Istituto Affari Internazionali

1965 - 1990

IAI 25th ANNIVERSARY CONFERENCE

EUROPE IN THE NINETIES
Toward a New International Order

Committee on

INDUSTRIAL DEVELOPMENT AND ENVIRONMENT

Paper presented by

REIMUT JOCHIMSEN

IAI9029/E

Reimut Jochimsen, Düsseldorf

Europe 2000 - Trends in the Geography of Economic Development, with special reference to the reform process in Central and Eastern Europe

I.

Overcoming the Division of Europe

Until a year ago, any discussion of matters involving a pan-European economic space and the developmental dynamism associated with it were confined to the United Nations' Economic Commission for Europe in Geneva. Admittedly, the prospect of far-reaching changes had been raised by the global association agreements signed between the USSR and the European Communities (EC) and then by the Council for Mutual Economic Assistance (CMEA or COMECON) and the EC. However, no one could have possibly foreseen that pan-European economic developments would open up for intensive interchanges so rapidly that the CMEA would, *de facto*, liquidate itself. So here we are now, confronted with the paradox of vastly differing patterns of growth, division of labour and development and most important the tremendous socio-economic disparities which still coexist but are striving to strike a balance, to join together, to interchange resources and to cooperate. The prime aim in the West, now that the train towards a deepening of the Community of the Twelve is travelling at full speed, is to ensure that the momentum which proved to be an attraction of the first order towards the East is maintained. This is a particularly pressing issue for the EFTA countries, most of whom are now placing their hopes, ultimately, in full EC membership, having seen the successes of the Community to date, and which at the very least also wish to see an expanded economic space in Europe. The process has gained crucial momentum from Eastern Europe's dramatic opening to parliamentary democracy, the social market economy, the rule of law and international economic integration. In these countries, the structural break with the centrally planned economy of the past is now taking place, or at least is in the process of asserting itself, posing the questions for the Western industrial countries as to whether, at what stage, how and how much they should lend their own support to this historical task. This is compelling the EC to arrive at a convincing overall conception, as soon as possible, of how it intends to combine the necessary task of continuing to <u>deepen</u> economic and political integration within the present EC with the equally necessary task of <u>expanding</u> it in terms of new membership or of helping new countries to completely integrate themselves, yet to achieve that combination without calling its proper progress to a halt or diluting what has already been achieved. Hence, even though the institutional and economically constitutional conditions for developing the new opportunities in Europe in its entirety have yet to be conclusively set out and assessed, it is nevertheless quite clear that, in one way or another, the East-West divide will also be resolved in an economic sense and that this will create new elements in the economic geography of industrial development and the ecology of Europe as one continent.

II.

On The Tasks Ahead

The course of Europe's economic development during the 1990s will be crucially influenced by the pace at which and the success with which the transformation of the economies of Eastern Europe from planned to market economies can be carried through. The "growth geography" of Europe in the year 2000 thus largely depends on processes which are only now beginning to get under way, which have hardly any historical precedents, and which in many instances are also predicated upon a transformation taking place "in people's heads"; in short, these are processes which cannot be predicted with any great certainty and will take some time. In the considerations which follow, therefore, I shall resort to a number of different scenarios to show possible alternative lines of development.

The institutional aspect of integrating Central and Eastern Europe into the world economy must be regarded as an essential exogenous condition affecting Europe's economic development in the 1990s. On the one hand, it is vital that the right institutional basis should be created in the corporate sphere: Many of the preconditions for microeconomic activity, including the rule of law, organized markets and infrastructure, have yet to be established; today's planned-economy plants need to find their feet as enterprises in the Western sense; superordinate forms of cooperation at a national level (business associations, chambers of commerce or trade, negotiating bodies for wages and conditions) and at an international level (involvement in joint manufacturing arrangements) still need to be developed. On the other hand,there is the further question of how the countries of Central and Eastern Europe should become involved in international organizations and of what part such organizations should play in the transformation of their economies.

In contrast to these factors, the previously existing economic structures in the CMEA countries have a much lesser part to play as a basis for future development scenarios. Indeed, it is doubtful whether such structures developed under the planned-economy regime - considering their backwardness in technical and business terms, their low productivity as well as their not being in tune vis-à-vis the international economy - can actually provide any extrapolatable information which would be adequate for assessing future prospects. In this regard, it may be more important to examine earlier patterns of the division of labour between Eastern and Central Europe such as those prevailing before World War II. In other words, the discontinuity brought about by the radical structural upheaval we have now experienced is thought likely to have far greater effects and far broader-reaching consequences than the reestablishment of a geostrategic, economic and communicational continuity following the resolution of the divisions in Europe.

III.

Competition and Cooperation in the Corporate Sector

Western economies today are based on enterprises operating in a variety of overlapping "networks", some of which are regional in nature (e.g. chambers of trade or commerce), some industry-based (e.g. industry associations such as the Association of German Machinery Manufacturers), some purpose-based (e.g. purchasing associations), and some oriented to specific problems (e.g. interest groups in the social sphere); such networks may also include supplier or other cooperative relationships (e.g. the coal and iron & steel industries, or the motor industry), or else temporary strategic alliances, and it is these networks in combination with the organizational structure of open markets which guarantee the proper functioning of microeconomic, labour-dividing enterprises. The networks are also backed up by corresponding activities at national, European and worldwide levels. They provide the channels and platforms which allow and indeed organize cooperation and communication between companies and the state, between labour representatives and business, and finally between the corporate sector and society at large. Looking beyond "mere" market processes, they constitute the "rationality mix" of strategic and communicative thinking which is essential, on the one hand, if benefits are to be obtained from the division of labour and, on the other, if competition with its rules and procedures is to be able to function.

What, in contrast to this, were the prevailing patterns in the administered economies which previously existed? The plants under that system were in truth mere "production units": instead of meeting the demand articulated by a market, they fulfilled the obligations set out for them in the plan, and no alternatives were available to them either in sourcing their inputs, in obtaining finance, or in selling their output (they executed specific contracts with suppliers and users). The dominance of the plan did not leave any scope for an autonomous, independent "corporate strategy" or truly entrepreneurial activity; all that was distributed among different enterprises was the "responsibility" for supplying certain finished products as part of a combine with other enterprises, with no doubling up of any such product lines. "Marketing" was taken care of by the plan, thus only leaving the "management" tasks of organizing the supply of inputs and maintaining the production process. The changes which are now taking hold almost throughout Central and Eastern Europe, both on a macroeconomic and on an enterprise level, therefore mean

- a switch to new patterns of development: changes in the importance attached to human and material resources, the decentralized organization of the production and distribution systems, the privatisation of processes involved in decision-making, production, distribution, etc.;

- a switch to a new economic model: the dominant role of the market, changes in the individual and collective criteria for efficiency and performance; the introduction of profit targets based on detailed microeconomic cost and earnings estimates; the opportunities for entrepreneurs;

- the geographical restructuring of investment locations and economic centres and the reorientation of trading relations: the development of new supplier and marketing relationships in the context of the world market where the choices are wide open, but need to be catered to, are not so much political as efficiency oriented.

