the paper I switched to a traditional, more narrowly focused arms control perspective to present the most

pressing issues which stand in the way of an improvement of East-West relations. In doing so I wanted to demonstrate the priority of political issues. The elaboration of military-technical details could take decades, without issuing in a final solution, given existing political requirements for perfect guarantees and verification. The ultimate determinant of progress here is always political will, which, as I have tried to show, is conditioned by structural-systemic factors. I concluded that there is a balance between the drive for economic modernization, the need for domestic political stability, and the military guarantees of socialism in the international environment. Taken together, these factors -- economic, social, political, and military -- determine the conditions of East-West cooperation and competition.

4

TRENDS IN EAST-WEST ECONOMIC RELATIONS DURING THE
LAST DECADE AND THEIR IMPLICATIONS FOR THE FUTURE

by

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1. Conflicting trends in East-West Political and Economic Relations During the Last Ten Years

Contradictory trends, similar to those experienced during the entire postwar period, characterized East-West political and economic relations in the decade of 1975-85. Years of fruitful cooperation and growing expectations were followed by years of a worsening political climate, growing tensions and rivalries, competition in the arms race, and by periods of restrictions and uncertainties in economic relations.

At the same time, in opposition to those confrontational trends, and as a consequence of a more and more widely accepted view that a military conflict between East and West would threaten humanity with total destruction, new initiatives and attempts are emerging which signal a new relaxation in the East-West political relations.

It is important that after periods of tensions, there exists a wider and growing understanding of the need for mutual cooperation in politics, in economic relations, and in the fields of science and culture.

Non-Discrimination and Mutual Benefits

While political considerations are important, no less important is a growing understanding of the economic necessities of the contemporary world economy. The very rapid and dramatic advance in science and technology, the electronics revolution and computerization, and revolutions in bio-technology and chemistry have created new and wider possibilities for accelerating the progress of our civilization.

At the same time, the world is becoming relatively smaller, more compact and crowded with a rapidly growing population, mainly in "Third World" countries. There is also a growing interdependence among all countries, while many serious social, economic and political tensions and conflicts between nations are emerging. The general drive

towards industrialization and urbanization of our globe leads to difficult ecological problems which threaten the natural environment.

These problems are so complex and difficult that any attempt to solve or mitigate them requires tremendous material, technical and financial means. Solving many of them is so expensive and technically complicated that it may be done only through the coordinated efforts of many nations and sometimes even coordinated efforts on a world scale. Consequently, there prevails a growing need for comprehensive economic cooperation among all countries, irrespective of their differences in socio-economic systems.

An understanding of all these necessities has given rise to efforts to improve permanently political and economic relations between East and West. Such an attempt was made at the beginning of the seventies.

After normalization of political relations in Europe between the Soviet Union, Poland and the Democratic Republic of Germany with the Federal Republic of Germany, and after several summit meetings between the USSR and the U.S., it was possible to agree on and sign the Helsinki Accord on Security and Cooperation in Europe in 1975. The Accord is based on the principle of accepting realities created in Europe after the Second World War, recognition of the differences in socio-economic systems of signatory countries, and acceptance of principles of equal treatment and mutual benefits in economic relations. It called for broad cooperation in the field of science and culture and for the development of wide contacts among people of all nations.

The principles adopted in the Helsinki Accord, together with many previously signed bilateral agreements between the Soviet Union and East European governments and Western Europe, particularly EEC countries, as well as between USSR and Eastern Europe and the United States, covered a wide area of trade, industrial, technical and scientific cooperation. There were also agreements on cooperation and regulations in land, sea and air transportation, as well as an extension of financial facilities. All this

together with some liberalization of technology transfer from the West to the East, as well as easier access to markets in Western and Eastern countries for exports of both sides, created the necessary conditions for a wide and rapid expansion of trade. In the period of 1971-80 exports of the industrial West to Eastern Europe grew, on average, 21.1% a year in value terms while Eastern European exports (including the Soviet Union) increased by 22.0% annually.¹ It is obvious that such a rapid rate of growth in the value of East-West trade was to a large extent a consequence of the high inflation rate in the West in that period, as well as a result of a dramatic drop in the international value of the U.S. dollar.

Nevertheless, during the seventies, especially in the first half of it, substantial progress was made in intensifying East-West trade and economic relations in quantitative as well as in qualitative terms.

Unfortunately, the second half of the seventies brought with it at first some cooling in U.S.-USSR political relations, especially during the election campaign of 1976 and then led to a rebirth of political tensions after the Afghanistan events at the end of 1979. Those tensions were intensified dramatically in 1981-82 as a consequence of the deep economic and political crisis and the introduction of Martial Law in Poland. This was followed by economic sanctions in the form of trade, credit and other restrictions applied by the U.S. government against Poland and partially against the USSR. Together with a radical tightening of technology transfer to Eastern Europe as a whole and a credit blockade to practically all East-European countries, new and serious elements of uncertainty were introduced once again into East-West relations, diminishing considerably opportunities for trade and industrial cooperation between East and West.

Undoubtedly, the sudden drop in East-West trade during the first years of the decade of eighties was a result of a significant worsening in general economic conditions

1. Handbook of international trade and development statistics. 1985 Supplement, New York 1985, p. 62-63.

in the world economy during the 1980-1982 recession in the West, together with a strong decline of the rate of economic growth in some countries of Eastern Europe (even if Poland is excluded) and with high and growing indebtedness of Eastern Europe as a whole in the West.

Fortunately, since 1983 new positive signs are emerging of some improvement in the economic situation of both alliances, and since 1984 there is growing evidence of some improvement in the political climate, with a chance for a gradual normalization of East-West political and economic relations. In particular, new chances and expectations have been awakened after the Geneva "summit meeting" between leaders of the U.S. and the USSR in November 1985.

One might hope that the second part of the eighties will witness once again a better atmosphere and will result in a renewal of East-West economic relations, based on a better understanding of the difficult and complicated environment and conditions under which East-West trade is carried out. The good and bad experiences of the seventies and the disillusionment with the unfounded expectations on both sides as well as the acceptance of current realities, ought to prevent us from a new deterioration and contraction of economic and commercial relations between the industrial West and Eastern Europe.

2. Interactions of Economic and Political Factors. Trade Benefits Versus Economic Security

The experience with East-West economic relations during the entire postwar period clearly manifests a predominant dependence of trade and economic relations in general on political conditions. Improvements in the political climate normally led to improvements and more rapid growth of that trade, while a worsening of that climate very quickly resulted in a slowdown of trade.

