New Eastern import policies and priorities raise other challenges for Canadian trade policy. Now at the top of import priorities are equipment, technology and know-how for the expansion and modernization of long neglected light industries and for the distribution of consumer goods and services. Canadian firms will face stiff competition for this market from their counterparts in the United States, Europe and Japan. In the agricultural sector, it is now the down-stream areas of agribusiness that have the greatest export potential.

Electronics is another potential sector for Canadian firms in Eastern markets. Here the liberalization of strategic export controls is a key factor. As the barriers to Western exports of high technology drop, competition is rising among Western suppliers. It is important that future policy not place Canadian firms at a competitive disadvantage in this process.

Financing must necessarily be an important component of relations in any of these areas, given the severe balance of payments difficulties that all of the Eastern countries continue to face. New government credits have been announced, but Canadian commercial banks have yet to emerge from the isolationism into which they withdrew during the financial crisis of the early 1980s.

The historical imbalance in trade with Eastern Europe (especially with the Soviet Union) takes on greater significance in the new circumstances. The problem is to reduce the imbalance without drastically curtailing the volume of trade. Disregarding credits — which neither side wants to see play the dominant role in future trade expansion that they did in the 1970s — this means that Canada will have to buy more from its Eastern trading partners.[8] Canadian policy cannot therefore be exclusively preoccupied with export promotion.

Trade is not the whole story. With the opening up of the Soviet and East European economies to foreign investment, Canada's economic relations with them have broadened significantly. In fact, much of the recent action at the business level has centred on the establishment of joint enterprises in the Soviet Union and Eastern Europe under new regulatory conditions. By mid-1990, some thirty-five Canadian-Soviet joint ventures had been officially registered in the USSR (27 had been established in Poland). Given Canadian firms' limited commercial experience in these countries, this is a comparatively strong showing. The Canadian-Soviet joint ventures tend to be concentrated in the service sector, mostly in hotel and restaurant services. Only a few Canadian investments were in manufacturing: all-terrain, tracked vehicles, automotive parts, communications equipment. In terms of capital investment, they reflect the risks of an uncertain investment environment and mirror the generally small scale of Western investments.

These investments have tremendous potential for Canada's future relations with Eastern Europe. Although small at present, they are ready to be developed as the Eastern economies open up further in the course of their marketization and privatization. Direct Canadian investment is a potential channel not only to national but also to regional markets, as Eastern Europe is increasingly integrated into the European whole.

Policy measures such as the investment protection agreement with the Soviet Union are a step in the right direction. Canadian firms that embark on equity ventures in Eastern Europe are pioneers, settlers in a new economic landscape. They need encouragement and support in adapting to the difficult and uncertain environment of an Eastern Europe in transition. Programmes are required to help them assess accurately the problems and risks involved and to find appropriate solutions or hedges for them. The new business councils offer a medium through which government support of this nature can be channelled.

In sum, Canada has begun to set the policy basis for measures to meet the challenges of the East European transformation. The current activism in the business community is an encouraging development that broadens and strengthens support for the new policy direction. The Canadian government should lead, not follow, in the development of a new economic relationship with Eastern Europe. Clearly there is a new calculus in East-West relations, of which trade is a significant component. The move towards enhancing prosperity and stability in Eastern Europe through economic cooperation and development with the West challenges all policy makers. In the case of Canada, this challenge will require further policy initiatives, reflecting more new thinking about old support mechanisms and programmes.

NOTES

1 In this paper, the terms "Eastern Europe" or "area" will be used to refer to the seven European members of the Council for Mutual Economic Assistance (CMEA or COMECON) and the Warsaw Treaty Organization. They formed the core of what was long referred to as the "Soviet Bloc": Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, Romania, and the Soviet Union. Two other East European states ruled by communist parties, Yugoslavia and Albania,