Thus the problem facing the East German economy and, even more so, those of other Central and Eastern European economies, is not simply one of a change in parameters equivalent, say, to what was faced by the Western European countries in the aftermath of the war, but one of starting again from scratch and learning totally new patterns of organization and behaviour. "Marketisation", privatisation and internationalisation, the scrapping of command structures and the old boys' network, the dissolution of central planning and its substitution by an entirely new set of institutions extends beyond what was required in the West after 1945. They now have the task of thinking up their own new strategies of economic, trade and industrial policy, while at the same time building up the appropriate institutional, material and social infrastructures. All this is happening, of course, in the context of an international economy which is well developed and functioning, capable, unlike during the aftermath of World War II, of fully supplying any needs and meeting demand by means of imports. To add to that, the uncertainties associated in Eastern Europe with the processes of change (e.g. price reform) which are only now picking up speed will affect the ability to control another process which is getting under way simultaneously, namely the differentiation of various social strata now becoming obvious, which will go a lot further yet and may threaten to destroy the necessary political, economic and social stability of these countries, leading to massive migratory instability.

The problem, then, is that in all cases both aspects need to be thought out and implemented together: to move over from a "material procurement" economy to a competitive economy implies the essential need to build up labour-dividing productive and social structures (in order to increase productivity) and to develop suitably differentiated information systems and modes of decision-making (in order to gain effectiveness in action). Yet are the market and competition enough in themselves to ensure that this occurs? What part should, can or indeed must be played in this process by the state? How and in what cases can the processes be supported by networks, by cooperation both internally and externally?

Growth in the Western European economies is by no means solely a product of free competition based on the private ownership of individual enterprises, including a self-regulating restraint of power: the competition which really exists there is regulated by monetary, trade, industrial and educational policy measures. That is to say, in the absence of state involvement in the developing division of labour in society, business, employers and employees would be required to shoulder additional burdens which would only increase the prevailing complexity and uncertainty still more. The question should not therefore be "if" the state should intervene, but "how" the existing, largely compromised and largely inefficient state apparatus can be reformed and restructured within a short period to allow it to play its full part in the conversion process.

In reality, networks always develop in situations where the only opportunity for individual parties to benefit is by behaving cooperatively. The benefits concerned in the case of Central and Eastern European countries would manifest themselves in the form of reduced uncertainty due to an organized flow of information, of allowing implicit technical and organizational knowledge to be passed on to others, and in the form of the joint organization of tasks such as training and qualifying staff, transport, marketing, research and development, consultancy, etc. All of these are fields which have so far been characterized by difficulties such as a demonstrable lack of suitably qualified management and personnel and the specific infrastructures necessary. Yet while "goods" such as these remain scarce, the absence of cooperation will have the macroeconomic effect of retarding the pace of development and ultimately diminishing overall welfare.

With that in mind, a point of central significance for the development of market processes is the making available of information and the organization of the flow of that information. That is not to say that such networks did not exist in the old, centrally-planned economies: Informal networks did indeed develop in order to compensate for the shortcomings of the system, especially "procurement networks", but other, market-oriented functions either remained underdeveloped or were administratively prescribed. With the help of such networks, it was possible for "secondary economies" to develop in Poland and, even more so, in Hungary: Parallel to the official, centrally-planned economy, the deficiencies of that system also gave birth to an unofficial "market economy", although it was largely confined to the distributive rather than productive spheres of activity. This at the same time allowed the emergence of a business or management elite which was independent of the state or the party, and members of this are now in a position to put their experience in dealing with competition and cooperation to good use; hence these countries have a head start with experience which is not so widespread in the eastern part of Germany or in Czechoslovakia, for example.

Another reason why cooperative networks are important in the current situation is that they facilitate the exchange of experience and thus reduce the costs arising from trial and error. Ultimately, then, it is not just a matter of cooperation and competition existing side by side, but of developing new collective patterns of action and behaviour which have the eventual aim of allowing individual goals to be achieved.

Conveying technical information and technical knowledge is a relatively straightforward affair, as technicians speak and understand the same language around the world. However, because the switch from a planned to a competitive economy not only entails a change in strategic premises but is in fact a complete change of system - which then also means a change of language - there is a tremendous need for management and organizational knowledge which can only be transferred or communicated to a limited degree with the help of any particular "blueprint". What is really needed here is the transfer of personnel, not only on an individual, ideally motivated basis but also on an institutionalized, professionally organized one. This obviously means that the Western European countries are called upon to now develop new forms of international cooperation under their own auspices.

IV.

Integration into International Organizations

For all practical purposes, the opening up of the Eastern European countries and the moves they are now making to prepare for a market-economy system has removed the underlying basis from their cooperation as members of the Council for Mutual Economic Assistance (CMEA). In contrast to the EC with its conception of comprehensive economic integration on the basis of Community law, the CMEA had always seen itself as a grouping of sovereign states engaging in bilateral and multilateral agreements, but one which neither had its own supra-national organizations and legislation nor vested its administrative bodies with any appreciable powers of their own. The essential task of the CMEA was to ensure the cross-border coordination of economic plans, the Soviet Union occupying its central position as a monolithic entity which largely determined the main objectives and decided on the pace with which they should be achieved! The main underlying philosophy was not so much one of a division of labour but of specialization: Entire product classes were apportioned to individual CMEA countries as their "specialized products", thus stifling competition, leaving out the necessities of technical advance stemming from the cross-frontier opening of sheltered areas of goods provision. Both the accelerated backwardness along the length and breadth of information and communications technology and the growing effectiveness of the COCOM embargo policies of the West testify to the same phenomenon: the lack of in-built progress and dynamics, the stagnation and the predominantly stationary character of national economies and instructional cooperation within the CMEA scheme. Under market conditions, the CMEA had neither the institutions nor the instruments with which it could spur on any further integration of its members or foster technical and commercial innovation. What alternatives are available to the countries of Eastern Europe now?

The first possibility is that the CMEA could be reoriented and revived on a market-economy basis, as a third economic block in Europe alongside the EC and EFTA. However, the chances of putting this alternative into practice already appear to have been lost, as the CMEA did not manage to create any common foundation for future trade between members at its plenary session in Sofia in January 1990, nor to establish any new basis for the idea of a new multilaterality in cooperation, and since that time more and more member countries have renounced bilateral obligations under the CMEA. This strategy, furthermore, would not be particularly advisable from a development point of view, since it would push the Eastern European countries out to the periphery of the European economic space and thus impair the transmission of economic stimuli from the industrialized core of Europe.

For many CMEA countries, therefore, membership of the EC as early as possible is currently a tempting alternative: witness the negotiations now being conducted by Czechoslovakia, Hungary and Poland regarding possible associate status with the EC. However, this approach frequently fails to give full consideration to the fact that the EC is now endeavouring to progress beyond its economic union, still to be completed, consisting of a customs union and single internal market, to also establish monetary and eventually political union. It is therefore as well to ask whether the Eastern European countries in their present state of transition would really be well advised to seek full membership of the EC within the next few years. The implication of such a move would be that they would have to abandon their independent economic and monetary policies with the result that, for example, they would be unable to use their exchange rate as an instrument for adjustment and would have to cede certain powers in the political sphere to the EC, possibly even before democracy was properly consolidated within the country itself, and with the added pitfall that the effects of European agricultural and structural policies together with open markets in the industrial and service sectors are altogether incalculable, thus not excluding the dangers both of continued stagnation and backwardness, even in the case of massive financial aid.

