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1. CMEA: "Common Plan" versus "Common Market"

The Council of Mutual Economic Assistance (**CMEA**, also known as **Comecon**[2]), set up in 1949 by the Soviet Union and the European countries which had adopted a Soviet-type socialist system after the War, was partly the formal expression of economic solidarity within the newly formed bloc, partly a response to the challenge of the Organisation for European Economic cooperation, set up in 1948 by 16 West European nations.

CMEA is an economic community **sui generis**. It is not a common market because no country has direct access to internal markets (if any) in the other countries. It is not a customs union because in all these countries state monopoly of foreign trade and compensatory taxes and

1. Paper presented at the Seminar on "Horizonte de la Union Europea 1992", organised by the Association of European Journalists and the European University Institute, Florence, at the Menendez Pelayo International University, Santander (Spain), 12-16 September 1988. The first two sections of this paper draw extensively on Maciejewski and Nuti, 1985; the author has also benefitted greatly from discussions with the participants in a Workshop which he held on this general topic at the EUI, Florence, on 30 August-2 September 1988, and in particular with Marie Lavigne and Klaus Schneider, though they should not be associated with any of the views, errors or omissions to be found in this paper.

2. Comecon is a Western label, more euphonic than CMEA (SEV in the Russian initials) but avoided in Eastern Europe because it originated in Cold War sovietological literature; it is associated with Cominform and Comintern and it leaves out the element of "assistance" (van Brabant, 1988); this is why "CMEA" is now preferred in economic literature and used in this paper. Founder members were Albania, Bulgaria, Czechoslovakia, Hungary, Poland, Romania and the USSR, joined in 1950 by the GDR; Albania's membership lapsed in 1961, Mongolia joined in 1962, Cuba in 1972 and Vietnam in 1978. Forms of associate membership have been given to Yugoslavia (1966), Finland (1973), Iraq and Mexico (1975) and Angola (1976). The six East European full members of CMEA are often designated as the EE6, while EE7 includes also the Soviet Union.

subsidies make custom duties a purely formal and irrelevant complication. It is not a monetary union because individual currencies are separately managed and rates of exchange have a perfunctory role, while the so-called "transferable rouble" is neither transferable without prior agreement nor a rouble (in that it does not lead to a direct and unconditional claim on goods and services even in the Soviet Union). There is no factor mobility (except for technical knowledge and minor and controlled labour movements) even within CMEA; there is no policy integration in the sense of concertation of current policy instruments. There is, of course, a strong measure of political integration, because of the similarity and indeed the near identity of their political systems as well as Soviet hegemony but, although the CMEA is used to maintain and consolidate political integration, this pre-dates the establishment of CMEA and is not a stated intention of that community; there is no provision for supranational authorities and technically each member is not bound by decisions with which it disagrees (CMEA Charter, 1961; see Marer and Montias, 1981; Maciejewski and Nuti, 1985).

International economic integration is best understood as a pattern of resource allocation which would not be altered if national borders were removed3. Thus a Common Market for goods and production factors, with transactions conducted competitively with convertible currencies under policy coordination, is not a necessary element of economic integration, which can be achieved - in theory - through a **Common Plan**. This is, at the risk of oversimplification, precisely the nature of CMEA, i.e. a commitment to planned integration of both current and future trade, between state monopolies of foreign trade, operating in economies which are centrally planned through administrative means, along the Soviet-type model. In addition, CMEA has imposed a restriction on the type of integration to be achieved, by trying to establish infrasectoral rather than sectoral specialisation, according to the principles of a "socialist" international division of labour aimed at avoiding the polarisation between primary producers and industrialised countries.

Within this framework, CMEA commitment to economic integration could be regarded as intermediate between that of members of the EEC and of the European Free Trade Association. Namely, CMEA has a higher degree of cooperation and integration than EFTA countries intended, and in this respect is closer to the European Community; at the same time CMEA, like EFTA, has never adopted supranational objectives of the nature envisaged in the Treaty of Rome (though in the early 1960s there were

3. Such a pattern is never unique, not only for the all the reasons causing multiple solutions in the theory of general economic equilibrium, but because it is conditional on a particular policy of regional development.

attempts at establishing them); CMEA members "maintain individual tariffs and trade policies towards third parties and undertake obligations only with respect to their mutual trade" (Kaser and Ransom, 1969).

