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OPENNESS AND COMPETITIVENESS OF ECONOMIES OF THE EAST EUROPEAN COUNTRIES AND THE FORMER SOVIET UNION

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INTRODUCTION

In the contemporary world the development of every country is based not only on the utilization of domestic factors but also, on a larger and larger scale, on external factors. The basic prerequisites for their effective use are the openness of a given economy and its competitiveness. In the present study these problems are discussed, and information on the degree of openness and competitiveness of the East European countries and the former Soviet Union (for short EE countries) is given.

1. Definition of Openness and Competitiveness of a National Economy

The problem of openness and competitiveness of a national economy attracts at present the interest of many economists, Polish economists among them. It is reflected in a number of valuable studies, whose authors aim at giving accurate definitions of such notions as openness of economy, competitive position of a country, competitive capacities etc.[1]

Economic openness has not been interpreted uniformly so far. However, some generalizations can be made. First of all, it goes without saying that economic openness is a category quite

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[1] See among others: Bossak [1984], Bienkowski [1987, 1988a and b], Hakogi and Bienkowski [1981], Misala [1988].

opposite to full economic autarky. Thus the open economy is one that participates more or less actively in the international exchange of products (goods and services) and factors of production, i.e. capital, labour and the so-called dis-embodied technology.

At present, it is difficult to speak, except purely theoretically, about a fully autarkic economy. Instead, we have to do with different intensities in the growth of openness of individual national economies, what is connected with the tendency towards the internationalization of economic life and - first of all - with the internationalization of goods' and production factors' markets. It is usually accompanied by the internationalization of various institutions (banks, insurance companies etc.) as well as the internalization of such externalities as the pollution of natural environment or the consequences of the so-called imitation effect of consumer patterns, motivations, attitudes etc. These problems are, to a larger and larger extent, external not only for individual national economies and various economic subjects (enterprises, consumers, etc.) acting within their framework. Many of these problems can be already described today as international problems of economic growth (international externalities) [Lindbeck, 1975; Jones, 1985].

The openness of a national economy may be looked upon statically and dynamically. The latter approach deals with the process of opening and closing the economy of one or more countries. The process of opening is understood in such a way that in each period under scrutiny (e.g. every year) the country receives more from outside (so-called input) in the form of imports of products or factors of production, etc. and at the same time it offers more and more to the other countries (so-called output understood as export of goods, services, factors of production and so-called externalities). Since the defined above input of national economies is the output of others, it may be stated that increasing openness is tantamount to the process of internationalization and deepening the international interdependence in the field of production and exchange. Otherwise we have to do with closing.

Differentiation can be made between nominal and real openness of the national economy of a given country. Nominal openness is understood in terms of quantity only (e.g. share in world exports). This kind of openness means that possibilities for making profit exist when developing foreign flows of products and factors of production according to basic principles of international turnover. In turn, real openness is the one that embraces additionally qualitative aspects of the active participation of a national economy in the international division of labour.

The notion of real openness is closely connected with the notion of competitive capacity understood as ability to fight and to compete for profits resulting from the country's participation in the international division of labour [Bossak, 1984]. This profit-oriented fight existed already in the period of free competition but it is also characteristic of the contemporary world economy. The aim of the fight has remained unchanged. It is only the way and conditions of the fight that change.

Competitive power understood as a long-term ability of economies to cope with international competition is sometimes referred to as factors' competitiveness. As opposed to this kind of competitiveness, there is another notion, i.e. the so-called resultative competitiveness,[1] also called the competitive position which in the countries of command economy referred mainly to the participation of a given country or a group of countries in the international exchange of goods and services.

There is no reliable measure or measures of real openness, especially in reference to state controlled economies. Thus, it is extraordinarily difficult to measure precisely the competi-

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[1] See Fels [1979], Zbytniewski [1986], and Bienkowski [1987, 1988a].

tive power of the EE countries which are striving nowadays more or less to introduce principles of market economy. An accurate analysis should quantify as precisely as possible such elements influencing economic growth as the size and structure of production factors, the effectiveness of their utilisation, the efficiency of the socio-economic system, the efficiency of economic policies of governments, etc. These are the most significant factors that determine the flexibility of a national economy, its ability to penetrate foreign markets and diffusion of technological progress, its ability to accumulate capital as well as its ability to influence the economies of other countries [Glismann and Horn, 1979; Fels, 1979; Bossak, 1984].