In international discussions the point is often made that improvement in economic relations between East and West may lead to improvements in the political climate as well, since economic interests may induce contracting parties to adopt a more positive political stance and to grant the other side some concessions and facilities.

When stressing the interdependence of political and economic factors in East-West relations, one must keep in mind the evident asymmetry between the two groups of factors. Experience shows that political factors have until now played a dominant role. The role which both groups of factors play in the attitude and approach of a particular Western or Eastern country towards East-West relations is dependent on the economic and political position of that country in world politics and in the world economy, as well as on the importance of East-West economic relations to the economic development of that given country.

The U.S. approach is characterized by the dominance of political considerations, with considerations such as the political security of the U.S. and security problems of the whole West receiving the highest priority. Such an attitude is a consequence of the great power position and political leadership of the U.S. in the Western world.

The traditionally much smaller role of foreign trade in the American economy (compared to other Western countries) and the marginal importance of East-West trade to its development are also reflected in this attitude. In the years 1975-81 the U.S.

exported to the USSR and Eastern Europe only 2.0% of its total exports, while importing less than 0.7% of its total imports. The corresponding figures for trade with the Soviet Union alone are 1.4% in exports and 0.2% in imports. Only exports of grain and agricultural products from the U.S. to the USSR and Eastern Europe have been of greater economic importance, since they account for 8% of total U.S. exports of that commodity group. (Exports to the USSR amounted to 5.0% and to the rest of Eastern Europe, 3.0%).² In such a situation the U.S. attitude towards East-West trade and economic relations is determined by its political interests. One may observe two different trends in the U.S. approach. One of them is based on treating the Soviet Union as a main political and military adversary, and on trying to shape the economic policy towards Eastern Europe in such a way that it does not increase the economic and military potential of the Soviet Union. During the first part of the fifties this policy led to the "cold war", and to extremely severe trade restrictions, enhanced by the need for "strategic export" controls.³ Those restrictions were responsible for limiting U.S. trade with the East to insignificant items and minimal turnover levels.

Contemporary proponents of such a policy adopt an even more offensive and militant approach. In their reasoning and argumentation a policy of economic restrictions and tight control of technology transfers, together with an arms race will diminish the overall military potential of the USSR or will absorb so much material and human resources of the USSR and East European countries that it will create serious economic strains and tensions within the economies of those countries. For the same reasons the U.S. has strongly opposed the involvement of Western capital and technologies, as well as material and machinery deliveries to the USSR, in connection

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2. Handbook of international trade and development statistics. 1985 op.ci. p. 80-81; 100-101 and Anex A op. cit.
 3. Luther H. Hodges, United States Policy on East-West Trade. East-West Trade. An Analysis of Trade Between Western Nations and the Soviet Soc. Management Bulletin 51, New York 1964.

with the Siberien Pipeline project. It also is against increased exports of gas from the Soviet Union to Western Europe, since these would give the USSR additional foreign exchange earnings for imports from the West. The U.S. is also afraid that the growing dependence of Western Europe on East-West trade might weaken the political will of the Atlantic Alliance.⁴

There is another approach which views the Soviet Union to a certain extent as an indispensable co-partner in solving world security problems. This approach also treats East-West trade as an instrument for attaining U.S. political goals and benefits. However, this approach is more favorably disposed to trade and economic relations with USSR and Eastern Europe.⁵ It was strengthened by the so called "pro-trade" lobbies in American industry and Congress which demanded a more positive approach toward East-West trade and a relaxation of some restrictions and controls for economic reasons. Those circles were afraid that in the absence of a more positive U.S. attitude, all potential benefits from expanded trade with Eastern Europe will go to Western Europe, to the disadvantage of American interests.⁶ As a result in the beginning of the seventies an official new approach was elaborated, stemming from the so-called "linkage" concept.⁷ It was based on the principle of interrelated economic concessions and benefits for the Soviet Union and Eastern Europe (in form of a more liberal control of technology transfer, credit facilities and access to U.S. market on most-favored terms) in exchange for some political and economic concessions and business facilities in

4. See Stephen Woolcock, *Western Policies on East-West Trade*. The Royal Institute of International Affairs. London 1982 n. 15.

5. S.F. Clabaugh and E.J. Felner: *Trading with Communists*. Washington 1968, p. 1-3.

6. *United States International Economic Policy in an Interdependent World*. A report to the President. Washington 1971, p. 259-271.

7. J.L. Gaddis, *The Rise, Fall and Future of Detente*. *Foreign Affairs* Winter 1983/84, p. 359-363, and S. Woolcock., *Western Policies of East-West Trade*. op. cit.

Eastern Europe for American industry and agriculture and a compromise approach to arms control.

Unfortunately, the positive interpretation of the linkage concept was overshadowed quickly by the negative one, which laid stress mainly on political concessions from the Soviet Union. (One example may be the attempt to link MFN status to emigration policy). Such sudden changes in the U.S. approach to detente and East-West trade policy create serious uncertainties and contribute to a loss of the socialist countries' confidence in the reliability of the American side.

It seems that Western Europe has a much larger interest in East-West trade. It looks at the USSR and Eastern Europe as an important, though supplementary, source of energy and fuel supplies, some raw materials and semi-finished products as well as an alternative market with growing importance for her industrial exports.

So far, the share of exports and imports with Eastern Europe in the total foreign trade of West European countries is not large, and accounts for 5-6% of their total imports and exports. Imports of fuels and raw materials are more important, however, since their share increased from 9.5 to 12.5% in the years 1975-81. The share of the USSR and Eastern Europe in West European exports of agricultural products amounts to about 7%, of chemical products 6.0% and of steel exports over 8.0%.⁸ Trade in machinery and equipment accounts for a more or less average share in the total West-East trade.

Undoubtedly Western Europe, in her policy towards East-West economic relations, is also motivated by political considerations. It accepts as well the strategic export control of "sensitive" modern technologies to the USSR and Eastern Europe, but at the same time it opposes the exaggerated interpretation of the category of "strategic exports" and prefers a narrow definition limited to items of direct military importance.