2. The evolution of CMEA

The implementation of this general design has progressed at a changing pace over the last forty years (see Robson, 1984). Until the mid-1950s CMEA cooperation was very limited. Pre-war trade flows were drastically diverted from Western Europe towards the Soviet Union (though some diversion was the reinstatement of pre-1917 economic links), but this occurred independently of Council activity, through the year-by-year bilateral exchange of surplus outputs. In 1955-1962 there was a determined attempt at greater CMEA coordination and integration, with the emergence of joint enterprises and joint investment projects, the setting up of several sectoral and functional Standing Commissions4, the publication of the CMEA Charter and of the "Basic principles of international socialist division of labour" (1960). These developments under Krushchev's leadership were also stimulated by rival developments in Western Europe, with the birth and rise of the European Economic Community and EFTA.

From the early 1960s to the end of the decade CMEA activity stagnated; this was due to the lack of further progress in the multeralisation of intrabloc trade in spite of the setting up of the International Bank for Economic Cooperation (1963), to the generalised slowdown of economic activity throughout the area, resistence to supranational planning by Romania supported by Czechoslovakia and Hungary, and experimentation with economic reform which were widely regarded as the necessary prerequisite of further integration; infrabloc trade stagnated though more joint projects were launched.

The 1970s saw generalised opening to foreign trade within the Council, with the launching of the fifteen and twenty years "Comprehensive Programme for Socialist Economic Integration" (1971), an International Investment Bank (1971), the adoption in 1975 of the long-term special purpose programmes for cooperation (1978 and 1979). The oil crisis created a unique opportunity for CMEA, as an energy self-sufficient economic bloc; CMEA pricing criteria for intra-bloc trade, linking prices to a moving average of world prices, stabilised the intra-bloc price of Soviet

4. These Commissions were set up to cover areas such as agriculture, building and construction, chemicals, coal, research coordination, currency and finance, economic questions, electric power etc., with headquarters in Moscow and other Eastern European capital cities.

trade[5] but by and large CMEA countries did not adjust to the oil crisis either individually or collectively. They maintained domestic absorption resorting to international borrowing, boosting East-West trade until the early 1980s, when the exhaustion of credit and the burden of debt induced a drastic intra-bloc retreat.

At present intra-CMEA trade is dominated by the decline in Soviet export earnings and terms of trade, due to the delayed diffusion of oil price fall to USSR oil exports, which constrains the growth of intra CMEA trade and - because of its unplanned and uncertain nature - leads to unexpected trade surpluses (especially for Hungary, 3bn TR last year) embarassingly large because they cannot be offset against parallel payments deficits with Western countries.

In practice CMEA countries have achieved a degree of economic security in coordinating their internal supply of energy - through Soviet oil and Polish coal - and raw materials, and a high degree of integration as measured by the share of intra-bloc trade (which rose from 9% in 1948 to 52% in 1981). However CMEA economies are comparatively much less open to trade than countries at a similar level of economic development; in the planning process exports are treated as a "necessary evil" for obtaining essential imports, instead of opportunities for enhancing efficiency and productivity. Also, the generalised policy of high investment and accelerated industrialisation, with emphasis on heavy industry, coupled with the anti-diversification bias of so called "socialist division of labour" (see previous section) has given all East European countries a somewhat similar structure, preventing the rise of complementarities. Further integration has been limited also by other systemic factors: bilateral bias in the absence of convertible national currencies (let alone a common currency), not only by country but also by commodity groups according to the degree of their "softness" in international trade (van Brabant, 1973); the inertia built into administrative central planning, combined with the rigidities of economies characterised by persistent excess demand for both goods and labour; mutual fear of exploitation in the face of transactions not taking place at world prices; inability to appropriate fully the returns on joint investments; political limitations to the movements of labour.