It is equally difficult to measure nominal openness or the so-called resultative competitiveness or competitive position. There are attempts, however, made in reference to earlier state controlled economies, too. Firstly, it is useful to describe the state of openness as a structural feature of a given economy or a group of economies. Secondly, it is useful to analyze the level of nominal openness whose results make it easier to answer the question whether, in the dynamic approach, the process of nominal openness is decreasing or increasing.

2. Results of Selected Empirical Analyses

In the whole post-war period the foreign trade of the EE countries has played an insignificant role in the world trade. In terms of value it has been, as a rule, six or sevenfold smaller than the foreign trade of the so-called developed capitalist countries and about three, four times smaller than the foreign trade of the developing countries. At the turn of the 1980's and 1990's the divergence has clearly increased.

Table 1 - Network of the World Trade in Selected Years after World War II (in percentages)

Exporting countries	Year	Destination			
		EE countr.	OECD countr.	Other	Total
EE countries	1955	5.4	1.7	1.7	8.8
	1965	6.8	2.2	2.6	10.6
	1970	5.9	2.0	1.4	9.3
	1980	3.9	2.3	1.6	7.8
	1985	4.9	2.8	1.9	9.6
	1989	3.1	1.8	1.5	6.4
	1990	1.9	2.0	1.2	5.1
OECD countries	1955	1.2	44.5	17.6	63.5
	1965	2.0	51.6	14.7	68.7
	1970	2.1	56.1	13.8	72.4
	1980	2.5	45.1	16.6	64.2
	1985	2.2	45.7	16.2	64.2
	1989	1.6	54.2	14.6	70.4
	1990	1.5	55.9	14.8	72.2
Other countries	1955	1.7	19.2	6.9	27.7
	1965	1.5	14.7	4.7	20.7
	1970	1.3	13.1	4.1	18.3
	1980	0.9	19.9	7.2	28.0
	1985	1.1	16.5	8.7	26.3
	1989	1.0	14.3	7.9	23.2
	1990	0.9	15.4	6.4	22.7
Total	1955	8.3	65.4	26.3	100.0
	1965	10.3	68.6	21.1	100.0
	1970	9.3	71.4	19.3	100.0
	1980	7.3	67.3	25.4	100.0
	1985	8.2	65.0	26.8	100.0
	1989	5.7	70.3	24.0	100.0
	1990	4.3	73.3	22.4	100.0

Source: UN [1989 and 1991].

The place of the EE countries' foreign trade in the world trade has so far by no means reflected their economic potential. It has been, first of all, disproportionately small in comparison with these countries' share in the world resources of manpower and raw materials, global investment and production as well as in the world income. The persistence of this state of affairs was a direct consequence of the low and in the last several years sharply decreasing level of openness and competitiveness of their national economies.

2.1. Results of Selected Analyses of the Level of Openness

In the EE countries, there have been a number of studies carried out concerning the level of openness of their national economies. Analyses of this sort have also been carried out in Poland where the most complex one was prepared in the middle of the 1980s by D. Hübner and W. Hübner [1984]. The authors analysed the level of openness of Poland's economy against the background of 23 countries, among them other EE countries, a few highly developed countries and a few developing countries called NIC's (newly industrialized countries). The study dealt with the period of 1965-1980. It follows from the study that in this period national economies of the EE countries belonged to the group of the least open economies. The low level of openness could be observed especially for Poland, Romania and, what is partly understandable, the former Soviet Union.

According to the authors of the quoted study, Poland belonged in that period, just as Romania and the former Soviet Union, to the group of countries with a very low level of exports per capita. In 1965, from all analyzed countries only five (Spain, Greece, Yugoslavia, Romania, and the former Soviet Union) exported less per capita than Poland; in 1980, the number fell down to three (Greece, Yugoslavia, and the Soviet Union). In 1980, the volume of exports in Poland was only 10 per cent bigger than the world average. Then, the thesis was put forward that in the discussed period the capacity to adjust effectively to changes in the world economy in Poland and many other EE countries was lower than in the capitalist countries taken into account.[1]

This thesis is explained additionally by comparing exports per capita to national income per capita in the analyzed countries. Having applied this method, it appeared that the openness of the EE countries in the analyzed period was relatively low and kept declining. This was especially true in the case of Poland. In this approach to the level of openness, only such countries as the former Soviet Union, the USA, and Spain were less open than Poland in 1980, the differences declining clearly to the disadvantage of Poland.