Hence although there may be no alternative but for the Eastern European countries to orient themselves towards the EC, formal attachment to it ought to be approached with caution, and in a number of stages. (Interestingly enough, association with the EFTA is not considered an alternative). A converse implication, however, is that it is an important prerequisite for the success of the reform process in Eastern Europe that the EC should keep its arms open to them, and not just in principle. During this present phase in which the

EC's energies are extremely tied up with the completion of the single internal market, the creation of economic and monetary union and further progress towards political union, it is not likely to be easy for the Community to offer simultaneously to be ready to cooperate with the Eastern European countries. Yet just such cooperation appears absolutely essential and, if it is to serve its purpose, it will also have to be geared to the differing needs, political and economic conditions in different countries. Different "speeds" of integration are sure to be needed, for the process is likely to be a quicker one for Poland, Hungary and Czechoslovakia than for Roumania, Bulgaria and the USSR.

V.

Stocktaking of the Eastern European Economies

The countries of Central and Eastern Europe bear a heavy burden from their past. For centuries, the fate of many of these countries was determined by a changing sequence of foreign powers. It is, therefore, hardly surprising that substantial areas of these countries played only a peripheral part in the international division of labour, and that industrialization often came relatively late, with primary production playing a dominant role, as indeed it continues to do even today. Then there is the added problem that the present restructuring process represents at least the fourth set of fundamental changes many countries have gone through in just the last 70 years. The first fundamental change took place immediately after World War I, which was the time some of the countries first received their independence (Czechoslovakia, Poland, and also Hungary), while others underwent a fundamental transformation of the political system (such as the USSR, especially with the setting up of the quantity-based, Stalinist centrally planned economy in 1928). A second major change came with the preparations for war, with the war itself and the various phases of occupation the countries had to go through. The third phase came after World War II with the change in their political systems and their combination via the CMEA. So the reforms now being initiated with the transition from a centrally planned to a market-oriented economy represent yet another fundamental change for the societal systems of these countries.

During the inter-war years, the present-day CMEA countries were much less integrated into the international division of labour than their Western European counterparts (see Table 1). Their foreign trade was conducted mainly with the industrialized countries of Central Europe, namely the German Reich, though a question which cannot be answered here is the extent to which this was a function of the trade policy conditions prevailing at the time. In contrast to that, the trade flows among this group of countries were very low, as is typical of peripheral regions. The only slightly closer trade ties which developed were between the present-day countries of the former Hapsburg Empire, and only Czechoslovakia, which had undergone relatively early industrialization in Bohemia and Moravia, was more closely involved in world trade. Overall, the dominant trend was for agricultural produce and raw materials to be exported while capital goods and indeed also consumer goods were imported.

The only area which had a different character at this time was the territory of the former German Democratic Republic, and to some extent also the western districts of Poland which were also formerly German territory, for these were fully integrated into Germany's division of labour. Over the years, certain patterns of regional specialization had developed within the German Reich, and these may provide some clues to possible further developments today. Saxony was at that time one of the centres for the consumer goods and mechanical engineering industries, whereas the basic material industries were primarily concentrated in the Ruhr valley area and in Upper Silesia. Especially from North-Rhine Westphalia, therefore, primary products such as iron and steel were shipped eastwards.

After 1945, the declared aim of the communist governments in Eastern Europe was to achieve as much self-sufficiency as possible for their group of countries. Industrialization was therefore vigorously pursued, with initial emphasis placed especially on improving the transport system and developing heavy industry (primarily iron and steel, and mechanical engineering). However, since individual countries often pushed ahead with this industrialization process without giving due consideration to the underlying basis in terms of raw material resources or existing facilities, the economic development which followed often involved large-scale investment which was not efficiently used. As a result, the countries began to strive for greater specialization of production and better coordination of economic plans among the CMEA members.

A typical example of how industrialization occurred in the CMEA countries is the development of the steel industry in the GDR. As I have already mentioned, these areas which then had a relatively central position within the German Reich obtained most of their steel from the Ruhr area. The steelmaking capacity available in the GDR's own territory was limited, and the volume processed was largely governed by the amount of scrap metal available locally. Once the traditional supply routes had been cut off, especially as there was a threat of shortages on the world steel market, the GDR put considerable effort into building up its own steel industry, relying primarily on imports of ore and scrap from the USSR. Following German unification, these steelworks not only face severe problems because of their technical standards, but also because their location means they can hardly hope to be competitive.

In general, the strong "industrial bias" in the development of these economies is what one might logically expect of the centrally planned economic system. As goods and factors of production were largely apportioned to them, the plants concerned had no need to worry about organizing the sale of their products nor about how to finance their operations; the consequence is that services of this type to industry are largely absent in these countries. Nor can it be denied that industrial processes, particularly in the heavy industries with their readily apparent division of different production tasks, as well as in animal or plant production on a large scale, are much better suited to the characteristics of a planned economy than are services - technical, marketing or professional - which produce an output which is difficult to quantify, or consumer and capital goods industries where qualitative aspects play a much more important part.

If the proportion of employees working in different sectors of the economy is taken as a measure, the dominant fields in the CMEA countries today are agriculture (averaging just under 20% of employees) and manufacturing industry (with approximately 35% of employees), while a relatively high contribution to economic output is made by the construction industry (see Table 2). In Western industrial countries at a comparable stage of development, both agriculture and manufacturing account for shares which are about ten percentage points lower, with correspondingly greater importance attached to services. In addition, there can be expected to be clear differences between the type of service sector which exists in Eastern Europe and what is found in these countries' western counterparts. A point which especially catches the eye is the lack of financial institutions and other corporate services. A first indication of this, albeit a rather weak one, is provided by the employment patterns in the East and South-East European countries: Only 20-25% of all service employees are in the wholesaling or retailing areas, in banks or insurance organizations, or in what we would term business-related services. In Western industrial countries, the corresponding share of all service employees is 40-45%.

The deficiencies of the information technology and telecommunications sector built as well as the corresponding application of these now universal tools for all kinds of economic processes are reflected in these figures. In 1973 at the latest, the economies of Eastern Europe finally lost contact with this form of basis innovation from which some authors claim to hold the key to the so-called fifth Kondratieff wave now emerging. As centres of advance as well as production sites appear to be distributed, excluding Western Europe, adaptation rather than creativity is the order of the day. However, the scientific production of goods and services is tied to no region or location forever.