The current wave of political renewal and radical economic reform which is taking place in the Soviet Union with Gorbachev's **perestroika** and in most East European countries (with the exception of Romania and the GDR) is making itself felt within CMEA. First, a major reorganisation is under way, with the liquidation of many of the "Standing or Permanent Commissions" through which CMEA cooperation was administratively articulated; these Commissions can be regarded as the international equivalent of national Branch Ministries, also reduced in number in the process of national reform. Second, direct links are being established directly at the enterprises level in CMEA countries, with exporters being allowed to retain some of the export revenue and to convert it into commodities without prior administrative arrangements; this development, which has been agreed bilaterally between the Soviet Union and both Czechoslovakia and Hungary, paves the way towards multilateral convertibility. Third, for the first time in thirty years, there is now talk of a "unified socialist market"[6], spurred both by the development of domestic markets and by the example of the EC "Internal Market" expected by 1992.

3. CMEA-EC relations: three phases

Relations between the European Community and the CMEA "state trading countries" (which is their official EC designation) have gone through three main phases. The first phase goes from 1957 to about 1971 and is characterised by CMEA "total rejection of the European Community as something which could develop into a new subject of international law" (Seeler Report, 1986). This attitude was embodied in 17 theses on the Common Market, published by Kommunist in 1957, and reiterated in the 32 theses on imperialist integration in Western Europe published by Pravda in 1962 (though it was also stated there that its existence did not rule out

5. Intra-CMEA planned trade refers to an average of world prices. In 1958 the rule known as the "Bucharest principle" was agreed, whereby intra-CMEA prices were fixed for a five-year period, at average world prices for the previous five years. In 1975 this was replaced by the "Moscow principle", whereby prices, on a moving five-year average, were to be revised every year (except for 1975 when a three year 1972-1974 average was used). With the drastic rise in oil price Soviet oil lagging behind world prices gave rise to a gain for CMEA oil importers, which many regarded as an implicit subsidy (for instance, Marrese-Vanous, 1983). However the alleged subsidy was more in the nature of a loss for the fulfilment of a long term contract; in any case the same price formula is now making Soviet oil gradually catch up with and exceed the spot price.

6. The pressing need for such a unified market was advocated for instance by the Polish Prime Minister Zbigniev Messer at the CMEA Summit meeting in Prague in July 1988 (FT, 7 July 1988).

cooperation between the two blocs7). This was the result of a miscalculation about the degree of permanence of the EEC, and of the crude application of marxist-leninist theories of capital concentration and imperialism.

The second phase in EEC-CMEA relations goes from 1972 to 1984. This is characterised by CMEA expressions of interest in a formal trade agreement with the European Community, and by EC willingness to hold trade negotiations only with individual members of the CMEA. The change of attitude on the CMEA side, first indicated in a March 1972 statement by Brezhnev, was associated with detente, the ambitious CMEA 1971 programme and probably also apprehension at the adverse effects of the European Community on CMEA exports8. The EC, having acquired in 1974 full competence for commercial policy, which implied termination of existing bilateral agreements concluded by its members, proposed individual trade negotiations to all state-trading countries7. CMEA proposed reciprocal trade relations, industrial technological and scientific cooperation, co-signature by member states, the establishment of a joint committee to consider future relations (February 1976); the EC counterproposal specifically excluded all these issues but included exchange of information, standardisation and environmental questions (November 1976). The Community would not accept "the CMEA becoming a kind of intermediary between the EEC and individual CMEA countries, with power, through the agreement between the two organisations, not only to lay down guidelines for trade policy but also to

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7. Already in the 1960s some East European countries approached the EC with a view to alleviate the impact of CAP, which the EC has done slowly and minimally (this was probably a blessing in disguise for food-deficit countries like Poland, but an obstacle to a genuine comparative advantage for Bulgaria and Hungary).