8. Handbook of international trade and development statistics. Op. cit.

It seems that Western Europe is interested in developing broad economic relations with the East, and does not want to return to "cold war" practices. This was demonstrated during the controversy with the U.S. over the involvement in the USSR Siberian gas pipeline project. Generally, West European countries do not look upon trade restriction as an effective instrument of implementing their political goals. On the contrary, they believe that an improvement of the political climate and more positive economic cooperation may better serve their political interests.⁹

Eastern Europe's trade with Western Industrial countries has a much bigger share in their total trade and plays a greater role in their economies. Imports from the industrial West to the Soviet Union accounted for 38-39% of its total imports in the years 1975 and 1981, (i.e., before the Polish crisis and before and after the lifting by the U.S. of the grain embargo for exports to the USSR). Western Europe is a dominant partner in that trade, since it accounts for over 26% of total USSR imports while the share of the U.S. has not exceeded 4.0%. Even in imports of agricultural products the share of Western Europe is larger and it has increased considerably during 1975-81 from 9.0% to over 16.0% while that of the U.S. declined from 15% to 9.0%. The Soviet Union exported to the West during the same period about 29%-34% of its total exports, of which 25-30% went to Western Europe and only 0.4% to USA.¹⁰

The rest of Eastern Europe imported 24-30% of its total imports from Western countries, among which Western Europe accounted for 20-26% and the U.S. for only 2.0%. At the same time 25% of total East European exports (excluding the USSR) went to the West, 22% to Western Europe and scarcely 1.0% to the USA.¹¹

9. S. Woolcock, *Western Policies on East-West Trade*. Op. cit., and *The State of the World Economy. Annual Report by the French Institute for International Relations*. 1982. Introduction. Cambridge Massachusetts 1983.

10. All data from *Handbook of international trade and development statistics 1985*. New York 1985, p. 80-81 and 100-101.

11. See *Handbook of international trade and development statistics 1985*, op. cit.

The above mentioned data demonstrate a visible asymmetry in the relative importance of that trade to the West and to the Eastern countries. Nevertheless, neither the Soviet Union or the rest of Eastern Europe is ready to pay for it -- as recent experience demonstrates -- by political concessions which would be of a character contrary to some basic principles accepted by the socialist countries. They are generally interested in East-West trade and are ready to agree upon some equitable, balanced and mutually agreed concessions. They cannot, however, let certain fundamental elements and values of the socialist system be questioned, nor can they let the political and economic security of the socialist state be endangered.

Economic reforms which socialist countries are currently implementing resulted from fundamental internal needs and requirements. Their implementation cannot be induced as a result of external pressure, and they cannot be traded off for some economic concessions as suggested by the West. It was stressed many times by the authoritative statesmen of socialist countries that there is unused potential for the development of East-West trade and economic relations in general, to the benefit of both groups of countries. But this trade must be based on principles of non-interference, equal treatment and mutual benefit.

The fact that Western countries turned, in different periods, to applying economic restrictions as a political weapon against socialist countries has raised the problem of so-called "secured limits" of trade between socialist countries and the West. The problem was widely discussed during the late fifties and early sixties. It was argued that political uncertainties, economic recessions and inflationary tendencies in the West, as well as disturbances at the international exchange and financial markets, and protectionist tendencies of different kinds might exert adverse effects and even inflict injuries on the socialist planned economies. It was argued that for all those reasons, trade with capitalist countries ought to be kept within limits not surpassing more than 25-30% of total trade. At the end of the sixties and in the early seventies, when the possibilities

and need for a general improvement of political and economic relations between countries of both systems were being widely discussed, particularly in Europe, the idea of "limits to trade" was replaced by a more open approach stressing only the need for common acceptance of the above-mentioned basic principles of non-interference, equal treatment and mutual economic benefits. If such conditions will be met, there will be no need for any further discussion of limits to trade. The larger the trade, the greater will be the benefits for both sides derived from a more rational division of labor.

The problem of "economic security" was again raised in the socialist countries in the early eighties, as a consequence of economic sanctions and restrictions imposed by the U.S. against Poland and the USSR in the end of 1981. It is argued that economic gains derived from expanded trade and economic relations with the West might be, in a relatively short period of time reversed and changed into inevitable losses as a result of a sudden disruption by the West of economic ties with a given socialist country. In other words the wisdom of extensive trade ties with the West is once again being questioned.

3. The Influence of General Economic Performance in East and West on East-West Trade

The experience of the seventies and the first part of the eighties also points to the fact that the general economic performance of Western and Eastern countries has a larger impact on East-West trade than was commonly believed in the past.

The very deep economic recessions of 1974-75 and 1980-82 adversely affected East-West trade both directly and indirectly. The fact that both recessions occurred in tandem with double-digit inflation, with rapidly growing prices for petroleum, some other raw materials, and food and feed grains, greatly increased for East European countries the cost of imports from the West. Only the Soviet Union, as a large oil exporter, was in different situation.

As a result of these recessions and the slow growth periods which followed them, competition increased in Western markets, while growing unemployment and balance of payments problems in some Western countries gave a new impetus to protectionist tendencies in the West. This in turn led to a deterioration of outside access to Western markets. East European exports were affected even more, because not all of these countries have had most-favored-nation status (MFN) in some Western countries (namely in the U.S.). In addition, as generally new and marginal exporters they have not had a sufficient "historical base" when quotas on imports of some products were applied and distributed in the West. Growing accusations of dumping and export subsidizing against the socialist countries were also raised.

The trade with the EEC countries, the biggest market for East European exports in Western Europe, was additionally affected by the enlargement of the EEC to include West European countries. The application of common agricultural and foreign trade policies to new countries created a strong "trade diversion" effect, diminishing considerably the sales of many traditional export products of Eastern Europe such as

bacon, ham, poultry, eggs, and butter. The fact that there has not been formal agreement between the CMEA countries and the EEC added to uncertainties about trade prospects. All this, together with a tremendous increase in the rates of interests and costs of credit in the West, added to the trade and balance of payments problems of East European countries.

The economic problems of Eastern Europe during the second part of seventies and in the early eighties were not caused mainly by difficulties "transmitted" from the West. Eastern Europe experienced during that time much more serious, "home made" economic problems as well. The planned redirection of East European economies from a so-called "extensive" to an "intensive" growth path has not in fact taken place. There also was an insufficient growth in labor productivity, in rationality of energy and material use, as well as an insufficient increase in the overall efficiency of economic performance. The very ambitious investment programs initiated by all those countries at the beginning of the seventies, based to a large extent on new credit facilities created by the West, were not adjusted in time after the first "oil shock" and severe recession in the West in 1974-75. East European countries have generally continued their programs, keeping high investment rates despite the growing costs of imports financed with more and more expensive credits. This policy very quickly exerted a strong and rapidly growing demand on the home market and pressure on the balance of payments. Together with a too-slow growth of export-oriented production and delayed application of new marketing methods and adjustments to the needs and requirements of Western markets, this limited East-West trade performance and prospects. Since 1980 East European countries have undertaken short-term and long-term policy measures aimed at improving their current economic situation and the performance of their economies in the long run. This policy has continued into the second part of the eighties. If it succeeds, it should create better conditions for a further development of trade and industrial cooperation with the West.

