

EAST-WEST DETENTE AND MUTUAL ECONOMIC GAINS

International exchange of economic resources and technological know-how has been one of the essential features of economic development any time and anywhere in the world. The Soviet Union and other socialist countries of Eastern Europe are no exception to this rule, even though the early stage of their socialist transformation had been accompanied by almost absolute political and socio-economic isolation from the rest of the world. It was at an atmosphere of mutual distrust and under the impact of cold war that East and West¹ were separated from each other resulting in a very limited economic interaction. Mutual economic exposure of the East and West had in effect taken place only after a congenial atmosphere of East-West political negotiations was created in late 1960s and early 1970s marked by the solution of the German problem.

A precise estimation of the impact of detente² in terms of economic gains to both East and West may be pre-mature at

1. The term East as used in this article refers to Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, Romania and the Soviet Union while West refers to countries of Western Europe, North America and Japan.
2. The period of detente according to many has already passed with the Soviet invasion in Afghanistan and events in Poland. It can be hardly denied that events in early 1980s have significantly jeopardized the continuity of detente. But if one of the most significant implications of detente can be seen in mutual equi-status recognition and continuation of dialogue on the political front and promotion of economic interaction, it will be oversimplified to say that detente has already departed from the scene of East-West relations. It is in this wider implication that the term detente is used in this article.

this stage. But some insights into such gains can be made for exploring their implications for future East-West relation. The present paper is an attempt in this direction. The significance of the existence and promotion of economic linkages under an atmosphere of political moderation is being examined from the point of view of gains derived by both the East and the West to indicate the implications of such economic gains for detente itself.

East's Gains from Economic Linkages with the West

Pragmatism in the East

The Soviet and East European crave to benefit from economic linkage with the West through trade and technology transfer had its roots in the Lenin's pragmatism and flexibility demonstrated during the regime of New Economic Policy (NEP) of the 1920s. The NEP made provisions for functioning of both foreign and local entrepreneurs within the framework of Bolshevik regimentation in order to expedite the process of economic recovery in Soviet Union. Stalin's programme of achieving autarky as well as cultural and spiritual isolation during his period witnessed the discontinuation of cooperation with the outside world. Pragmatism returned to the Kremlin with Krushchev and his vigorous contacts with the western countries. Krushchev's urge to modernize the Soviet industrial base for bridging the gap in technological development (which he admitted openly) provided one of the basic inputs to Brezhnev's campaign of 'peaceful co-existence' which was subsequently crowned as detente.

Detente from the Soviet and East European point of view has, therefore, a fundamental economic rationale. The importance of trade and commerce with the West and the urge to import advanced technology has contributed greatly to the genesis of detente in the conscience of the leaders of the East. They know that import of western capital and technology is possible with relative ease only in an atmosphere of peace. The access of Moscow and its East

European allies to western technology and long-term credit is substantially conditioned by an atmosphere congenial to such transfers which can prevail only under detente.

Expansion of trade

During the early 1970s Soviet Union and its East European allies, faced with the problem of depletion of extensive sources of economic growth³, embarked upon an investment policy aimed at accelerating technical development. This entailed the necessity of importing machinery, equipment and technical know-how from the West. Dictated by such intensive growth requisites the Soviet Union and countries of Eastern Europe had considerably exposed their economies to trade with the countries of the West. The volume of East's trade with the West has marked the sharpest increase during early 1970s and the trend of increase continued through late 1970s. The East-West trade was nearly balanced upto late 1960s after which along with the jump in the volume of trade, the balance turned against the East although during the late 1970s its extent marked a falling trend⁴. Available data on terms of trade of the East with the capitalist countries indicate that the Soviet Union and its East European allies obtain favourable terms in their trade with the West. According to Portes⁵ during the years 1972-1976, aggregate terms of trade of the East with the West had risen

3. One of the basic features of Soviet and East European economic development is that at the initial period of transition, these countries embarked upon strategy of obtaining high rate of growth based on an overwhelming priority of heavy investment. Coupled with regimentary control of consumption expenditure, this had resulted in spectacular changes in quantitative terms bringing out extensive overall growth of the respective economies. But as the glamour of this quantitative change started to fade out, the countries started to feel the urge to bring about intensive economic growth through better and efficient use of resources by technological change and skill development.