8. The establishment of the EEC caused a modest trade diversion away from CMEA countries, estimated at 4 per cent of the value (at 1959 prices) of the European Community's imports from the CMEA in 1970; the effect was stronger for manufacturing exports, equivalent to 10 per cent on the same basis (Balassa 1975; see also Balassa 1967). The first enlargement of the EEC appears to have produced stronger net trade diverting effects in industrial products, estimated at 16 per cent of the value of the enlarged EEC in 1970 (Yannopoulos, 1985). Net effects were stronger in food and drinks, chemicals and "other manufactures".

7. The issues involved: MFN treatment (which however is not an issue, having been granted by the EC to all Eastern European countries), quotas, agricultural trade, safeguard mechanisms and credits (Pinder 1988).

supervise the content and execution of Community agreements with individual countries" (Maslen, 1987).

This divergence led to protracted and inconclusive EC-CMEA negotiations, which were suspended in 1980, though direct sectoral agreements were reached with individual CMEA countries, on steel, textiles and agricultural products, with Hungary, Czechoslovakia, and above all Romania (which signed a comprehensive package of agreements and was given preferential status as a less developed country)10.

The third phase in EC-CMEA relations began with the CMEA Summit of June 1984, whose Final Declaration indicated willingness to sign an EC-CMEA agreement aimed at promoting the further development of relations between member countries; this was followed in October 1984 by a proposal to reopen negotiations, without insisting on a trade agreement between the two organisations. In further statements, contacts and negotiations, the EC reiterated the approach of developing closer relations with CMEA "parallel" to the "normalisation" of relations between the EC and the seven CMEA member states11. Already by 1986 CMEA negotiators effectively accepted the EC "parallel" approach; but a further disagreement arose, over the status of Berlin, which delayed an agreement but was resolved eventually by means of a compromise formula12. A Joint Declaration was

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10. Trade restrictions came down not only for steel and textiles covered by special agreements, but also for other products (for instance, in 1985 the EC removed 200 restrictions on Romanian products) but there are still quite a few still in force.

11. "Normalisation" here was understood to mean "willingness to negotiate an overall trade agreement with each country, the accreditation of diplomatic missions with the Community and the abandonment of anti-community disruptive action in international organisations" (Seeler Report, 1988).

12. All EC agreements have a territorial clause about their applicability to all of its territory, which includes West Berlin; in agreements with the EC individual CMEA countries (except Romania) had added a unilateral declaration - acknowledged by the EC though not part of the agreement - that the territorial clause did not alter the status of Berlin as agreed in the Four-Power Agreement of 3 September 1971. This compromise at first was not acceptable to the Soviet Union, wishing to single out Berlin's position in any EC-CMEA agreement. This divergence delayed an agreement but in the end was resolved by means of the same formula (except for Romania who, not having raised this reservation in its own bilateral agreements with the EC could not raise it at this stage).

signed eventually in Luxemburg on 25 June 1988, which amounts to a pact of mutual formal recognition by the two trading blocs and has laid the foundations for further bilateral relations between the European Community and individual CMEA countries.

4. The EC "parallel" approach

The EC "parallel" approach, to the CMEA on minor general questions and to individual CMEA members on substantive questions of trade and cooperation, was due to two main factors[13]:

i) the CMEA lack of common trade policy and indeed its inability to enforce the terms of an agreement on its own members through its own legislation, i.e. CMEA lack of competence in trade negotiations (see above, section 1). In practice an EC-CMEA trade agreement, if it had been concluded with the unanimous agreement of CMEA members, would have carried enough weight to bind CMEA member countries as much (or indeed as little) as any individual trade agreement; in fact over the period 1964-85 cooperation agreements have been signed by CMEA with Yugoslavia, Finland, Iraq, Mexico, Nicaragua and Mozambique. Formally, however, the EC objection was unimpeachable.

ii) the political preoccupation that the Soviet dominant role within CMEA would affect excessively EC relations with the other members of CMEA (especially the EE6); such a preoccupation is said to have been shared by at least some of the other CMEA members themselves. The Seeler Report makes this point and contrasts the Soviet position within CMEA with the position of the other superpower, the United States, which does not belong to the EC. This is seen as the reason for diversifying EC relations with the USSR and the EE6.