The question which arises from these considerations is whether past trends allow us to deduce anything about the future forms of the division of labour. It is not a question which can be unequivocally answered. As far as economic relations between regions is concerned, and specifically the orientation of trade between East and West, the patterns of earlier years undoubtedly provide one conceivable indication for the future. However, when it comes to the specific goods formerly involved in East-West trade, the lessons of the past are much less clear, for the ensuing 60 years of separation have not only seen changes in the overall institutional framework but also in the apportionment of world markets. In the field of agricultural produce, for instance, which was Eastern Europe's most important export during the inter-war years, third countries are confronted nowadays with considerable EC trade restrictions. In the case of numerous consumer goods, including textiles for example, the developing and newly industrializing countries represent significant competitors on these markets compared with the situation in the 1920s and '30s. The question as to whether the East will have the scientific and technological know-how when it comes to new and future products to contribute in an ever-faster changing information economy is also open - though efforts will have to be particularly strong and determined, given the overall backwardness in these fields. This impetus might, of course, in due course result in innovations which could be marketised: Bulgaria, the Baltic states as well as the former GDR are said to be leading in these areas. So in these as in all other fields, the Eastern

European countries will have to find their feet in markets which have already been shared out.

VI.

The Environmental Situation in Central and Eastern Europe

The parlous state of the environment in Eastern Europe is much lamented at present and is also regarded as an obstacle to growth in the region. A clear distinction needs to be made, however, between the problem of earlier environmental damage now in need of rehabilitation on the one hand and the burdens posed by continuing emissions from current production on the other. Also, the rehabilitation of old contaminated areas is not just a matter of solving an environmental problem. In fact, greater efforts in this area also serve to create more favourable investment conditions for companies. Hence unless this problem is somehow solved - does the State accept upon privatisation this cleaning job 100%? - the chances for growth in the Eastern European countries will have to be projected to be considerably lower.

The situation with current emissions is a different one. In this case, three problem areas need to be distinguished. To begin with, the environment evidently was not taken into consideration by economic plans at all; that is, production targets were set without any regard for the damage which might result. It is only recently, and then quite unsystematically, that environmental problems began to be recognized to some extent, and gradually incorporated into economic accounting. Secondly, the production structure itself in most Eastern European countries, involving a large proportion of industry which in turn is especially concentrated in the basic materials and heavy industrial spheres, creates above-average environmental burdens by its very nature. Thirdly, environmental problems were further exacerbated by outdated technology, ageing production facilities and the wish to be self-sufficient.

A good example of this latter problem is provided by the electricity utilities in the GDR. These had concentrated increasingly on lignite, or brown coal, which was the only domestic energy resource in abundant supply. Yet because East German lignite - among others - has a very high sulphur content, it places a very high burden on the environment which could be considerably reduced by switching to other primary energy sources. The problem is aggravated by the fact that a lot of expense and effort has also been put into multiple purification processes to make the lignite suitable for other purposes better suited to other energy sources, such as to make blast furnace coke.

As the above example shows, a substantial proportion of the current environmental problems could be solved if the former CMEA countries again began to make use of the possibilities offered by the international division of labour, if they modernized their industries, and closed down older plant. The environment problem, then, is often simultaneously a technological problem, and also invariably a financial one. Given the improvements the modernization of the economy is in any case expected to bring about and given also the competition for scarce financial resources between many necessary tasks, there is reason to doubt whether a comparably high priority will be given to additional investment in end-of-pipe technologies when measured against the standards of Western countries. This holds true even more for integrated production technologies, using the latest techniques in the setting up of low-emission production processes which would be available for new investment in plant and equipment, thus utilising the unique opportunity of realising the most modern standards of competitiveness and ecological efficiency.

VII.

Possible Scenarios for the Development of the Combined German Economy

Developments in Germany may provide important stimuli and experience for Europe as a whole, both with regard to positive consequences (the elimination of borders and the centrally-planned economic system, the expansion of the EC as far as the River Oder) and the negative ones (a pronounced prosperity gap without any frontiers in between). Another reason why it would seem appropriate to look more closely at the economic consequences of German unification within the context of the EC is that any opening of Europe to the East will require a great deal of attention, cooperation and support from the West European economic community for the countries of Central and Eastern Europe, including the Soviet Union. Now that the borders are open it has not only become easier for individual travellers to go where they want, but it is also now possible for whole sections of populations to migrate westwards or northwards. Such mass migrations will become inevitable unless the justified desires of the people of Central and Eastern Europe that their material situation should improve are indeed fulfilled. They in turn might tip the balance of economic dynamics even more in favour of Western Europe, leaving the areas from whence they came deserted and undeveloped.

However, as regards the question of Europe as a whole, or particularly of Eastern Europe, one should also bear in mind that it will not be possible to regard the experience of Germany as typical in all respects. For one thing, the new country's common language and culture should mean that considerably less friction arises in incorporating the former GDR into the Western European economic space than might be the case with other countries. Secondly, the full political union now established means that there is a readiness, and indeed a duty enshrined in the country's constitution, to put up large sums of money towards transforming the economic and social structures in the former territory of the GDR. Thirdly, German unification meant that all the main West German institutions and international ties (especially those relating to the EC) were automatically expanded to cover the former GDR, and this meant that various central impediments to the transformation of the planned economy were rapidly eliminated.

The fact that it is a difficult matter to portray the economic prospects facing Berlin and the five new *Länder* which formerly made up the GDR is not only due to a lack of reliable data (both the methods and the sources used by statisticians differ, and fabrications were also systematically made). Another factor in this problem is that experts trained in and oriented towards the workings of a market economy often have little understanding of the terminology and categories of action peculiar to a state-controlled planned economy and social structure. As the unification process was under way, these difficulties were especially marked when it came to differing interpretations of labour productivity, money, corporate structure, individual decision-making authority and personal responsibility or accountability.

During the past 12 months, labour productivity in the GDR territory has been reassessed downwards. Whereas it was commonly assumed at the end of 1989 that productivity was something over 60% of the levels found in Federal Germany, the same comparative assessment today comes up with a figure of approximately 33%. This adjustment is not only attributable to the fact that more precise data are now available but, rather than that, is a manifestation of a re-evaluation of earlier perceptions which were the result of having applied market-economy concepts, structures and issues of substance to a totally different economic system. To put it another way, it was inconceivable in the beginning that the industrially most highly developed member of the CMEA, the GDR, could have such low productivity. When the first evaluations were made, no account was taken of the subordiante role played by productivity parameters under a planned economy.

Another reason for the gross misjudgement of the economic situation in the countries of Central and Eastern Europe is the fact that general economic and technical standards throughout the CMEA area, including the former GDR, were below the corresponding world level and had slipped back markedly and increasingly in the period since 1974 when world market competition began to hot up. Thus economic output as it was generated in the CMEA countries was no longer comparable with such output as it was defined on the world market. Among the evidence confirming this is the fact that, although CMEA countries continued to offer products at prices which were competitive with those of market economies, they have been doing so below their own production costs simply in order to compensate for their lack of hard currency and to try to catch up technologically.