D. Hübner and W. Hübner [1984] also carried out a detailed analysis of foreign trade shares in the national income of the countries in question. They came to the conclusion that the EE countries were only weakly linked with the world economy. Judged from this kind of analysis, it appeared that Poland's national economy distinguished itself to its own disadvantage. In the analyzed period, the export share in the Polish GNP was on average equal to one fourth or one third of equivalent shares in other countries. Similar shares were found for Romania and Bulgaria.

Many empirical analyses concerning foreign trade of the EE countries suggest that the indices of demand and income elasticity of imports or exports in these countries underwent a considerable change in each of the post-war years. This phenomen appeared especially clearly in the trade of the EE coun-

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1 This thesis is also supported by results of many empirical analyses based on the so-called mechanistic methods, especially on the matrix of international trade and on the so-called gravity models. See among others: Cornelisse [1964], Fink [1977], Kotynski [1979], Maciejewski [1981], Nagy and Török [1977], Nagy [1979], Ohlin [1981].

tries with developed capitalist countries. Generally, as claimed by D. and W. Hübner [1984, p. 20], this resulted from many reasons: "among others from the nature of management system, domestic imbalance, low international competitiveness of economy and instability of growth of the world economy". These factors had also some impact in the 1980s, with different intensity in the individual EE countries [Misala, 1988].

Table 2 - Shares of Selected Countries in World Trade, 1978-1989 (in percentages)

Countries	Shares in world imports				Shares in world exports			
	1978	1980	1985	1989	1978	1980	1985	1989
Belgium and Luxemburg	3.6	3.5	2.7	3.1	3.4	3.2	2.8	3.3
Denmark	1.1	1.0	0.9	0.9	0.9	0.8	0.9	1.1
France	6.3	6.7	5.3	6.1	6.0	5.6	5.1	5.9
Greece	0.5	0.6	0.4	0.4[a]	0.4	0.5	0.4	0.4[a]
Spain	1.4	1.7	1.5	2.2	1.0	1.0	1.3	1.4
Holland	4.1	3.7	3.2	3.2	4.0	3.7	3.6	3.6
Ireland	0.5	0.6	0.5	0.5	0.4	0.3	0.5	0.7
Portugal	0.4	0.4	0.4	0.6	0.2	0.2	0.3	0.4
West Germany	9.3	9.6	7.7	8.6	11.1	9.9	9.5	11.3
Great Britain	6.0	5.9	5.4	6.2	4.1	5.8	5.3	5.0
Italy	4.3	4.9	4.3	4.8	3.7	3.8	3.9	4.6
Bulgaria	0.5	0.4	0.7	0.5[a]	0.5	0.5	0.7	0.6[a]
Czechoslovakia	0.9	0.7	0.9	0.5	0.8	0.7	0.9	0.5
East Germany	1.1	1.0	1.2	1.1[a]	1.0	0.9	1.2	1.1[a]
Poland	1.2	0.9	0.5	0.3	1.1	0.8	0.6	0.4
Romania	0.6	0.6	0.5	0.4[a]	0.6	0.6	0.8	0.6[a]
Hungary	0.9	0.5	0.4	0.3	0.8	0.4	0.4	0.3
USSR	3.6	3.2	4.0	3.6[a]	3.7	3.6	4.5	3.9[a]
Yugoslavia	0.8	0.7	0.6	0.5	0.4	0.4	0.5	0.4
Turkey	0.4	0.4	0.5	0.5[a]	0.2	0.2	0.4	0.4[a]
Brazil	1.1	1.2	0.7	0.6	1.1	0.9	1.4	
South Korea	1.2	1.1	1.5	1.9	1.0	0.9	1.5	2.1
Mexico	0.6	0.7	0.6	0.6[a]	1.0	0.9	1.5	0.7[a]

[a] Data for 1988.

Source: GUS [1990] and UN [1987].

In the analyzed period 1978-1989, the level of openness of the EE countries, measured by the share in world imports and exports, was still relatively low. With few exceptions, it became even lower. Summing up, in case of most of the East European countries, adjustment processes in reaction to changes in the world economy were not satisfactory.