The long time taken by the negotiations between the two trading blocs and the EC success in implementing its "parallel" approach are best explained with reference to some structural aspects of trade between members of EC and CMEA. Namely, there are two basic asymmetries:

i) EC-CMEA trade represents a small fraction of EC trade turnover, of the order of magnitude of its trade with Sweden or Switzerland, whereas its share of CMEA trade turnover is four or five times larger; this enabled the EC to negotiate from a position of strength.

ii) Trade with the EC is more important for the EE6 than for the Soviet Union, both in relative size (especially for individual countries such as Hungary, where it represents 1/10 of national income) and structure. In fact Soviet exports to the EC consist mostly of oil, gas and raw materials which enter free of tariff or quota, are

13 Additional reasons were also given by the EC (see Seeler Report) but are not very plausible: the uneven development level of CMEA members, which however is no more uneven than that of an enlarged EC; the presence of non-European members within CMEA, which however could have been handled by already existing forms of association.

supply-determined and easily switchable to other outlets; Soviet manufacturing exports are modest and in low tariff fields, while the EE6 are trying to export to the EC agricultural goods (now exported to the Soviet Union) and low technology manufactures subject to EC protection (Pinder, 1988).

These factors explain why there was never a great incentive for either the USSR as a CMEA prime mover or the EC to reach a comprehensive EC-CMEA agreement. Soviet interest in such an agreement, however, must have increased over time in view of several factors: i) the persistent CMEA economic slowdown, which made it necessary to rely increasingly on West European technology imported no longer on credit but on trade; ii) the slump in EC-CMEA trade and deterioration of terms of trade in 1985-87 and the prospect of further trade diversion that might be generated by the enlargement and unification of the European "Internal Market" in 1992, regardless of whether this diversion may or may not be overcompensated by the boost that the net gains expected by the EC (put by the Cecchini Report at ECU 200 bn) might give to EC external trade; iii) political factors such as the new detente, Gorbachev's perestroika, or possibly the desire to "use these improved contacts with the EC to drive a wedge between the European Community and the United States" (Seeler Report, 1986).

5. Prospects for EC-CMEA collaboration

Shortly after the June 1988 Joint declaration five CMEA members requested official diplomatic relations with the EC (GDR, Hungary, Czechoslovakia, Bulgaria and the Soviet Union), followed by Poland; Romania has not made the request but is involved in trade negotiations all the same. The first five requests have been officially welcomed and obtained a "favourable response", after the endorsement by the July meeting of EC foreign ministers of a proposal by the EC's external relations commissioner, Mr Willy Le Clercq, to widen trade talks with CMEA countries to include the Soviet Union; Poland's request is still under consideration but apparently only because of its later submission.

These developments are not purely nominal. The EC has recently agreed to end quotas on Hungary's exports by 1995; is renegotiating a 1980 trade and cooperation agreement with Romania, and is negotiating an industrial trade arrangement with Czechoslovakia. There is no shortage of issues for discussion and areas for cooperation; the 1970s negotiations had indicated a number of possible fields for official relations: i) better statistical information (demanded by the EC already at the first sessions of the CSCE at Helsinki) about both plans (perhaps more of a matter for joint committees set up by the EC and individual countries) and actual performance; ii) planning and forecasting; iii) standardisation, becoming more important with the 1992 schemes for further standardisation within the

EC, iv) the environment, dramatically come to the fore since the Chernobyl disaster, which however would require the involvement of other neighbouring countries outside EC and CMEA (such as for instance Austria, Yugoslavia and Finland) and therefore might be handled better by the UN Economic Commission for Europe.14