4. *UN/Monthly Bulletin of Statistics*, August 1982, pp. XXXIV-XXXV

5. R. Portes, "Effects of the World Economic Crisis on the East European Economies", *The World Economy*, (London), Volume 3, November 1980, p.28.

significantly, the main gains coming in 1974 and 1976, with losses in 1972-73 and 1975.

Most of the import components of the East was for obvious reasons capital goods. The annual average growth rates of total imports of machinery and equipments into the CMEA countries were recorded as 13.5% in 1960-73, 16.9% in 1974 and 30.6% in 1975.⁶

It may be noted here that there is a similiarity of the pattern of East-West trade with that of trade between developed and developing countries. Like the developing countries East's imports from the West are dominated by finished products of capital goods nature and also foodgrains while their exports to the West are mainly raw materials and intermediate goods.

Credit facilities

Side by side with the development of East-West trade, financial relationship between the two blocs have also gained extreme importance. Before congenial atmosphere to closer economic ties was created by detente, East's imports from the West was almost totally financed by the former's exports to the West. This direct linkage of imports with exports was gradually loosened by closer financial transactions and was replaced by different types of western credits like supplier credit, commercial bank and official export credit, united bank loans, borrowing on the Euro-currency markets etc. Such facilities have in effect provided the East with enormous amount of badly needed hard currency credit whose net amount at the end of 1980 had totalled 72.4 billion US dollars. As shown in table I the total net debt⁷ to the developed market economies increased from some 30.7 billion in 1975 to over 80 billion US dollars in 1981.

6. UN/ECE, *Economic Bulletin for Europe*, Vol. 28/1976, p. 60.

7. Net debt equals Gross debt including short, medium and long-term liabilities less eastern deposits in western banks.

In spite of the usual costs of credit including nominal interest rates plus spreads and front-end fees which have already placed quite a heavy burden on the economies concerned, there is no denying the fact that the East has substantially benefitted from this accessibility to Western sources of finance. The Soviet and East European interest in closer economic ties is guided significantly by the importance of obtaining hard currency credit from the West not only for financing their imports therefrom, but also for promoting development necessary to create potential for repayment of existing debts.

Table I: Estimated net debt of East Europe and the Soviet Union to the west (End of year, billions of US dollars)

Country	1975	1976	1979	1980	1981(p)
Bulgaria	2.0	2.5	3.7	3.2	2.3
Czechoslovakia	1.2	1.8	3.1	3.5	3.6
German Democratic Republic	4.2	5.1	8.1	9.6	11.3
Hungary	2.3	2.4	7.3	7.4	7.8
Poland	7.1	10.2	20.1	22.1	22.4
Romania	2.3	2.5	6.9	9.1	9.6
Soviet Union	8.4	10.3	12.1	13.5	19.5
CMEA Banks	3.1	4.0	4.0	4.0	4.2

Sources : 1 C.T. Saunders, *Money and Finance in the East and West*, (Vienna), Springer-Verlag 1978 p. 83

2 *UN/Economic Survey of Europe* in 1981 p. 311
(p) Provisional

Technology and Efficiency

Science and technology is an area in which the East has been able to derive substantial long-term benefit from its trade with the West. Post-Stalin Soviet leadership's efforts to bridge the gap in technological field took full-blown drive in the early seventies when the East imported massive amount of machineries and technological know-how from the West.

