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CONFIDENTIALNOTE ON THE ATTITUDES OF EAST EUROPEAN GOVERNMENTS
TO IMPROVED ECONOMIC RELATIONS WITH WESTERN
EUROPE

The NATO Ministerial Council decided last December that the most promising avenue for improving East-West relations was to increase economic contacts. The problems have been discussed by the NATO economic advisers, in O.E.C.D., and in E.C.E. which is probably the most suitable forum. The importance of economic relations in promoting Western objectives through détente was pointed out by the Italian Foreign Minister, at the Ministerial Meeting in Luxemburg.

This Note is an attempt to indicate the position of East European governments other than the Soviet Union.

Trade

Western trade with the countries of Eastern Europe has been growing fairly rapidly. There is evidence that East European governments would like this growth to continue: not only in absolute terms but also as a percentage of their total foreign trade, in order to diversify their imports and their markets. Spokesmen of the East European governments have assured Western government and trade representatives of their strong desire to develop trade in this way. Besides the economic advantages the E.E. countries doubtless see the political advantages of releasing their economies gradually from the grip of the Soviet Union.

Hitherto there have been three main technical obstacles arising from the trade policy of East European governments:

- (a) Broadly, 70% of East European trade at present levels is conducted within the bloc; and this is likely to continue to be so during the current plan period, 1966-70. The remaining 30%, subject to normal annual expansion, has hitherto been regarded as open to the markets of the West and the developing countries. Insofar as these limits continue, any considerable expansion of the trade of one Western country with Eastern Europe is likely to be at the expense of another's
- (b) Until the East European governments alter their monetary system, trade is limited to a strictly bilateral basis country to country, and has to be conducted in convertible currencies.

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- (c) For some countries at least there is a shortage of suitable exports. The quality of their goods tends to be of a lower standard than that available elsewhere. Besides, unless the general level of trade is increasing fairly substantially, Western governments are often unwilling to allow imports from Communist countries which might displace those of long-established suppliers.

There is evidence that some East European governments will not consider themselves bound by a 30% ceiling on trade with the outside world, so long as they can maintain their economic exchanges with each other at planned levels. COMECON is becoming increasingly moribund. There are also signs of greater elasticity in fiscal arrangements for trade with the West; for instance, Hungary is considering membership of the International Monetary Fund. Special efforts are being made to produce suitable exports for Western markets, and to organise tourism and other ways of earning hard currency. A new and more liberal attitude to Western capital investment is developing as a result.

The Federal Republic of Germany has since 1956 been the leading Western trading partner of Eastern Europe. As foreign trade is a governmental activity in Eastern Europe, these contacts are especially significant so long as diplomatic relations are not fully restored. Most East European leaders have gone on record as wishing to expand their trade with other Western countries including the United States. Their interest in U.S. trade is shown by their regular accusations of discrimination by the U.S. against their countries, other than Poland and Yugoslavia. Most Western countries have in the last 2-3 years taken steps to liberalise their trade with Eastern Europe.

Special Projects

Some examples are worth noting. There are several others. The Polish Ministry of Foreign Trade Journal recently (28 January, 1967) drew attention to three basic groups of industrial co-operation which were beneficial to both Eastern and Western partners:

- (i) transmission of technical knowledge (e.g. Hungarian purchase of Netherlands licence to manufacture brake linings; Czech discussions Rolls Royce; a U.S. firm's agreement to distribute machine tools manufactured under its licence by Skoda);
- (ii) joint production without a joint plant (e.g. Rhein-stahl's agreement with the Hungarian Nikex to produce hydraulic pit props under which Hungarian processing will amount to 70% of the value of the equipment);

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- (iii) mixed enterprises (e.g. the Bulgarian Machinexport has founded with a Netherlands firm a representative services and commercial enterprise with a capital of \$140,000 (55% of which is provided by the Bulgarian partner). The organisation will also construct light trucks with cranes and will distribute Netherlands machinery in Bulgaria. Profits will be shared.

Major infrastructural schemes

A large hydro-electric and canalisation scheme is in progress in the Iron Gates section of the Danube for which the Yugoslavs have been trying to obtain subscriptions from other riparian powers, particularly Austria. Underground railways are being constructed in Budapest and Prague; the Hungarians have had British advice and Italians are assisting with the Czech programme. A gas pipeline from the Soviet Union to Italy is projected and there are plans for oil pipelines from the Adriatic. As long ago as 1963 in an interview with the German weekly Der Stern, President Novotny expressed particular interest in facilities in the port of Hamburg and in the extension of its hinterland system of canals. When the Main-Danube canal is completed there will be a waterway from the North to the Black Sea.

Western capital investment

The Yugoslavs announced in February 1967 that they are drafting legislation which will permit western investment under appropriate reciprocally protective clauses. There are a number of schemes for building hotels for tourists (details of the contracts tend to be blurred) and it is clear that this is likely to be a major field for co-operation as all the economically significant tourists will presumably have to come from the West.

It is generally admitted that there is a shortage of investment capital in Eastern Europe and the Yugoslav experiment will be watched with interest. Some interest was shown in Eastern Europe in the economic aspects of Peaceful Engagement put forward by President Johnson in his speech of 7 October 1966.

Migrant Workers

Between two and three hundred thousand Yugoslavs are now working abroad on a temporary basis mainly in West Germany. This eases internal unemployment, provides much hard currency in the form of remittances and eventually brings back many technically trained workers. Other countries where there is a labour surplus (Poland and Rumania) may become interested in shedding their burden.

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Technology

Technological co-operation offers the best prospect of economic collaboration in the immediate and middle term. The cost of Research + Development is becoming so great in all fields that the incentive to share the burden and the results is great for both sides. The Soviet and East European economies are still technologically behind those of Western European countries. Many companies in the West would probably be willing to share their technological knowledge in return for the opportunity of selling their equipment in the markets of the Soviet Union and Eastern Europe. The International strategic embargo prevents the export to Communist countries of some of the most sophisticated equipment, notably computers. Several technological agreements have already been concluded between Western European countries (including the U.K.) and East European countries.

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23 June 1967CONFIDENTIAL