4. Changes in the pattern of East-West international specialization

Since the end of the sixties and beginning of the seventies, discussions have been held about the need for gradual changes in the commodity composition of East-West trade, as a condition for a more rapid growth of East-West trade, especially for small and medium-sized East European countries.

For years the commodity structure of East-West trade was characterized mainly by exchange of fuels (oil and coal), raw materials, semi-finished industrial products with high material content, agricultural raw materials and processed food from Eastern Europe for manufactured goods, half of them machines from the West.

In the second half of the sixties, primary and semi-finished industrial products accounted for more than 70.0% of the exports of Eastern Europe as a whole to Western countries, whereas finished manufactured goods amounted to less than 30%. (In the USSR's trade with the West nearly 90% of total exports were composed of those products, with raw materials and fuels accounting for 63% of its total exports). On the other hand, West-European exports to Eastern Europe were dominated by industrial goods, which accounted for nearly 70%, of which 30% was machinery and transport equipment.¹² It was clear, and very often pointed out in discussions of East-West trade prospects, that the existing pattern of international specialization between the industrial West and Eastern Europe cannot be sustained for long. With the acceleration of industrial development in Eastern Europe, the production of raw materials and fuels was likely to be absorbed in growing proportions for home consumption (mainly in medium and small East European countries), leaving less for exports. Similarly, exports of agricultural raw materials and processed food would also be affected by a quickly

12. See — Economic Bulletin for Europe Vol. 28, p. 103-106, New York 1976.

growing domestic demand for food in relation to a rather slow growth of East European agricultural production.

Taking all those factors together, the development of East-West trade would be dependent to a large extent on the development of industrial goods exports to Western countries, or in other words on changes in the pattern of international specialization between Eastern and Western Europe.¹³

During the seventies some progress was achieved in this field. East European countries, (excluding Soviet Union) succeeded in raising the share of manufactured goods in their exports to Western countries to 56.0%, reducing the share of primary and semi-finished products exports to 44%.¹⁴ To some extent this was enhanced by the development of different forms of industrial cooperation with Western companies, and by technology transfer to East European industries.

Starting with simple forms of licensing, sub-deliveries and buy-back arrangements, more comprehensive long-term co-production contracts in finished products were gradually arranged. They were generally based on Western credits, technologies and deliveries of modern capital equipment and some components to the East. Generally, such co-production arrangements provided for a part of the production resulting from cooperation to be exported to the West through Western companies' marketing channels.

Some East European countries such as Hungary, Romania and Bulgaria introduced legislation allowing for formation of capital joint-ventures on their territories in the form of partnerships with Western companies. (In Poland the law allows formation of capital joint-ventures in the small business sector. New legislation on joint-ventures in large business enterprises is currently before parliament and should be passed during the first half of 1986). These forms of cooperation contributed to collecting a good deal of

13. J. Soldaczuk: East-West Trade and Economic Development in Eastern and Western Europe. VII Seminario Internazionale CECES. Stresa 9-11 September, 1971.

14. Economic Bulletin for Europe Vo. 37 Geneva 1985, p. 2.37.

valuable experiences, and were of a great importance to current as well as future East-West economic relations.

Unfortunately, during the years 1980-82 a number of such cooperation arrangements were terminated because of political and economic uncertainties created by the political and economic crisis in Poland, as well as by the large indebtedness of most East European countries to the West. A large number of Western companies adopted a "wait and see" attitude and for a time were not willing to engage in new cooperative ventures in Eastern Europe until the political and economic situation in the region was clarified. Since 1983-84 some new interest was awakened on the part of Western companies. With further stabilization of the political situation and an improvement in the general political climate between East and West, as well as with the recent improvement in economic performance in all East European countries, one may expect that these different forms of cooperation among industries of Eastern Europe and Western companies will be continued. There exist, in our opinion, unexplored possibilities and untapped potential.

The development of industrial cooperation and intra-branch specialization between Eastern and Western Europe is necessarily dependent on the possibilities of technology transfer from West to East. The intra-branch specialization requires an adaptation of the industrial production of Eastern partners to parameters, technical norms and requirements of Western industries, while production and export of finished consumer goods requires adaptation to the needs and preferences of Western customers. Without any or even with very limited technology transfer such possibilities will be limited. The fact the Western governments agreed recently upon more restrictive rules and procedures for technology transfer to the East¹⁵ creates new and serious obstacles for future East-West cooperative ventures.

15. Electronics export to COMECON. The West plugs the high-tech drive. Financial Times, July 25, 1984.

5. Experience in East-West Financial Cooperation

The development of East-West trade and industrial cooperation during the seventies was to a large extent promoted by credit facilities extended by Western banks and governments. Most important were 5-year or longer credits for purchases of machinery, equipment and turnkey plants. Such contracts normally involve government guarantees and often even direct governmental participation in financial packages provided by commercial banks.

Imports of parts and components under co-production ventures were often financed by medium-term credit lines opened in one of the Western commercial banks. Commercial banks also provided short-term and medium-term credits for imports of raw materials, semi-finished industrial goods and agricultural products. Some agricultural raw materials and food stuffs in surplus in Western countries, especially in the EEC and the U.S., were available to some Eastern countries under special governmental programs on easy credit terms.

In addition, the Euro-dollar market served as a source of medium and short-term financing for balance-of-payments purposes. Capital imports in forms other than credit were rarely used and limited to Hungarian attempts to issue bonds on Western capital markets.