East's dependence on technology transfer according to some studies had been nearly total. During 1945-65 only three techno-

logical processes in the USSR were of its own origin⁸ while between 1971 and 1975 the Soviet Union purchased some 2000 complete plants from the West⁹. The exact extent of East's dependence on the Western technology is hard to ascertain as the issue is obviously highly sensitive and is surrounded by a curtain of secrecy and susceptibility. The findings of recent western research on the Soviet and East European economies, however, support the view that the contribution made by imported western technology to the growth of the East is substantial. According to estimates by one of such studies, the machinery and equipment imported by the Soviet Union from the West during the early seventies was eight times more productive at the margin and the industrial growth rate achieved during the period would have been reduced considerably if such imports had not been taken place¹⁰. Faced with acute shortage of hard currency, the East is compelled to import only highly advanced technology or items produced on the basis of advanced technology which are not available within the CMEA. Examples of such imports are computers, complete chemical plants and sophisticated equipments for exploration, extraction and transportation of oil and gas under unfavourable climatic and geographic condition including deep-water drilling technology.

The importance of technical assistance is even more crucial in regard to much more open and trade-dependent economies like Poland and Hungary whose industrial modernization strategy has substantially been based upon western technological imports. The logic behind such policies was as simple as this : "At first to import modern and advanced machinery, technology and know-how, then

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8. A.C. Shutton, *Western Technology and Soviet Economic Development*, Stanford, Hoover Institution Press, 1973, p. 370.
 9. R.K. Jain, *Detente in Europe, Implications for Asia*, New Delhi, Radiant Publishers, 1977. p.207.
 10. D.W. Green and H.S. Levine, "Macroeconomic Evidence of the Value of Machinery Imports to the Soviet Union", in Thomas and Kruse-Vaucienne, eds. *Soviet Science and Technology: Domestic and Foreign Perspectives*, George Washington University, 1977, p. 395.

start to produce now goods which could be partially sold for export thus repaying credits granted for realized import and the rest could be distributed among population to increase the consumption level At the beginning of seventies, some-where from 1972 upto 1975 western credits granted to Poland was directed and spent almost in total for investment purposes. Thus a lot of western production machineries was imported and installed. In this way credit from West enabled Poland to expand, develop and to modernize many branches of its economy.¹¹

The technological dependence of the East on the West is very likely to continue through a vicious circle of continuous complementary imports, as the nature of equipments imported is such that they can hardly be replicated and their accessories and wear and tear are also import-oriented.

West's gains from East-West economic interaction

According to conventional wisdom and also from what has been presented above, it may appear that it is the weaker partner, and in this particular case, the East which is the sole gainer from East-West economic linkage. The mounting level of eastern indebtedness and the net technological and efficiency gains derived by the East may in fact suggest so. In reality, however, the positive impact of East-West economic interaction to the West is also of no less significance. The western economic interest in East-West detente was vividly underlined at the first phase of the Helsinki conference by the then West German Foreign Minister when he expressed his commitment to the fact that economic relations among participating nations must be brought into harmony with the actual potential of manpower, economic strength and technology. He noted "We have

11. Andrzej Bien, "The Role of Polish Credit Relations with Western Countries in Activating Economic Growth in Poland in 1970-1979", A paper presented at the *Symposium on Monetary Steering in Poland and Germany* at Fernuniversität Gesamthochschule in Hague, May 19, 1981, p.3.

interests in common in the fields of trade, of industry of access to raw materials and sources of energy."¹²

Likewise in the East, West's interest in closer economic relationship has been dictated by pragmatic approach to the existing economic condition in the world in general and in the developed market economies of the West in particular. Recent trends in economic development in the West have motivated western governments and enterprises to intensify efforts in maintaining and if possible, even enlarging western economic interaction with the East. In the face of rising unemployment, low capacity utilization and generally reducing export market elsewhere, the West's trade with the East is no more a 'quantite negligible' issue.