Table 3 - Value of the Foreign Trade Per Capita in Poland and Some Selected Countries in 1978-1989 (US dollars)[a]

Country	1978	1980	1985	1988	1989
Belgium and Luxemburg	4.467	6.624	5.371	8.943	9.671
Denmark	2.602	3.675	5.371	5.288	5.349
France	1.486	2.293	1.863	2.698	3.310
Greece	739[b]	1.021[b]	883[b]	1.317[d]	.
Spain	429	732	705	1.291	1.369
Holland	3.759	5.335	4.610	6.856	7.191
Ireland	1.984	2.869	2.864	4.841	4.331[e]
Portugal	367	484	654	1.317	1.498
West Germany	2.222	5.275	2.888	4.838	5.152
Great Britain	1.346	2.105	1.860	2.831	3.060
Italy	967	1.553	1.417	2.326	2.533
Bulgaria	785	1.072	1.533	1.909	1.880[e]
Czechoslovakia	729	952	1.135	1.516	919
East Germany	829	1.107	1.463	1.763[d]	1.900[e]
Poland	432	508	300	346	314
Romania	353	553	573	506[d]	.
Hungary	1.011	936	783	913	869
USSR	180	255	306	360[d]	384[e]
Yugoslavia	357	501	436	547	595
Turkey	800	82	186	246	248[e]
Brazil	114	166[c]	167[c]	145	179
South Korea	357	522	738[c]	1.050[d]	1.461
Mexico	97	105	227[c]	206[d]	240[e]

[a] Total Value of imports and exports divided by 2.- [b] Imports only.- [c] Data for 1984.- [d] Data for 1987.- [e] Data for 1988.-

Source: GUS [1990].

In terms of per capita foreign trade, the situation of Poland was much worse than that of many other countries being compared. For example, in 1986 the value was 8 times smaller than in the European Communities' [EC's] countries (excluding Greece), almost 3 times smaller than in the EE countries (Poland including) and also definitely smaller (about 35 per cent) than in Yugoslavia.

The rate of growth of foreign trade turnover per capita in Poland was on a relatively low level. Moreover, respective shares of the countries analyzed in Table 3 declined in the period 1980-1988 only in the case of Poland, Hungary, and Yugoslavia. However, in case of Yugoslavia the decline amounted to 4.5 per cent per capita, in case of Hungary 7.3 per cent per capita, whereas the corresponding figure concerning Poland amounted to as much as 28.9 per cent. As a result, in 1988 Poland was inferior in terms of value of foreign turnover per capita to all the EC countries (including Greece, Spain, and Portugal), all other EE countries as well as Yugoslavia and South Korea.

2.2. Results of Selected Analyses of the Level of Competitiveness

Because of numerous, specific features of the functioning of state controlled economies (e.g. detachment of internal prices from the level and structure of the so-called world prices, lack of real exchange rates), it was difficult to apply all measures and indices of the level of competitiveness which are applied in market economy countries. This fact has been stressed among others in many studies on the subject prepared in Poland [e.g. Bienkowski, 1988a, b]. Therefore, respective studies were usually carried out with various relatively simple quantitative measures of competitive position [see Table 2].

These measures were used by W. Bienkowski [1987, 1988b] in several works of him. He completed his considerations with results of analyses made by experts of the Economic Commission for Europe [ECE, 1987], Wharton Institute [Wharton, 1987] and Vienna Institute for Comparative Studies [WIFO, 1985]. The results of W. Bienkowski's calculations based on the data published by these Institutes are presented in Table 4.

Table 4 - Shares of the EE Countries' Exports in Imports of the OECD Countries in 1970-1984 (in percentage)

	Bulgaria	Czechoslovakie	GDR	Poland	Romania	Hungary	East Europe[a]	GDR	East Eur.[b]	USSR[c]
1970	0.10	0.31	0.17	0.45	0.23	0.23	1.50	0.41	1.74	1.13
1971	0.09	0.32	0.16	0.47	0.24	0.22	1.50	0.43	1.76	-
1972	0.09	0.31	0.17	0.50	0.26	0.26	1.58	0.42	1.82	-
1973	0.08	0.30	0.15	0.50	0.26	0.27	1.57	0.39	1.81	1.19
1974	0.07	0.26	0.16	0.48	0.25	0.23	1.43	0.37	1.65	-
1975	0.06	0.27	0.17	0.53	0.27	0.21	1.50	0.40	1.73	-
1976	0.06	0.24	0.15	0.52	0.27	0.21	1.45	0.38	1.67	-
1977	0.06	0.24	0.14	0.50	0.23	0.21	1.37	0.36	1.59	-
1978	0.06	0.23	0.15	0.49	0.24	0.21	1.37	0.36	1.59	-
1979	0.07	0.23	0.14	0.44	0.26	0.21	1.35	0.36	1.57	1.68
1980	0.06	0.22	0.15	0.40	0.23	0.20	1.26	0.37	1.48	1.79
1981	0.06	0.20	0.16	0.27	0.25	0.19	1.13	0.37	1.33	1.82
1982	0.05	0.21	0.19	0.27	0.20	0.18	1.11	0.41	1.33	2.04
1983	0.05	0.21	0.19	0.26	0.22	0.19	1.12	0.42	1.34	2.08
1984	0.04	0.19	0.17	0.29	0.28	0.19	1.17	0.38	1.37	-

