

FROM THE DIRECTOR

A FRAMEWORK FOR EAST-WEST ECONOMIC COOPERATION

In late October, Bernard Wood gave the keynote address to an international seminar for opinion leaders on "East-West Economic Cooperation: Opportunities and Limitations" at the NATO De-

fence College in Rome. The following article carries forward some of the main points of that presentation especially relevant in the light of current Canadian interest in East-West relations.

IN MY JUDGEMENT, THE MAGNITUDE OF THE changes that Mr. Gorbachev has wrought in his country's international behaviour and domestic practices now calls for wholehearted recognition by Western leaders, and whatever tangible encouragement it is possible and wise to give. While he still has a very long way to go in Soviet domestic affairs, there is surely no responsible outsider who would dare to prescribe an alternative strategy for him to follow, or to suggest that any conceivable alternative leadership would be preferable.

What we need to do as a minimum is to repeal any measures, beyond the most essential strategic protections, having the character of economic sanctions or discrimination against the Soviet Union and Eastern European countries undertaking such basic reform. Most of our countries have already done much of this, but to open up a well-publicized return to normal economic relations would be symbolically and materially helpful.

Two of the Soviet Union's most important legal changes in the domestic economy which have an impact on East-West economic cooperation are the 1987 Law on the State Enterprise, which set out to give enterprises full economic independence from central authorities; and the 1988 Law on Cooperation, which allows essentially private partnerships – able to employ full-time, unlimited numbers of contract employees – to operate in any sphere of the economy. By the beginning of October 1988, some 770,000 people were estimated to be working in cooperatives.

CHANGES HAVE ALSO OCCURRED IN THE WAY foreign trade is administered. The state no longer has direct control over a large proportion of foreign commerce. Not only can enterprises decide what type of products they will sell on the world market, as of last April, they are allowed to compete on the foreign market on their own. This eliminates the previous structure whereby all foreign trade was conducted through a state foreign trade intermediary.

Enterprises are now allowed to keep a share of hard-currency earnings. Foreign exchange auctions are also envisioned, giving enterprises greater control over their import decisions. A new exchange rate system has been adopted which will allow for the devaluation of the ruble. The 1986 decision to allow joint ventures in the Soviet Union, and the subsequent revision to the law in 1988, has radically altered the possibilities for direct foreign investment. Joint ventures have brought quintessentially capitalist enterprises into the heart of the socialist economies.

Soviet interest in international economic organizations has never been higher. In 1986, the Soviet Union applied to the GATT (General Agreement on Tariffs and Trade) secretariat to participate in the upcoming "Uruguay Round." While its application was rejected, the USSR continues to express interest in joining GATT and is making preparations for formal negotiations. Ivan Ivanov, Vice Chairman of the State Commission for Foreign Economic Relations, expects that reforms currently underway in the foreign trade sector will make the Soviet Union's trade policy compatible with GATT. He admits, however, that it will take at least two years before Soviet price and tariff reforms will be advanced enough for formal talks.

FOR ALL OF THE POTENTIAL OPPORTUNITIES IN East-West economic cooperation there also exist some very real limitations. Gorbachev faces a massively complex task in trying to pull the Soviet economy out of its state of stagnation. Not the least of the problems are the major dislocations which occur as the economy takes on more of the attributes of a free market.

Among these are the resistance of bureaucrats to relinquishing their authority to interfere in the economy; confusion caused by changing guidelines as the reform struggles to find the correct course; problems of insufficient foreign exchange and lack of convertibility of the ruble; and a fundamental change of social norms, as citizens who have been used to full employment and equality face up to the prospect of unemployment and growing wage differentials.

Not only does inertia in the system limit the speed with which the reform process as a whole can proceed, it also inhibits the potential for the expansion of East-West economic cooperation. Numerous anecdotes attest to the frustration of Western entrepreneurs trying to do business with the Soviet Union and Eastern Europe, including problems of bureaucratic attitudes, constantly changing rules, inexperienced Eastern partners and antiquated or non-existent infrastructure.

East and West also have different priorities for cooperation. A major goal of the Soviet Union and Eastern Europe is for their economies to produce internationally competitive exports. This requires technologically up-to-date equipment and know-how from the West. Western businesses, on the other hand, hope mainly to exploit the large Eastern market and are limited in their ability to sell advanced technology to the East. But there is possible common ground in joint venture production.

ALL OF THESE LINKAGES ARE THE REFLECTION of normal market responses to opportunities being opened up by reform and regulatory change. There is immense potential for Western traders and investors every time an Eastern European government makes a sensible policy modification. However, I believe that the West will have to exercise great caution in undertaking any special measures of economic cooperation that go beyond the logic of the market, which is, after all, one of the key benefits that we seek to share. This is no pretext for inaction and no insensitive ideological prescription; it is the course suggested by pragmatism and realism.

While there is a compelling ring to the recent suggestion that Eastern Europe "must have a Marshall Plan or it will have martial law," I believe it is badly misleading. The challenge faced by these countries is not of digging themselves out and rebuilding from the rubble of war, but of disentangling themselves from decades of red tape. The need is not for an infusion of capital goods, money, or raw materials, but for the political will, capacity and know-how to dismantle the myriad obstacles to productive economic activity. This obviously cannot be accomplished overnight nor can it be deferred until a more stable time. Stability itself can come only from successful change.

As one who has spent a large part of his career working on issues of development aid, I am persuaded that no Marshall Plan for Eastern Europe would be desirable or even possible. Although a great deal of good can be done with substantial amounts of "bridging" aid, until the basic changes are in place, the bureaucratized economies of Eastern Europe could quite literally be a bottomless pit for Western aid. It would be disastrous for the West to create a relationship of dependency, and equally disastrous to create expectations which we cannot possibly fulfill.

— BERNARD WOOD

This article was prepared with the assistance of Emily Brown