The list of possible areas for cooperation could be lengthened to include: i) non-tariff barriers15; ii) trade multeralisation; iii) countertrade, which thrives on trade constraints and may have to be reduced or regulated with the gradual removal of those constraints; iv) the extension of financial facilities, including the possible use of the ECU for the "financing, invoicing and payment of foreign trade transactions"; v) joint ventures, including joint EC-CMEA projects such as those mentioned in the Seeler Report, namely research on "the exploration of new sources of energy, and notably nuclear fusion but also alternative sources of energy", "scientific cooperation...provided that the proper necessary strategic interests of Western Europe are properly guaranteed", "the development of an energy system for the whole of Europe, particularly for the supply of electricity, so as to establish a major inter-European network of energy supplies and mutual services", "cooperation ... as regards reactor security and mutual aid in cases of reactor malfunctioning", the development of transport infrastructures in Europe"; possibly, also joint action vis a' vis the Third world.

5. Obstacles and incentives

The further development of EC-CMEA cooperation runs into a number of obstacles, which deserve further consideration. Mostly they are general obstacles to trade between different economic systems, namely the questions of effective reciprocity, trade denial, and debt burden.

"Effective reciprocity" of any concession and trade barrier reduction offered by the EC. Eastern traders complain about tariff and non-tariff trade barriers but - as long as the traditional administrative allocation of hard currency and trade licencing system are maintained (whether

14 The UC-ECE was set up in 1947 in Geneva by the Economic and Social Council of the United Nations; it includes all European countries, the USA and Canada and is already dealing with environmental questions as well as energy and transport.

15. Tariffs are discussed within GATT, of which Czechoslovakia, Hungary, Poland and Romania are members while Bulgaria is an observer; Romania benefits from the EC general scheme of preferences, but Bulgaria does not because of its higher level of industrialisation.

or not state monopoly of foreign trade is dismantled) - Western trade with the East meets a generalised, implicit, arbitrary and uncertain barrier. At the same time, Western markets are exposed to price policies which can be as disruptive as the most aggressive "dumping". The problem however is not insormountable. Usually East European imports are constrained by export revenues, not by demand; their recent and persistent trade surplus with the EC could be handled by EC-wide ties linking concessions to trade levels; there is every expectation that any reduction of trade barriers would be matched by higher East European imports or repayment of debt. Protection of EC industries is not a case for trade restrictions, because protection whenever necessary can be enacted via anti-dumping duties if there is actual injury to EC producers16. There are Western countries which have very close relations with a centrally planned economy, such as between West and East Germany17 or

16. Pinder, 1988. Anti-dumping duties are applicable when a product is sold at less than its normal value, usually defined as "the comparable price actually paid or payable in the ordinary course of trade"; given the difficulty of defining the ordinary course of trade in a centrally planned economy, EC and GATT have used price in analogue country, or the existing price of an close substitute in the importing country.

17. Under the EEC Treaty Protocol on German internal trade the GDR has tariff-free access to the FRG, so that many have regarded the GDR as a member of both CMEA (official) and the EC (unofficial). Recently West German circles have claimed that closer links between the two blocs implied abandoning the Federal Republic's pledge to seek reunification with East Germany (for instance, Mr Egon Bahr, the East-West strategist of SPD; see FT, 5 August 1988). The claim does not seem to follow necessarily, especially in view of the EC "parallel" policy which cuts out CMEA intermediation; also, it could be argued that closer relations between the two blocs are a precondition for further progress towards closer infra-German links.

between Finland and the Soviet Union18; their experience indicates that trade relations between different economic systems can go much further than current EC-CMEA relations.

"Trade denial" is built into EC-CMEA relations as antagonistic alliances protecting their own security and political systems using economic weapons to influence policies through threat and retaliation. The strictest security-minded constraint applicable to EC-CMEA is that administered over the last forty years by the Coordination Committee for Multilateral export Controls, known as CoCom, including all NATO countries minus Iceland plus Japan and operating from Paris19. Although the implementation of CoCom policies is left to national authority, there is no reason why the EC should not formulate a policy about the list administered by CoCom, especially in view of the more accomodating policy increasingly adopted by Japan. Economic weaponry includes trade embargoes, asset freezing or impounding, credit and trade limits or vetoes. Economic sanctions are are costly to implement and are rarely effective. The EC participated in economic sanctions following Polish declaration of Martial Law (December 1981), imposing Community import restrictions on the Soviet Union worth about US$100 mn. Restrictive US policies towards the USSR have been costly for Europe (including boycott of exports of equipment for the production and transport of energy) and divisive, especially in view of the retroactivity and extra-territoriality claimed by the US. Economic inducements such as the FRG policy of "change by trade" (Wandel durch Handel) may be more effective (Schiavone, 1987).