"-" - no date.- [a] Without USSR.- [b] Considering trade between both former German states.- [c] No data for remaining years.

Source: WIFO [1985] quoted in Bienkowski [1987, p. 12].

If the share of exports' value of the EE countries in global value of imports of the OECD countries is to be treated as one of the measures of competitiveness, it appeared that in the 1970's and 1980's the EE countries' competitiveness kept declining. The only exceptions in this respect almost throughout the period 1970-1984 were Romania and the former Soviet Union. However, in 1984 the competitive position of these countries, too, started to deteriorate considerably.

The competitive position (resultative competitiveness) of the EE countries measured by the share of their export value in the imports of the OECD countries was different for individual groups of commodities in the 1980s. Table 5 contains suitable data enabling to put forward some reasons for the deterioration of resultative competitiveness of the EE countries.

In the analyzed period the competitive position of the EE countries evolved in a similar direction. As appears from Table 5, the share of these countries exports in the OECD countries' imports of fuels, raw materials and foodstuffs slightly increased or remained unchanged, while at the same time the share of the EE countries in the imports of the OECD countries clearly declined in the case of machines and appliances as well as industrial consumer goods. Actually, the only dynamic group of commodities were fuels, which was due mainly to the rapid increase in their prices after the so-called second oil price shock. In the period 1981-1986 only a few out of several dozen groups of goods exported by the EE countries to the West achieved higher shares in the imports of the OECD countries and as a rule not substantially. They were all almost exclusively products of a low degree of processing. It appears from detailed analysis prepared by Levcik and Stankovsky [WIFO, 1985] that out of 55 groups of commodities exported by the EE countries to developed market economies in 1970-1983 only five were distinguished for their bigger share in imports of the OECD countries in 1983 than in 1970. Those were: crude oil and oil by-products, electricity, artifical fertilizers, wood, and wood pulp.

Among factors determining the position of the EE countries in their common exports, the most significant have been undoubtedly economic factors so far, first of all the abundance of natural resources and level of economic development. It may be clearly seen, however, that a very important role was additionally played by institutional factors, or to be more precise - by the principles of functioning of national economies of the EE countries as well as foreign economic policy instruments employed. This is confirmed in Murrel's study [1981] of exports

Table 5 - Shares of the EE Countries' Exports in the OECD Countries Imports in 1981-1986 in Selected Groups of Commodities (in percentages)