Financing was not only easily available in the seventies, but also the costs of such borrowing were at the beginning relatively cheap. Nominal interest rates averaged 5-6% year, rising to 8% at the end of the decade. With the high inflation rate in the West and with growing export prices of East-European countries the "real" interest rate was even lower, encouraging a more rapid increase of East European imports from the West on credit terms. The capital-absorptive capacity of East European economies however, proved to be lower than expected, and the ability of those countries to transform the imported technologies and equipment into exportable production was not sufficient to

provide adequate growth of exports. As a result, expenditures on imports rose much more quickly than export earnings, causing rapidly growing deficits on trade and current accounts¹⁶ and, as a consequence, rapid accumulation of foreign debt.¹⁷ Such an economic situation, together with renewed political tensions between East and West (especially as a consequence of the economic and political crisis in Poland) has led to a substantial freeze in the flow of new credits to Eastern Europe. Hungary and to some extent the GDR remained the only countries still able to obtain credit from the West.

Since 1982 East European countries experienced a gradual improvement in their balance of payments position. At first this was due to severe import restrictions; later, it was a result of export stimulation. Eastern Europe has thus succeeded in achieving considerable current account surpluses, and by the end of 1985 decreased her total net indebtedness in the West by 9 billion dollars. Net debt of USSR and CMEA banks decreased by 5 billion dollars.¹⁸

Such an improvement in the external performance of East European countries created new ground for normalization of financial relations between East and West. In 1985 most countries of Eastern Europe were able to raise medium and long-term funds on the international financial markets. The Soviet Union, GDR and Hungary each received

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16. Deficit on trade account for the whole Eastern Europe (including USSR) averaged about 530 million dollars a year, during the period of 1965-71. In 1972 it rose to 1.7 billion dollars and in 1975 to 8.3 billion dollars. Since the first "oil shock" the Soviet Union as an oil exporter accumulated surpluses both on trade and current accounts. In 1980 they amounted to 3.4 and 3.6 billion dollars respectively. The rest of Eastern Europe continued the trend with adverse trade and current account balances. In 1980 it registered a deficit of 4.2 billion dollars on trade account and 8.1 billion dollars on current account. (Economic Bulletin for Europe). Vol. 28 and Vol. 37, New York 1976 and 1985.
 17. In 1982 total net indebtedness of Eastern Europe and Soviet Union in the West reached 77.4 billion dollars the highest level ever, of which USSR and CMEA banks accounted for 19.9 billion dollars and the rest of Eastern Europe for 57.6 billion dollars. Economic Bulletin for Europe Vol. 37 p. 2.23-2.24.
 18. The net debt of the rest of Eastern Europe (excluding USSR) declined to 49 billion dollars. The net debt of the Soviet Union and CMEA banks went down to 14 billion dollars at the end of 1984. (Economic Bulletin for Europe. Vol. 37, p. 2.36).

between 1,150-1,200 billion dollars in new credits. Bulgaria and Czechoslovakia also used financial markets, drawing respectively 300 and 120 million dollars.¹⁹ Poland and Romania remained the only countries unable to receive long-term credits from Western financial markets.

There is ground to believe that the normalization of financial relations between East and West will proceed and in the near future will encompass all East European countries, including Poland. Poland, among others, has made considerable progress, and during each of the last four years, registered a trade surplus ranging between 1.0-1.5 billion dollars. Due to restructuring agreements signed with commercial banks and Western governments, postponing repayment of her debt for about 10 years, Poland was able to improve her balance of payments position. Moreover, its expected re-admission to the International Monetary Fund and the World Bank should finally lead to financial relations between Poland and the West being carried out on a normal basis.

Normalization of economic and financial relations, together with some improvement in political atmosphere, should once again revive trade and economic cooperation between the two regions. The experience and disillusionment of the last decade should allow future East-West financial relations to be based on more realistic terms of high discipline and very careful selection of projects, which are to be financed with the long-term credits. Much greater attention should be paid in Eastern Europe to export-oriented ventures, in order to assure an inflow of export earnings adequate to cover imports and debt service obligations.

19. See Economic Bulletin for Europe, Vol. 37, p. 2.28.

6. The Role of Governmental Arrangements

Future expansion of East-West trade and the promotion of mutual cooperation ventures of different kinds require a full normalization of commercial relations and easier and equitable access of Western markets for East European exporters. Most important in this area is a general application of an unconditional most-favored-nations-treatment for all Eastern countries. That postulate refers in particular to the U.S., which discriminates in this field against particular East European countries for political reasons. Without MFN it is impossible to plan long-term export expansion and specialization for a given Western market, especially in conditions of stiff and growing competition.

In Western Europe, great importance should be attached to a more liberal treatment of East European exports within the European Economic Community. Visible progress in official relations between the CMEA and the EEC and a real chance of concluding a formal agreement between the two bodies would be an important step in this direction.

Such an agreement should specify fundamental rules for treatment of mutual trade and general principles of industrial and technical cooperation as well as of financial relations. It should create the grounds for more specific bilateral agreements between particular East European countries and the EEC concerning their concrete interests.

Solutions of that type, together with existing and new bilateral and multilateral governmental arrangements of a different kind, aimed at confidence-building, including some specific legal safeguards, as well as systematic meetings of a mixed commission for trade, industrial and agricultural cooperation, should enhance the revival of East-West economic relations.

In conclusion, one may say that better chances and perspectives are once more emerging for the development of East-West trade. However, the use of the existing potentials -- which currently is far from satisfactory -- will depend on the good will of both sides and on the success of attempts to create the proper political climate and adequate institutional and economic conditions for the expansion of trade between East and West.

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Improving East-West Relations in the late 1980s: Economic Relations

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Improving East-West Relations in the late 1980s: Economic Issues

When looking back at the era of detente, one recalls the rapidly improving climate between the superpowers. By words such as "Code of Conduct", "Vladivostok", and "SALT" gave rise to great expectations. It was hoped, for instance, that politics would play only a minor role in the development of East-West economic relations. Discussions about the impediments to further growth of East-West trade centered around the following topics: differences in natural resources and in degrees of industrialization, incompatibility of foreign trade systems, differences in the structure of the national economies, and, finally, the different traditions of foreign economic relations. This non-political approach to trade and economic relations were reflected in the historically significant treaties in Europe which culminated in the Conference on Security and Cooperation in Europe.

By 1975, the political framework was clearly defined and set. Its durability was taken for granted and it was assumed that trends would continue in this direction. The landmark, long-term treaties on economic cooperation were concluded between the USSR and France and the FRG. Later, they were extended to all important industrial nations of the East and West. Subsequently, a number of agreements regarding scientific-technological cooperation were concluded. Finally, the Helsinki Final Act in 1975 codified a policy whereby all parties to the final document were to actively promote East-West relations in all economic areas, i.e., commerce, credits, transfer of technology, and exchange of information.