The received economic and political knowledge in Federal Germany and in Western Europe is based on experience of events and discussions occurring within structurally consolidated, democratically based market economies with established systems of social welfare, where the changes which continually have to be thrashed out are basically marginal in nature. Thus the policy-making patterns and acquired experience applied in this field are barely suited to provide a firm basis for solving problems in Eastern Europe. In order to arrive at a more realistic judgement of the situation in planned economies which is also more appropriate to the problems at hand, it is therefore important that we ourselves should know where we stand in economic terms, what we mean by the language we use, and what political instruments we have at our disposal. Otherwise, any attempt to apply analytical explanatory systems to the special situations which existed, and indeed still exist in many cases, in the former GDR is likely to be subject to a large margin of error.

These uncertainties are mirrored on a microeconomic level in the behaviour of individual companies (especially as regards investment), which is normally derived from economic assessments arrived at on the basis of some form of direct contact with the economic region concerned. To attribute a low propensity to invest on the part of the private sector to insufficient availability of the right kind of property, as has repeatedly been done in public, is to paint only half of the picture; for trading activities at least, it appears that questions of property ownership are causing very little hindrance. Evidently, the economic situation in East Germany, as in the other CMEA countries, represents a business environment in which companies - at least from the outside - prefer to operate as sellers and traders rather than as investors in new production facilities.

The evident analytical misjudgements of the currently existing and changing Eastern European economy are a substantial causative factor for the general confusion, or linguistic confusion, in the political and economic arena. A crucial issue for the future growth trajectory of Berlin and the five new *Länder* will therefore be whether the political decision-makers can be convinced at an early enough stage of the special nature of the situation they are facing, for they must realize that a special set of policies which in fact are the very seed-corn of a market economy and market processes will be needed, and that they cannot simply assume that some kind of market-economic "Big Bang" will create the necessary corporate structures virtually overnight where none had existed before, except again perhaps in the purely trading and marketing areas and parts of the services sector.

VIII.

Two Ideal-Typical Development Scenarios

Given the analytical background I have just outlined, it is probably best to first identify two ideal-typical development paths and to discuss the conditions under which these scenarios might actually occur.

- The first, most optimistic alternative is an uninterrupted, linear boom, but starting from a relatively low level before the structural break: The addition of this infinite field of potential economic activity produces persistent high rates of growth in the enlarged Federal Republic, which then has a tremendous "locomotive effect" on all of Western Europe and onward into the world economy.

- The second scenario is a much more cyclical path, alternating between an intense cyclical boom period as a result of sudden concentrations of demand which can hardly be forecast from one sector to another, followed by a similarly intense recession. As a result of this, a pronounced cycle becomes established for the further development of the economy. This scenario is accompanied by phases in which productive capital is wiped out, resulting in corresponding problems for economic, fiscal and monetary policy.

In order to get on to the first of these development paths, with frictionless, high growth, it is absolutely essential that economic participants should be able to assume that certain basic economic and structural data are given. These basic preconditions not only include a properly functioning institutional system of the market economy (all market participants fully informed, all prices and costs are formed or can be ascertained on the market, all participants face equal competitive conditions, etc.), but also various operating conditions which encourage growth or at least stave off the collapse of economic circulation by taking drastic action to stabilize disposable incomes and the capacity of public bodies to carry out their tasks. In the latter case, it is particularly important that investment should be linked to growth in productivity which is high enough not to be eaten away by wage growth during the same period; if that is achieved, profits will be better than expected and this will give rise to further increases in investment in the following period. This is a process which at least works satisfactorily as long as technical innovation allows large jumps in productivity to be achieved (as was the case in the Federal Republic of Germany during the 1950s).

The key requirements for the structural side of such an undisrupted and expansive path of economic development are growth-enhancing, market-economic conditions in the following areas: industrial and corporate structure, public and private-sector infrastructure both in material and service terms, administrative powers to make decisions, and labour market structures appropriate to demand. If they are not to have any inhibiting effect on the "frictionless growth path", these structural areas must also be closely intermeshed, must complement each other and be structurally harmonized with each other.

Some voices close to the business world (e.g. the German Business Institute - IDW, in Cologne) were already speaking euphorically as early as Spring 1990 of growth rates of up to 10% per annum for the next ten years in the new *Länder*, saying that this would be equivalent to an increase in productivity of at least 50 percentage points, to bring them up to a level at which productivity would be about 80% of the former Federal Republic by the year 2000. It is symptomatic of this view of things that it does no more than to project differing growth assumptions for the two economic zones in Germany based on their different starting positions onward over a period of time, without taking any account of the specific historical and structural differences, or indeed of the massive reciprocal interlocking between sectors in the two zones which can be expected to occur.

In fact, when it comes down to it, none of the preconditions I mentioned for such an optimistic assessment is fulfilled in reality. A growth prognosis for the new *Länder* of the opposite extreme already arises, for example, if the friction which is likely to occur in raising the necessary capital during the next few years is also considered (not to mention time-lags in actually spending the money raised). Even confining attention to the spheres of energy supply, the modernization of enterprises, housing construction and public infrastructure, the estimated capital required runs to a total of DM 1,000 billion, or DM 100 billion per year at current prices and interest rates over the next ten years. This is being aggravated by the virtual collapse of trade relations within the CMEA area and the lack of perspectives for its development at stable, although somewhat reduced volume, since linking into the international economy opens up plenty of alternatives for the haves yet closes many to the have-nots. And the surviving enterprises in eastern Germany largely belong to the have-nots.

Just what effect the need to raise capital on that scale can have when one considers the generally tense situation on the international money markets (with the developing countries' debt crisis, share price and property slumps, borrowing short to lend long, bank collapses and then the Gulf crisis) will be evident from the movement in interest rates in Germany during the last few months. Even today, the value of subsidies, such as those to people setting up new businesses in the former GDR which provide 3% off interest costs, is counteracted by money market rates which are now over 10%. If additional capital is raised by way of loan funding, this will not leave interest rates unscathed, nor those sectors of the economy which are sensitive to such changes, and that in turn can have a depressing effect on the business cycle.

Apart from that, the historical and structural split in the new German economic space has indeed now been added to by a further split in levels of economic dynamism, and this too suggests that a steady economic upswing is unlikely and that the structural differences between the two economic areas will have significant cyclical effects. While it was expected, for technological reasons, that growing investment demand in the East of the country would largely benefit other regions, this was by no means a natural assumption as far as consumer behaviour is concerned. In reality, however, events have taken a different turn: The demand for capital goods in the new *Länder* has been adversely affected by an abrupt fall-off in production and the virtual abandonment of certain products due to competitive pressure and rising wage costs, which has meant that plant shut-downs rather than efforts to make new investment have been the order of the day. On the other hand, the consumption taking place on the strength of mobilized savings and incomes (including transfer income) underwent a massive reorientation towards western products, even turning away from East German products in cases where they were of comparable quality; indeed, this shift was partly forced upon consumers by trade agreements which barred former suppliers from their markets.