Macro-economic boost from eastern imports

Data presented in table II show that although no linear trend is observed in the pattern of percentage change of western trade with the East, both export and import in value terms have recorded significant positive change over the period 1975-1980. West's trade with the East has increased even at unfavorable and declining terms of trade.¹³ Balance of trade of the west on the other hand has throughout the period 1972-1980 been positive. The importance of East-West trade was especially felt and its fruits gainfully reaped by the West during the recession of 1974-1975, when the West ventured on reducing their difficulties by boosting their exports to the East. During that period, exports of the West to the East gained a spectacular momentum against a drastic fall in their export elsewhere. In 1975, when world trade decreased in real terms by 6 percent, the OECD countries' export to the East shot up by 20%.

12. West German Foreign Minister Walter Scheel at the First Phase of the CSCE, Helsinki, July, 1973, *German News* July 15, 1973.

13. The effective terms of trade may, however, be significantly influenced by political concessions gained by the West, specially by the United States in exchange for trade concessions granted to the opposite side.

The Federal Republic of Germany, for example, exported in 1976 more to the CMEA countries than to the USA and Canada together.¹⁴

Table II, Trade of the developed market economies with Eastern Europe and the Soviet Union .

Percentage change over the same period of previous year

Developed Market Economies with :	Western Exports					
	1975	1976	1977	1978	1979	1980
Eastern Europe	12	-1	2	19	17	9
Soviet Union	66	9	-	16	20	15
Total East	32	5	1	17	18	12
	Western Imports					
	1975	1976	1977	1978	1979	1980
Eastern Europe	9	9	10	14	26	11
Soviet Union	6	22	14	14	43	29
Total East	6	17	12	14	35	19
West's Terms of trade with the East (1975=100)						
Eastern Europe	100	101	105	108	103	103
Soviet Union	100	91	93	86	71	55
Total East	100	96	99	96	86	74

West's Balance of Trade with the East (Billions of US dollars FOB)

	1972	1973	1974	1975	1976	1977	1978	1979	1980
Eastern Europe	1.2	2.6	5.2	6.5	6.5	6.1	6.4	5.4	3.5
Soviet Union	1.2	1.1	-0.1	5.0	4.0	1.5	3.3	1.1	-0.2
Total East	2.5	3.7	5.0	11.4	10.5	7.6	9.7	6.6	3.3

Source : UN/Economic Survey of Europe in 1981, Tables 3.6.5 and 3.6.7

14. C.T. Saunders, *Money and Finance in the East and West*, Vienna, Springer-Verlag, 1978, P.16.

Most of the developed market economies of the West tried during the 1974-75 crisis to raise their exports to the East at the same time freezing, if not reducing, their imports therefrom, which helped in relieving their stagnated home market and to maintain a minimum level of capacity utilisation of major industries. The volume of U. S. exports to the CMEA countries in 1975 increased for example, by more than 90% over 1974 as against a fall of U. S. imports from these countries by 9.7% during the same period.¹⁵ Table III presents a comparative picture of current account balance of payments situation of the West with the East against that with the world. It can be observed that during the whole period from 1972 to 1981 West's current account balance with the East was positive against generally unfavourable balance with the world. More important, during the two rounds of oil price increases of 1974-75 and 1978-79. West's current account balance with the East remained significantly positive against substantial negative figures in relation to the world. This implies that the East has been providing some macro-economic stimulus to the West through its boosted imports from the West.

Table III. Current account balance of payments of the developed market economies (in billions of US dollars).

Year	With Eastern Europe and the Soviet Union		With the World
	Western trade data	Eastern trade data	
1972	1.6	2.3	7.7
1973	1.6	3.6	9.5
1974	3.7	5.2	-20.0
1975	10.1	12.2	5.4
1976	8.2	11.3	-14.8
1977	6.2	8.9	-21.4
1978	8.5	11.6	14.2
1979	5.9	9.3	-27.1
1980	5.2	8.0	-67.4
1981	9.8	11.1	-25.8

Source : UN/Economic Survey of Europe in 1981 p. 314.