The avowed goal was to develop a structure which would mobilize all the untapped potential in commercial exchange. At the same time, active steps were taken to overcome the political obstacles which block good neighborliness and stability in Europe. In this initial atmosphere, nobody considered it impossible to solve the problems of military security or to overcome the difficulties concerning humanitarian questions. However, as the process of detente came to a standstill, these hopes quickly faded.

Although there was a political detente, military detente did not ensue.

End of Detente or Lack of Perserverence?

Today, it is generally believed that the end of detente was nothing but the unavoidable collapse of a utopian vision espoused by naive "detenteniks". This is certainly an oversimplification as can be demonstrated by the differing concepts of detente as expressed in the various official formulations. To be sure, both sides, when assessing their political concepts, bore in mind the great importance of their economic interests. The functionalist model, however, aims at promoting political cooperation by creating a pattern of interdependent relations between both systems which covers all areas and benefits everyone. Only a systematic, long-term experiment would provide the adequate evidence needed to evaluate the results. Bearing this in mind, the experiment has not failed; in one sense it has never been fully tested, with its key elements being repeatedly altered and interpreted. Furthermore, we should note the attempts at linkage--particularly explicit in the U.S. legislation affecting the extention of MFN status to the USSR--between the promise to cooperate economically and politically, on the one hand, and in the humanitarian field, on the other. In this respect, it was more the manner in which this linkage was handled than the concept itself which provoked resistance in the East. Furthermore, the Soviet Union itself triggered a number of serious international crises, as in the case of the invasion of Afghanistan. The declaration of martial law in Poland also provoked strong reactions in the West.

For the economist, politics is still a "dirty word", not least because it is a factor which is difficult to grasp in quantitative terms: when drawing a graph of East-West relations since 1970, it is almost impossible to correlate short-term changes in volumes of trade with the development of political crises. Between 1970 and 1975, OECD exports to CEMA tripled, while those to the USSR increased fivefold. After two years of stagnation, a new expansion began in 1978. In the autumn of 1979, the volume had

increased 9-10 times over that of 1970. However, it was not politics that caused the 1975-79 stagnation. Moreover, the impetus behind the 1978 rebound was predominantly "inflationary air". Nevertheless, the halt of growth that resumed in 1979 clearly had both economic and political causes. Of course, it is hard to untangle the precise impact that either the 1979 recession or the invasion of Afghanistan had on the growth of East-West trade. This is particularly true of the Polish crisis, in which Western banks and states cut credit to Poland and downgraded all their economic dealings with the East. In retrospect, hard economic factors appear to have been more important than specific international political crises in limiting the development of East-West economic relations. These include persistent divergences in the structures in East-West trade, the lack of flexibility of the CMEA industries required to modernize their export structures, and the increasingly protectionist policies of the Western countries. During the last phase, Western banks carried out a general re-examination of credit lines, which, while having a global focus, hit the countries of Eastern Europe especially hard.

However, it is clear that the deterioration of the political and psychological climate since 1972 has seriously harmed and reduced the potential of economic relations. This illustrates the interdependence of perceptions, political-ideological goals and social aims. First, the long-term stability of East-West economic relations has been disturbed. Second, the original notion of how to create stability, the fact that we must depend on each other, has almost been lost.

Western Perceptions and Goals

Economic diplomacy in support of Western political goals has always been controversial. The discussion in the United States is crucial, and it fluctuates between the extremes of "antagonistic cooperation" (the equivalent of the European "change by rapprochement") and the outright severing of the links of economic exchange (or "change by denial"). In recent years, certain conservative groups in the U.S. have advocated the destabilization

of communist regimes in the East, despite the attempts of various diplomatic, academic, and business professionals to preserve some continuity and synchronisation with the traditions and views of Western Europe.

In a systematic comparison of factors underlying transatlantic differences, it is clear that a complex of factors, going beyond such general aspects as geographical or historical influences, is at work. First, institutional practices and constitutional laws for foreign economic relations differ. In the U.S., policy initiatives and the obstruction of any administration's course of foreign policy can come from various quarters of the political process: legislative or judicial branches, private interest groups, and even individuals via the mass media can exert pressure and have an unpredictable impact. In contrast, the constitutional parameters in the West European countries present a framework that results in far more consistent foreign-policy formulation, producing a high degree of long-term continuity. This is particularly true regarding the guidelines for economic exchange with the East. "Professional" decision-making is less constrained by the pressures of public opinion.

Second, political polarization on this issue is far less prominent in Western Europe. Public outrage over the Soviet intervention in Afghanistan or martial law in Poland, and even the seriously growing concern for West European security, did not affect the interest in maintaining and even expanding economic relations with the USSR and its allies. Virtually all major political parties and governments in Western Europe share an interest in maintaining continuity in East-West trade relations, which they consider to be politically stabilizing and not harmful to Western security interests.

A third factor is, of course, the varying degrees of foreign trade exposure of the Western countries. Members of the EC are far more dependent economically on foreign trade activities than the U.S.--their shares of total exports in the GNP are 26.1 % and 5.6 %, respectively. Moreover, they have consistently had higher trading volumes than the U.S. with CMEA countries, often up to twelve times as much. The importance of this

market for the EC, however, has never reached critical levels: exports to the East remain below one percent of the GNP of the European members of the OECD. More significantly, the share of European CMEA countries in total exports of the EC are below 2.5% of their total exports, tending to decrease since 1975. The Federal Republic of Germany is a special case. Although the FRG sends seven percent of its exports to the East (including the GDR), this translates into neither economic dependence on the East nor vulnerability to political pressure from its communist neighbors.

Various studies, such as that of the IEA, have discounted or refuted claims of the sectoral or energy dependence of Western Europe, which had been advanced by certain U.S. critics at the time of the pipeline controversy. At the same time, the argument ("no trade with the potential enemy") was contradicted by continued U.S. grain deliveries to the Soviet Union and the conclusion of the second Long Term Grain Agreement in August of 1983. Clearly, in the U.S. there exists pressure from groups favoring the continuity of workable economic relations with the East. East-West trade reflects considerable volumes of gross exports in terms of domestic production and employment, somewhere in the range of \$5 billion in the case of U.S. grain and \$28 billion in non-food products from the EC to the East.