The shift in consumer demand in the newly admitted eastern German economic zone towards West German or Western European consumer products created an accelerated loss of production capacity in the East itself while it faced West German companies with excessive demand. This increased the scope available to the latter for raising their prices (to add to the opportunity presented to them by market imperfections in the new *Länder*), whereas enterprises in the East were placed under yet more pressure to rationalize since they not only had to accept lower prices but also faced greater costs because they were unable to produce in the usual quantities, all of which meant more plant closures. The result of these shifts has therefore been a thoroughly "divided business cycle" in Germany as a whole, which is not only reciprocally generated but also, for the time being, is reciprocally reinforcing itself; on the one hand, capacity in western Germany is being over-utilized while, on the other, enterprises are being forced to shut down or to contract in eastern Germany, and businesses in the West are being asked when they intend to start making new investment and building new production plant in the new *Länder*.

In the light of these developments, the expansion of the money supply in the Federal Republic which occurred at the time of monetary union may now prove to have been too generous. It was by no means guaranteed right at the outset, and this has now been borne out by events, that the additional stock of money (a growth in M3 of approximately 15%) would be fully taken up by the increase in productive capacity (which was initially estimated to be in the region of 12% of the value for the former Federal Republic but may be 10% or even less). Now we have a situation in which the productive basis to cater for the additional stock of money in the East is crumbling while the excess demand in the west of Germany is providing scope for price rises which the monetary position also permits.

In summary, the economic problems connected with integrating the former territory of the GDR with the West German economic space can be characterized as follows: There are tremendous differences in levels of information; there is a lack of knowledge of normal market prices and costs; the estimates on which production units base their calculations are unclear, unknown or uncertain; market participants are faced with unequal competitive conditions even just on the basis of the head start Western suppliers have in terms of technology, productivity and design. Moreover, monetary union not only brought with it a rationalization shock for producers in the east of Germany, but the unification of the two German states, and hence also of the labour market, also set up West German wage levels as a benchmark virtually overnight, and it is now likely to take a far shorter time than most had first imagined before such wage levels really do establish themselves.

Whilst the lack of an adequate structural or institutional and legal framework can thus be assumed to have a negative influence on both existing processes and those now being set in motion in the former GDR, the crucial question for developments in the future concerns the volume of the major macroeconomic flows such as consumption, investment, the aggregate supply of goods and services, money supply, inflation, and incomes. Even the few data already available for the period since 1st July 1990 (the day the DM-zone was extended to cover the GDR, which also then adopted the main economic institutions including taxes and social insurance) show the substantial cyclical effects being exerted by a number of such flows, which are being added to by the great regional differences involved.

The loss of production and incomes which is still on the increase has to be countered by proportionate increases in government transfer payments to stabilize the macroeconomic circular flow, and this will again bring an appreciable increase in what, for structural reasons, are already high costs associated with overcoming the economic "modernity gap", and will therefore further exacerbate the government funding problem. In this way, the problems in the real economy will also be reflected in state finances. If it is decided to cover it by further borrowing, the government funding requirement will in turn affect the financial markets by pushing up interst rates, whilst if the deficit is funded by tax increases this will affect the interest:profits ratio and thus hamper private production investments.

If one follows this second scenario, then, a downward economic cycle appears likely purely as a result of domestic monetary and interest-rate conditions, without any need for negative trends in the world economy or the state of the world financial markets to be taken into account. Economic policy-makers are therefore charged with the task of bringing the future progress of the all-German economy on to a path which at least lies somewhere in between the two extremes I have portrayed. The crucial fields for such action on economic and social policies will be fiscal policy, employment and social policy, structural policy, and all fields which have any involvement with infrastructure. Politicians during the past twelve months cannot be said to be at fault for having reacted to the time-frame dictated by political and historical circumstances, but where they can be faulted is for having provided inadequate economic-policy support for the process of German unification. One thing in particular which ought to have been done is that the introduction of the DM into the then-GDR should have been preceded or at the very least accompanied by an investment programme which could have taken immediate effect. Only such immediate investment could have counteracted the events which have indeed occurred since 1st July 1990. In view of the many deficiencies in the GDR's infrastructure, a wealth of possible fields of activity was available for such a programme which would simultaneously have provided a sounder basis for investment decisions taken in the private sector. Instead of the recessionary economic trends currently occurring in the new *Länder*, this would have provided an opportunity to set an expansionary economic process in motion. It is clear that along these lines now the government has to act both on the federal level and in the new *Länder*, in the infrastructural services as well as the private sector investments motivated by convincing support schemes as well as tax rates favourable to investment. A concentration, in particular, is needed of the material infrastructures of transportation, telecommunications, energy supply and urban development. These would provide income capacity effects and would also complement efforts geared towards qualifying and retraining the labour force, the unemployed as well as those on short-term work. This could provide the basis for development from below. For this purpose, small business, trades, commerce and professions in the various cities and centres could play their specific role, exploiting backward linkages to the past and activating forward linkages to the future. This would seem to be a successful means of attaining economic progress instead of depending on financial transfer for social reasons.

IX.

A European Geography of Growth in the 1990s

This section will work on the assumption that economic policy is indeed successful in achieving a steady convergence between the economies of Eastern and Western Europe. This process will also be safeguarded by means of closer cooperation and even some form of institutional integration, even if this does not necessarily mean membership of the EC for the time being. (The alternative to this, stagnation and decay, segmentation and migration is, though empirically not improbable, excluded).

The opening up of the economies of Central and Eastern Europe comes at a time when the EC is just preparing to complete its single internal market. This in itself, with its complete provision of free movement for persons, goods, services and capital, represents a substantial influence in the geography of growth in Europe. All agree that the dynamics thus created will foster expansion and growth in some areas more than others, redefining both agglomerations and periphery. The various studies on the subject are not exactly in full agreement on the more detailed effects this will have: A number of studies see a "banana-shaped" area reaching from London via Amsterdam and the Rhine-Ruhr area as well as Frankfurt to Milan as a prime beneficiary of the EC, with an additional area constituting a European "sun belt" stretching from the northern Spanish Mediterranean coast across to northern Italy (also referred to as the north of the South), while the Pirelli study generally sees the EC's growth centre as lying further to the south, roughly within a triangle from Frankfurt-Triest-Valencia, with the northern triangle (London-Paris-Amsterdam-Ruhr) slightly decaying because of outdated heavy industry orientation and urban congestion. A common message in all of the studies concerned is that the main growth axis of the Community has moved southwards somewhat during the 1980s, away from the Benelux-Ruhr Valley-Paris zone which had been dominant since the 1960s. Spain and Portugal, in particular, have caught up considerably relative to their more developed European partners during the last few years. However, one must not overlook the fact that one reason for their success is the large volume of capital which flowed into the Iberian Peninsula from elsewhere in the EC. In other words, Spain and Portugal have a positive capital account and negative current account in their relations with the other member countries. On the other hand, the Pirelli study also regards the opening up of Central and Eastern Europe as increasing the opportunities available to the northern part of the "banana" and the eastern part of the "sun belt", with traditional industrial structures generally enjoying something of a renaissance.

In short, the North-South orientation which the division of Germany and Europe imposed upon Western Europe (EC and EFTA) will be replaced by the historical East-West orientation of the mainstreams of exchange in Europe. Germany in particular has returned to its traditional geostrategic location at the centre of the continent.