18. Finnish-Soviet trade takes place at spot international prices (i.e. there is no price formula such as those of Bucharest or Moscow discussed above), but according to long medium and short term plans, and quota systems for a list of goods; the Finnish government is not committed to trade but only to do its best to ensure that trade corresponds to agreements. The Finnish-markka/rouble rate is effectively determined by the USSR because it is linked to Soviet rouble-dollar rate; "clearing roubles are convertible to dollars (via the Finnish markka) at the official Soviet dollar-rouble exchange rate for firms exporting to the Soviet Union" (See Oblath, 1988). Because of Finnish lack of control over the exchange rate, Finnish exports are subject to licencing (in practice only Finnish products containing less than 20 per cent imports are exportable). This formula for limited convertibility seems a useful example for others to follow in East-West and intra-CMEA trade, though there is no reason why the exchange rate should be in line with Soviet cross-rates.

19. The peak of CoCom restrictions was reached in 1953 when 260 items were embargoed, 90 were under quantitative control and 100 were under surveillance (Schiavone, 1988).

Another obstacle to the development of further relations with the EC is the burden of servicing and repaying CMEA debt (now of the order of about US$100 bn), combined with the unwillingness and/or inability to raise new capital, and aggravated by lack of currency convertibility even within CMEA and state ownership of national assets. Different countries are differently affected, and here the "parallel" approach pursued by the EC is bound to be appropriate; for a country like Poland, indebted beyond visible possibilities of redemption, joint EC-CMEA cooperation in debt relief and economic assistance may be essential to economic recovery and political progress; the alternative is economic and political involution, which is the high price paid by Romania for reducing its debt. Occasional calls for a Marshall-like plan for Eastern Europe are best taken as expressions of the need for a selective and concerted East-West plan of action to deal with the debt problem worldwide.

On the more positive side, there are also economic and political incentives. There are mutual gains from an intensified international division of labour, especially if expected to last; not only conventional (static and dynamic) gains from trade and financial relations which may be expected from the reversal of the post-War trade diversion (see above) but also those deriving from a certain "systemic" complementarity between capitalist countries characterised by unemployed capacity and labour and socialist countries characterised by endemic excess demand[20]. Gains from trade bring about mutual dependence, which raises the cost of conflicts and promotes peace. There are also two basic political incentives. The first is that of aiding the process of market-oriented radical reform and political renewal in CMEA countries, since a measure of economic improvement is essential to the consolidation and

20. This kind of complementarity has nothing to do with the alleged CMEA-EC complementarity as primary producers and industrialised countries, rightly criticised by Graziani, 1987.

progress of reform[21]. The second is the possibility of "driving a wedge" between the Soviet Union and the other East European countries; more generally, the possibility "gradually to overcome the problem of the division of Europe and change substantially the spirit of Yalta with regard to the division of zones of influence and control between the two superpowers" (point G of the motion submitted by the Committee on External Economic Relations to European Parliament, see Seeler Report, 1988).

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21. If a CMEA country were to implement radical reform fully and unambiguously it would have to be removed from the list of "state-trading countries". At present such category is not defined, so that a change in status would not be automatic. A likely candidate is Hungary: already in 1969, when it approached GATT for accession, Hungary claimed that its reform - which had just been launched - was to "replace the previously employed administrative directives by economic regulators" and that its enterprises "have full autonomy to decide what to produce and how much, where to buy and where to sell"; at that time GATT was not convinced and allowed import restrictions against Hungary, but subsequent reform has led to further claims of this kind, in negotiations with the EC and with GATT.

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