Despite occasional qualifications, the United States has viewed Western economic relations (and not just with the East) from a strategic perspective which in the end is over-militarized. The amended Export Administration Act of June 1985 reveals that the perspective of the Department of Defense (DOD) has prevailed over other competing views within the Reagan Administration: the highly restrictive interpretation of export controls as defined in the "Militarily Critical Technology List" is fully endorsed; DOD has been endowed with additional prerogatives to restrict the export of technology for purposes of national security, which can be suspended only by the intervention of the President. Furthermore, ambiguous terminology adds to the uncertainty of all economic actors who need a reliable framework for trading with the East (e.g., "excessive hard

currency earnings derived from resource exports by countries with policies adverse to the security interests of the United States.")

Although these objectives are not shared by other OECD countries, the U.S. unilaterally claims the right to veto trade and technology flows by means of extraterritorial legislation (in licensing procedures) and threats of import sanctions. Due to the commercial and technological bargaining power of the U.S., it has the capability to significantly influence world trading patterns under the pretext of protecting Western security.

To be sure, generalisations about the differences between West European and U.S. perspectives on the implications of East-West trade fail to fully reflect the ongoing debate among policy-makers and academics. The best approximation of "continental common denominators", though, is offered by the scope of parliamentary debate in Western Europe. From this angle, the general European approach to economic relations with the East is to seek "as much continuity as possible, as much security as necessary". In contrast, the U.S. approach, which is dominated by political considerations, strives to maintain "as much security as possible, as much economic cooperation as unavoidable". Nevertheless, there is an opportunity for convergence, which should be promoted in Western Europe as well as in the U.S. While acknowledging the need for tightened controls on the transfer of technologies with immediate military applications, it should assess the potential positive impact on East-West relations of reviving efforts to expand economic cooperation. This approach is shared by West European governments, who insist upon the existing political doctrine of NATO as formulated in the "Harmel Report" of 1967: military deterrence against potential aggression, yet at the same time willingness to cooperate in fields of mutual benefit.

For the time being, Western political goals that are pursued by economic diplomacy continue to be controversial, and are predominantly shaped by different perceptions of Eastern vulnerability or at least an awareness of the potential of Western leverage as

well as by a contrast between long- and short-term perspectives. Certain conservative lobbies still call for a policy of open destabilization of communist regimes. Mainstream views, however, seem to converge on more modest goals like the relaxing of specific repressive policies in Eastern Europe and the USSR, and the development of a freer exchange of people and ideas between the East and the West.

Eastern Perceptions and Goals

Based on a distinctly more centrally-controlled (but certainly not monolithic) alliance structure, the policies of the East evolved from the Soviet theory of "peaceful coexistence". It has been relatively easy for Soviet policy to combine the promotion of normal inter-state relations, particularly in the field of economics, with its ideology of social and political class struggle.

In practice, this concept has been limited to relations between the WTO and NATO countries. As a consequence, the USSR claimed the right to seize opportunities and to expand its political and military influence outside of Europe as well as handle intra-bloc crises by military means. Any attempt of non-socialist opponents to explicitly or implicitly influence Eastern European politics is dismissed as unacceptable under the principle of international law on non-interference in the internal affairs of another state. On the other hand, it is deemed legitimate to support anti-capitalist trends in the West as long as the activities are limited to non-state organizations. This fundamental asymmetry between Eastern and Western foreign policies, and the complications this introduces into East-West relations, is not admitted in the East.

It is striking how the West's changing assessments of East-West economic relations have been mirrored in the USSR. In the 1960s, many Soviet academics and others believed that integration into the world economy would prove more profitable to Soviet industrialization than risky to its domestic and economic policies. It took them a long time to gain influence among policy-makers. The formula, announced by Brezhnev and

put into practice by Kosygin at the beginning of seventies, was: "Like other countries, we are keen on making good use of all those advantages which are to be gained by foreign trade connections, in order to mobilize additional possible solutions of economic problems and to gain the time we need if we want to increase production efficiency and to accelerate the progress of science and technology." To sanction the controlled, step-by-step transition from the traditionally autarkic Soviet economy to a more open one, the new policy was portrayed as a "historically necessary process", which in reality was merely an act of straightening out the ideological frontline. The middle-aged generation of economists, who had more experience abroad, proved to be a great asset to this process. Not surprisingly, resistance was stubborn, especially if we bear in mind that the concept of a "closed economy" logically follows the structures forming the classical system of a centrally-planned economy. According to this concept, which aims at systematically eliminating all possible risks, foreign trade activities represent an unnecessary and unacceptable vulnerability to disturbances, unless they are filling specific gaps in domestic production.

On the other hand, when looking at the reasons why this system had originally been closed, we see that the historical decision was taken as an act of defiance of the outside world. During the years 1928-32, the "building of socialism in one country" meant forced industrialization and consolidation of the Soviet state without any political or economic support from outside. This siege mentality has been deeply rooted into the collective memory of Soviet political elites. The West's refusal to cooperate economically and its open declaration of economic war after World War II confirmed this perception. It was the process of political detente which facilitated change in the Soviet trade philosophy: foreign trade developed step by step from a stop-gap measure to an auxiliary engine promoting economic development. The Jackson-Vanik Amendment and a series of other legislative initiatives aiming at general limitations on credits to the East have strengthened the hand of those in the USSR who criticized the new policy of

interdependency from the point of view of ideology or other domestic concerns.

Traditionally the USSR has sought to safeguard its national interests through detailed treaties based on international law. This suited Soviet economic planners who, with their need for secure and stable inputs into the economy, wanted long-term relations to be secured by treaties. Therefore, Soviet diplomacy in those years argued in favor of intensified contacts with the West by concluding a series of long-term trade and cooperation treaties--in 1971 and 1973 with France, in 1973 with the FRG, and in 1972 with the U.S. Even if the Helsinki Final Act provided no binding document in the strictly legal sense, there can be no doubt that the Soviet leadership accepted certain parts of it in exchange for promised safeguards on economic cooperation with the West, particularly in the form of future multilateral agreements.

After having concluded these and other agreements, the Soviet leadership was stupefied and unable to understand why the West, in reaction to the invasion of Afghanistan and the suppression of Solidarnosc in Poland, decided to impose economic sanctions on the USSR. According to traditional Soviet thought, which analyzes Western politics in a very limited scope, reactions among the American public and politicians were viewed as revealing ex-post evidence of a long-term "strategy of imperialism and its most aggressive forces in the USA", reactions which in the end might have been quite predictable. Conservative politicians in the USSR again proved unable to recognize that their own acts of expansionism and hegemonic policy, which they considered defensive actions, were in fact harmful to the climate of international relations. With their perception of the world, they see the "true" intentions of the West revealed most clearly in the conservative forces in the U.S. who again call for economic war in the hope of accelerating the collapse of the Soviet state.