15. C.T. Saunders, op. cit p.53.

Joint Ventures

East-West economic interaction had at the beginning of the seventies proceeded beyond traditional exchange of goods. With the signing of the Final Act of the Helsinki Conference new forms of industrial, scientific and technological co-operation have gained momentum including joint ventures in agriculture, industry, environment protection, space research and communication. According to ECE statistics, whereas there were only 168 European East-West cooperation agreements in 1968, their number went up in 1973 to 600, in 1976 to more than 1000 and by mid-1977 to over 1200.

Faced with the energy crisis, the West has developed particular interest in raw material imports and in participating in large-scale projects with the East, like the Siberian Gas Pipe line for opening up new material source by supplying technology and equipment on long-term credit. The positive trend in East-West economic co-operation has gained further attestation by a number of inter-governmental long-term trade and economic co-operation agreement signed in 1980 and 1981. Among such agreements are the ones between the Soviet Union and Austria for economic, scientific and technical cooperation, between Canada, the US and the USSR in the field of grain trade (including the recent US measures for *de facto* withdrawal of any limit of grain export to the Soviet Union). Finland and West Germany have concluded separate long-term co-operation agreements with the USSR. In the 13 months upto September 1981, 16 new long-term agreements have been signed.¹⁶

The Urengoy natural gas pipeline agreement of the Soviet Union with the Federal Republic of Germany, France and Italy, which is expected to be the largest East-West co-operation project ever, with considerable long-term economic impact on West Europe draws particular attention. Its importance to the West has been underlined by the magnitude of the recently settled US-West Europe controversy over the issue. The way it had finally been resolved

16. UN|*Economic Survey of Europe in 1981*, p.296.

indicated that it was mainly rhetoric anti-Soviet gestures of the Reagan administration rather than even apparent over-estimation of expected West European dependence on Soviet energy supply, that had dictated the negative US position. The strong position taken by the West European governments in favour of its continuation demonstrated their concern over not only the expected gains from the project but also over the importance of East-West cooperation as a whole.

It can be observed that many of the latest improvements in the East-West economic interaction have taken place at an atmosphere of generally deteriorating East-West political climate caused mainly by Soviet involvement in Afghanistan and Poland. Although such disturbances of the *status quo* have always produced negative retaliatory measures¹⁷ the general trend of events in recent years indicate that both the East and West in longer perspective remain committed to close economic ties.

Concluding Remarks

The alternative to detente must be discouraging to both the East and the West from purely economic point of view. Both sides are willing to promote trade as a factor of growth : the East is willing to buy investment goods, machinery, equipments, licences and technical know-how, providing thereby prospective trade facilities to the West, which is interested in promoting export of its product and advanced technology, procuring thereby a crucially important macro-economic stimulus for their domestic economies. It is probably in the field of western finance through long-term credit supply and participation in large capital and technology-

17. The US reaction to Soviet involvement in Afghanistan and Poland may be noted in this connection. In more recent retaliation the Reagan administration has temporarily withdrawn the Most Favoured Nation status granted to Poland, in protest against Polish government's dissolving of the Solidarity trade union movement. *B.B.C. World News Broadcast*, October 28, 1982, 0200 hrs. GMT,

intensive joint ventures rather than conventional trade, that East-West economic cooperation will further develop in the 1980s.

From the point of view of the West, the interest in closer economic ties in the spirit of detente is guided not only by immediate positive economic gains but also by long-term consideration of access to East's resource base especially in the field of energy. The prospect of an end to detente will not serve the interest of the either side. Denial of off-shore drilling equipment or technology and credit support for exploring resources of the East would be equally harmful to both East and West.

The way detente has contributed to the promotion of closer economic ties between East and West during the seventies, the consideration of benefits with such economic interaction and possible losses without are similarly prospective to provide substantial and effective barrier to major deterioration in an atmosphere of East-West detente during the eighties. How far such optimism is valid and to what extent economic considerations will prevent confrontation between East and West are issues to be determined by the relative weights of a host of political, strategic and other factors which will influence the future course of events in East-West relationship.