All in all, three development trends now appear probable:

- the opening of Eastern European markets, given their geographical proximity and the traditional orientation of these countries, will relatively favour the north of the EC which traditonally had stronger growth. This may also be reinforced by the elimination of a number of disadvantages which had previously resulted from the partition of Europe, such as Hamburg's or Berlin's lack of an economic hinterland, leading among other things to a loss of centrality on the part of the main foreign trading port of the former GDR, Rostock. The focus of growth within the EC can be expected to shift back northwards again. The old London-Benelux-Berlin-Warsaw trading axis may re-emerge.

- There is a substantial need for new investment in Eastern Europe, which will lead to a redirection of capital flows within Europe as a whole. According to conservative estimates, the annual volume of investment over and above past levels which will be required to modernize the Eastern European economies lies in the region of $ 300 billion. A proportion of these funds would have to be raised on the international financial markets. For the sake of comparision: the average annual volume of new issues of bonds and loans on the world's financial markets from 1987 to 1989 was $ 365 billion. A shift in capital flows can already be immediately perceived in the Federal Republic of Germany, whose balance-of-payments surpluses have been falling off since the establishment of the German economic, monetary, and social union, and whose interest rates on the capital markets have shot up two percentage points during the same period.

- The real South of the EC might, for one thing, again find itself in an increasingly peripheral position in Europe and, for another, may find that its growth opportunities are further impaired because of the redirection of capital flows, thus calling for a continuation of the deliberate efforts to sustain the course which has already hopefully passed the point of take-off in Spain and Portugal as well as the growth centres of Southern Italy, though not yet in Greece.

A Digression: North-Rhine Westphalia

Changes in the European growth geography inevitably also affect individual regions. The German *Land* of North-Rhine Westphalia, the country's most populous with 17 million inhabitants and also the *Land* with the highest overall economic output (25%), may serve to illustrate some of these possible effects.

In the former German Reich, North-Rhine Westphalia was the region which primarily supplied basic materials and heavy industrial goods to other regions in return for consumer goods and agricultural produce which mainly came from elsewhere. These lines of supply were interrupted following the Second World War and, as described earlier, the GDR then went on to develop its own heavy industry as well as receiving supplies from the Soviet Union. Now that the two German states have been unified and the other Central and Eastern European countries are opening up, such delivery patterns could regain some of their earlier significance. However, the crucial issue for developments in North-Rhine Westphalia is which development strategy is ultimately taken up in the regions to the east.

If the basic materials industries, particularly the steel industry, are run down in the former GDR or elsewhere in Eastern Europe, that will create a positive impetus for these branches of industry in North-Rhine Westphalia. However, there are also risks involved in that kind of strategy. Whilst it might on the one hand allow the region to win a little more time in which to reorient its production mix, reduce adjustment problems and facilitate a more gradual, "orderly" transition, there is also the danger on the other that outmoded productive structures might be preserved with the result that the *Land* loses touch with structural change in the international economy, thus ultimately generating more new adjustment problems.

The modernization of the basic materials and capital goods industries in Eastern Europe would also benefit North-Rhine Westphalia, although slightly different sectors would be affected. The chief beneficiaries would be the plant engineering industry, including project management, which again has an above-average concentration in North-Rhine Westphalia. This would also encourage structural change in the region. Yet such modernization in Eastern Europe would also harbour risks for North-Rhine Westphalia. One potential problem in the longer term is that new competitors might grow up there, particularly in the mechanical engineering and other capital goods sectors. Another is that modernization in the East might rechannel venture capital away from the region, thus delaying the structural change currently under way.

Incidentally, North-Rhine Westphalia would derive below-average benefits if the opening of Eastern Europe's markets were primarily only to generate greater demand for consumer goods.

Because North-Rhine Westphalia has a relatively high concentration of companies operating in the fields of environmental protection and land rehabilitation, this again can be expected to generate positive effects for the region.

All in all, North-Rhine Westphalia will again move closer to the effective economic centre of Europe as a result of the developments to the east. However, whether or not and on what time-scale this situation might produce benefits for the *Land* depends substantially on whether an appropriate infrastructure is developed in an eastward direction and in the East itself, and also how long that process takes.

X.

Conclusions

In the light of the permanent change and renewal we are now witnessing, the growth geography of Europe in the 1990s is more wide open than ever. At the present time, we can neither foresee how quickly the reforms will be carried out, both in the economic and the political senses, in Central and Eastern Europe, nor can we estimate the possible consequences of a failure of the reform processes, such as the development of huge migratory flows from East to West.

It is not enough for the reform process to be limited to the political sphere, and to creating a suitable framework for establishing the market economy. Rather, the reform movement must work right through to the level of the individual economic enterprise, in such a way that what are now production units really do become enterprises in the true sense of the word, and networks must develop which encompass all the relationships which characterize the cooperation between companies in Western countries. In this respect, a crucial part in ensuring the success of the reforms needs to be played by the development of a business world and the networks that involves, and by making personnel available who are able to aid such developments.

There are evidently many who regard the course of developments in the new *Länder* of Federal Germany as a precursor and a model for changes elsewhere, and who are therefore watching these developments closely. If the German experiment were to fail, this would inevitably act as a negative signal to other countries. In this respect, the Federal Republic has taken a very special responsibility upon itself. This is a case in which the task of transforming a planned into a market economy has been seized upon in the most radical way, for the unification of the two former German states now means that any possibility of accompanying the transformation process with particular foreign trade or currency measures has been ruled out. Although to some extent the former GDR has entered into the process under more favourable conditions than other Eastern European countries might have (the common language, payments from West Germany, the adoption of West German institutions), its former territory also has to cope with various problems which do not face other countries. For example, it is unlikely that it will be possible to uphold the income and wage differential between the new *Länder* and the old part of the Federal Republic for very long, since its maintenance would generate huge migratory movements. As there is no exchange rate which could be used as a means of maintaining a balanced purchasing power parity, the adjustment process is now much more dependent on a rapid assimilation of productivity levels and of the employment situation (unemployment, skill and qualification levels) even than need be the case in other Eastern European countries.

However, not only the Federal Republic of Germany carries a special responsibility, but also the other countries of Western Europe and especially the European Community. The EC must clearly demonstrate whether it is really open to the changing situation to the east and south-east of it. The foundation of the (East) European Bank for Reconstruction and Development does at least show that the Western countries are able to respond promptly to changes in the East, with substantial support from the EC. However, the EC must now show whether it is also prepared to support the reform process by taking appropriate trade and cooperative measures, by allowing associate status, by reducing tariffs and by opening its markets. There is certainly a danger, as the Community concentrates on the single internal market in 1992 and its plans to bring about economic, monetary as well as political union, that it might be unduly preoccupied with its own problems and might thus have difficulty in establishing a consensus on any opening towards the East.