The Polish crisis of 1981/82, which, in the wake of Gierek's unsuccessful policy of "imported growth", was both economic and political, has considerably shifted the Eastern outlook and propaganda to the defensive. In their view, it is Western political and

economic interference which is responsible for the decomposition of the Polish state. They have insinuated that the West planned to blackmail the CMEA into dependence on it for technology, industrial supplies, and finances. In 1982-84, those Eastern policy-makers who naively supported Western trade with the CMEA countries were warned to reduce their integration in the world economy, and to rally more closely together politically. This kind of reasoning is understandable--more so than is the case with Western fears: CMEA countries were exposed to Western imports at levels between 16.5 and 36.1 percent in 1982. Discussions at the CMEA summit in 1984 and in subsequent bilateral Soviet-East European negotiations continued to stress this. The prolonged succession crisis in the CPSU produced mixed signals regarding the acceptable foreign-trade exposure of the USSR, which raised fears of a return to the former policies of autarky. The fact that those fears proved unfounded reflects the new leadership's realism. The new leaders are aware that imports of grain, capital goods and technology from the West are indispensable for the foreseeable future. Moreover, vociferous rhetoric in the West that advocated measures to exploit Soviet weaknesses were cleverly used in the internal debate as an argument for mobilizing patriotic feelings and legitimizing drastic changes in organization and personnel.

The extremely pointed, even strident self-criticism in public speeches illustrated the fact that the new leadership and its supportive elite of technocrats are alarmed but not panicked about the slow growth and poor innovation in their economy. The rhetorical statements on foreign and security policy (the "correlation of forces") correspondingly changed--its tone is now markedly subdued without, however, revealing any defeatism. Even the March 1983 announcement of SDI in the U.S. did not really change Soviet perceptions of the threats they are facing. Since the end of the 1970s, they have been influenced by the Americans' gradual rejection of the model of strategic and political parity between the superpowers. They believe that the U.S. now openly seeks predominance, which they interpret as merely an intensified version of the containment

strategy that the U.S. has pursued since the war. According to Soviet analysis, SDI is dangerous not so much because of its aim to neutralize the Soviet offensive potential (Soviet experts are very skeptical with regard to the feasibility of SDI), but because its momentum could push technology a giant step ahead with the foreseeable consequences for the military and economic balance of power between East and West. Against the background of a poor record of innovation in the Soviet economic system, the potential of U.S. technology is almost mythically overrated--a fact that might, under the pressure of concerned business managers and military, accelerate drastic structural reforms.

Conclusions

Under the present circumstances of East-West political and military relations, Soviet perceptions have to build up their adversary to be eight feet tall because of his unpredictable behavior. Similarly, the West is tempted to interpret the inertia and inflexibility of Soviet policy as expressing a relentless resolve to fight on as an ability to conduct a policy with a great (or even superior) staying power. The symbiotic alliance of the military and ideological establishments resembles a grotesque mixture of Oswald Spengler and Carl von Clausewitz: the Cassandras of both sides claim the adversaries' superiority even in fields where more favorable interpretations are plausible, while at the same time, one's own military options are examined and developed. Economic relations thus become strategic in the sense of a zero-sum game, the rules of which claim that any benefit the opponent gets from economic relations implies a directly proportional loss to one's own military and political security. In practice, this means that the economic factor has been reduced to a concept of security defined exclusively in military terms. Manichean philosophy has caused both sides to abandon certain common interests and, above all, economic incentives in the service of foreign policy. Feasible policies of subtle positive linkage were no longer tested but sacrificed with the excuse of overinflated risks.

The call for a return to depoliticized or "normal" economic relations remains unrealistic, even hypocritical. Every economic exchange creates dependencies which--apart from providing economic benefits--carry the attendant risk of mutual influence. At this point, it is clear that economic sanctions are poorly suited to punish or deter an opponent. The case of Poland is an excellent example which demonstrates the limitations of explicit negative linkage (or sanctions): there is no demonstrable correlation between the Soviet abstention from direct military intervention in 1981/82 and Western threats or imposition of sanctions. The experience in Europe illustrates the range of realistic goals for Western policies of economic linkage. All attempts to directly influence Eastern European policy by open challenge to the continuity of the system, to their security by military pressure, or to the sovereignty of political decisions of Warsaw Pact governments have been doomed to failure. However, the policy of positive, implicit linkage has produced positive results in emigration, human contacts and academic exchanges, not least by setting the stage and improving the climate for multilateral negotiations on "difficult issues".

In view of the fairly tense economic situation of certain countries in Eastern Europe, it appears clear that as long as the economic and political viability of any country remains paralyzed by an outdated economic system and political repression, no external aids will be able to produce the economic rebound necessary to restore and consolidate the country's credit standing. In this context, minimal positive feedback and political consensus in domestic affairs are legitimate points of interrogation for foreign creditors (i.e., banks and governments), when they assess the credit risk of potential loans. They have nothing to do with "improper" interference in the internal affairs of other countries. Eastern European concerns, as reflected in pleas for "continuity in mutually beneficial relations", "limitation of damage in times of tension", and "partnership of small and medium-sized countries" (not confined to the two German states) may be seen only in a primitive and rigid orthodoxy as a threat to coherence

within the bloc. In fact, it merely indicates that the economic viability of East European countries is no longer sustainable without continuous economic relations with the West. Economic cooperation in Europe should have the opportunity to develop with continuity. Economic constraints, such as indebtedness, volatility of energy markets, divergent trade structures and adverse terms of trade, and institutional limitations, represent far greater obstacles to irresponsible experimentation with the international system in Europe than any political mechanism of hegemonic control.

For the rest of the eighties, the level of economic cooperation with the West depends on the technological, organizational and systemic innovation in CMEA countries, and to a far lesser extent on the goodwill of creditors in the West. Neither technological-industrial cooperation of individual enterprises of both sides nor joint ventures in third world countries will bring about additional momentum on a macroeconomic scale. Institutional contacts between the EC and CMEA, supplemented by a network of bilateral trade agreements of individual Eastern countries with the EC Commission in Brussels, may help to improve the general climate, but they will hardly create new export potential. Economic relations today, as in the 1970s, provide no panacea for the central issue in East-West relations: lack of confidence and good faith.