If one considers the course of economic integration in Europe and the rest of the world during the past 45 years, it will be apparent that the CMEA countries have largely excluded themselves from the international division of labour. They have neither attained the level of technical sophistication nor the intensity of economic interchange which have become quite natural to Western countries. The question then is, what chance to the Eastern European countries have once they have opened their borders of finding a place within this highly developed division of labour? The surrounding conditions have changed considerably since the period before World War II: Germany, which traditionally was their most important trading partner, is now much more strongly oriented towards the West than it used to be; a very important institution has been created in the European Community, and the Eastern European countries' former position as suppliers of goods and produce has partly now been taken by developing or newly industrializing countries, or indeed from the EC itself (due to its high level of self-sufficiency and its policy of export subsidy). Sound policies in the countries involved as well as the EC will tell, therefore, to what extent Eastern Europe will be able to resume where it left off before World War II and escape the division and stagnation which would deprive the growth geography of Europe of its extension towards the East.

BIBLIOGRAPHY

Belzer, V., Überbetriebliche Kooperationen als Anknüpfngspunkte für die Strukturpolitik. In: J. Hilbert et al. (eds.), forthcoming.

Belzer, V., Netzwerke: Versuche einer Analyse und Kategorisierung, forthcoming.

Brüstle, A., Döhrn, R. and Milton, A.-M., Die einbindung der DDR inden Rat für Gegenseitige Wirtschaftshilfe. "RWI-Mitteilungen", Vol.40 (1990), pp. 53 ff.

Döhrn, R. and Heilemann, U., Structural Change in Eastern Europe. Paper presented to the Joint Germany-Canada Symposium on 1st & 2nd November 1990 in Toronto. Publication forthcoming.

Gordon, R., New Technologies, Industrial Restructuring and European Integration: Competitive limits to market completion. Paper presented to the International Conference on industrial Modernization, Structural Change and european Integration, Institut Arbeit und Technik, Gelsenkirchen, Sept. 1990.

Nefiodow, Leo A., Der fünfte Kondratieff, Strategien zum Strukturwandel in Wirtschaft und Gesellschaft, Frankfurt 1990.

Hamm, R. and Heilemann, U., Folgen der DDR-Öffnung für die nordrhein-westfälische Wirtschaft. In: P. Klemmer (ed.), Die

Wiedervereinigung und Nordrhein-Westfalen. ("Rufis" publication 2/1990), Bochum 1990, pp. 14 ff.

Hamm, R., Die Wirtschafts- und Währungsunion mit der DDR - Produktionswirkungen auf Nordrhein-Westfalen. In: P. Klemmer (ed.), Auswirkungen der Wiedervereinigung und des europäischen Integrationsprozesses auf Nordrhein-Westfalen. ("Rufis" publication 3/1990), Bochum 1990, pp. 47 ff.

Hethy, L., Hungary's Employment System on the Way towards a market Economy. Paper presented to the joint Conference of CEDEFOP and the Economic and Social Science Research Council on "Work, Employment and European Society: Convergence and Integration", University of Bath, UK, Sept. 1990..

Hilbert, J., Widmaier, B. and S. von Bandemer, Können Konkurrenten Partner werden? Eine Einführung in die Chancen und Schwierigkeiten partnerschaftlicher Formen zwischenbetrieblicher Kooperation. In: J. Hilbert, M. Kleinaltenkamp, J. Nordhause-Janz, B. Widmaier (eds.), Können Konkurenten Partner werden? Chancen und Schwierigkeiten neuer zwischenbetrieblicher Kooperationsformen. Publication forthcoming.

Knieper, O. and H.W. Schmidt, Bestandsaufnahme und Probleme der Neuorientierung der Energiewirtschaft in der DDR. "RWI-Mitteilungen", Vol. 40 (1990), pp. 29 ff.

Kozek, W., An Industrial Conflict in Poland at the Time of Transition from a State Economy to a Free Market Economy. Paper presented to the joint Conference of CEDEFOP and the Economic and Social Science Research Council on "Work, Employment and European Society: Convergence and Integration", University of Bath, UK, Sept. 1990.

Landtag Nordhrein-Westfalen (proceedings of the *Land* parliament), Drucks. 10/4174, Rahmenbedinugungen nordrhein-westfälischer Unternehmen in einheitlichen Binnenmarkt Europa 1992. The *Land* government's response to Major Question 24 lodged by the CDU and FDP opposition, Düsseldorf 1989; see also Neues im Westen, Issue 15, published by the NRW Ministry of Economics, Medium-Sized Business and Technology (MWMT), Düsseldorf 1989.

Methfessel, K., Die neuen Stars der alten Welt, in: manager magazin 3/90

Moszkowicz, M. and J.W. Mercik, Understanding as a Base of European Integrity. Paper presented to the International Conference on Industrial Modernization, Structural Change and European Integration, Institut Arbeit und Technik, Gelsenkirchen, Sept. 1990.

Roth, W., Das Ruder herumwerfen: 8 Punkte-Programm für die DDR-Wirtschaft. Bonn 1990.

Suntum, U. von, Wachstumsperspektiven der DDR-Wirtschaft. "Wirtschaftsdienst", Vol. 70 (1990), Issue 6.

Wienert, H., Die Stahlindustrie in der DDR - Entwicklung, aktuelle Struktur und Perspektiven. "RWI-Mitteilungen", Vol. 40 (1990), pp. 41 ff.

Wilhelm, W., Schöne neue Welt. Trends und Signale. Szenario 2000. "manager magazin" 4/90.

Table 2: The Economic Structure of the European CMEA Member Countries (1986, in %)

	Agri-culture	Industry Total	Industry Mining & Energy	Industry Manu-facturing	Con-struction	Services
			Share of net material output			
Roumania	-	-	-	-	-	-
Bulgaria	15	62	-	-	10	14
USSR	21	44	-	-	12	23
Hungary	13	38	-	-	11	23
Poland	15	47	-	-	12	22
Czeckoslovakia	8	61	-	-	11	20
Ger. Dem. Rep.	13	66	-	-	8	18
			Proportion of workforce employed			
Roumania	29	37	-	-	7	27
Bulgaria	21	34	-	-	9	35
USSR	19	29	-	-	9	43
Hungary	22	31	-	-	7	40
Poland	29	29	4	24	8	31
Czeckoslovakia	14	37	3	34	8	41
Ger. Dem. Rep.	4	45	-	-	7	44

According to data provided by the United Nations and the International Labour Office

Table 1: The Intensity and Orientation of Foreign Trade among Eastern European Countries - 1927

	Exports per head (in Reichsmark)	Share to German Reich %	Imports per head (in RM)	Share from German Reich %
Bulgaria	36	23.1	34	21.0
Estonia	106	29.8	97	26.4
Yugoslavia	36	10.6	41	12.3
Latvia	96	26.4	108	40.6
Lithuania	45	51.6	49	53.1
Poland (incl. Danzig)	39	32.0	45	25.5
Roumania	55	25.3	49	19.0
Russia (USSR)	12	26.4	12	28.3
Czeckosolvakia	174	24.1	155	20.9
Hungary	69	13.3	99	17.8
For comparison:				
Belgium/Luxemb.	381	16.9	416	12.4
German Reich	171	-	225	-
France	222	11.9	214	7.9
United Kingdom	319	8.3	495	5.3
Italy	83	14.3	109	9.7
Austria	181	18.5	274	17.0

Source: German Reich Statistical Yearbook, 1929