Country	Commodity	Years			
		1981	1983	1985	1986*
Bulgaria	machines and appliances	0.09	0.07	0.05	0.05
	fuels	0.22	0.22	0.22	0.20
	basic raw materials	0.23	0.22	0.25	0.24
	foodstuffs	0.19	0.16	0.26	0.20
	industrial consumer goods	0.01	0.04	0.03	0.03
Czechoslovakia	machines and appliances	0.12	0.14	0.11	0.11
	fuels	0.10	0.15	0.14	0.13
	basic raw materials	0.48	0.51	0.50	0.51
	foodstuffs	0.11	0.10	0.11	0.11
	industrial consumer goods	0.08	0.07	0.06	0.06
GDR	machines and appliances	0.14	0.17	0.15	0.15
	fuels	0.26	0.45	0.49	0.50
	Basic raw materials	0.77	1.06	1.07	1.08
	foodstuffs	0.24	0.37	0.35	0.35
	industrial consumer goods	0.11	0.15	0.14	0.14
Poland	machines and appliances	0.17	0.16	0.11	0.11
	fuels	0.18	0.34	0.36	0.36
	basic raw materials	0.54	0.53	0.52	0.52
	foodstuffs	0.20	0.25	0.31	0.31
	industrial consumer goods	0.07	0.05	0.04	0.04
Romania	machines and appliances	0.15	0.13	0.07	0.09
	fuels	0.43	0.55	0.58	0.58
	basic raw materials	0.71	0.57	0.61	0.63
	foodstuffs	0.14	0.13	0.07	0.10
	industrial consumer goods	0.10	0.06	0.05	0.05
Hungary	machines and appliances	0.06	0.06	0.05	0.05
	fuels	0.07	0.20	0.11	0.10
	basic raw materials	0.56	0.61	0.60	0.58
	foodstuffs	0.55	0.54	0.46	0.45
	industrial consumer goods	0.07	0.06	0.05	0.05
EE-6	machines and appliances	0.73	0.73	0.54	0.56
	fuels	1.26	1.91	1.90	1.87
	basic raw materials	3.29	3.50	3.55	3.56
	foodstuffs	1.43	1.55	1.56	1.52
	industrial consumer goods	0.44	0.45	0.41	0.40
USSR	machines and appliances	0.90	1.16	0.80	0.84
	fuels	4.63	6.86	5.93	8.00
	basic raw materials	1.76	1.72	1.66	1.65
	foodstuffs	0.13	0.19	0.17	0.17
	industrial consumer goods	0.05	0.05	0.06	0.06
EE-7	machines and appliances	1.63	1.89	1.34	1.40
	fuels	5.89	8.77	7.83	9.87
	basic raw materials	5.05	5.22	5.21	5.21
	foodstuffs	1.56	1.74	1.73	1.69
	industrial consumer goods	0.49	0.50	0.47	0.46

* - Data based on the first half of 1986.

Source: Bienkowski [1988b, p. 12].

from the East to the West as well as exports of some Western countries (Portugal, Greece, Spain, Ireland, Italy, Austria, and Great Britain). Having analyzed revealed comparative advantage indices, Murrel stated that Hungary was in 1966-1975 the only country showing a similar efficiency in the process of exports growth on Western markets as the Western countries mentioned above. What is more, in that period the effect of Hungarian export activities on Western markets indicated a relative improvement (approaching the positions of comparable West European countries). Murrel attributed this, first of all, to the stimulating influence of the economic reform started there in 1968.

The analysis of Murrel was completed to some extent by Hanson [1982], who estimated the effects of economic activities of Poland, Hungary, and the former Soviet Union. The analysis concerned the period 1971-1979, and its author paid special attention to the relations between the volume of imports of these countries from the West and the volume of their exports to Western markets of machines, appliances, and transport equipment. According to Hanson, the effects of the so-called import-led growth strategy applied by the analyzed EE countries were explicitly differentiated, definitely the best in the case of Hungary and definitely the worse in the case of the other two countries, especially the former Soviet Union. Summing up the results of his analysis, Hanson [1982, p. 145] wrote: "First, the import-export linkage may have been rendered less weak in the Soviet than in the Polish case by the influence by national economic size... Second, the element of "rush" in Polish policy greatly exacerbated the subsequent balance of payments problem. Both Soviet and Hungarian policies appear to have been better in this respect. Third, Hungarian performance might be presented as the best of the three, insofar as the influence of national economic size should, in the case of Hungary, have been especially disadvantageous".

The thesis of significant influence of the principal functioning of national economies and foreign economic policy instruments of the EE countries on their export activities is also confirmed by the results of empirical analyses aimed at the estimation of effects of the creation of bilateral free trade zones by these countries with Finland [Stankovsky, 1981; Kivikari, 1983]. The authors of the analyses came to the conclusion that the possibilities to increase their exports to Finland by creating such zones were used by the EE countries in a limited scope. In their opinion, only Hungary distinguished itself positively.

In the first half of the 1980s, a number of studies appeared concerning the competitive position of the EE countries on Western markets. Empirical analyses indicated clearly that the structures of exports of the EE countries and developing countries to Western markets were similar and evolved to a great extent in the same direction, with resultative compe itiveness being definitely higher on the part of developing countries (especially the so-called newly industrialized countries) than the EE countries.[1] These theses were confirmed by experts of the UN Economic Commission for Europe who applied the method of constant market shares. Table 6 contains a part of this analysis.

Table 6 - Product [P] and Market [M] Patterns (combined) and Performance Components [C] of the Ratio of Average Annual Changes in Actual Exports and Exports Necessary to Maintain a Constant Overall Share in the Developed Western Economies' Market by Exporters in 1978-1981 (percentage points)

EE (6)[a]		USSR		Developing capitalist countries		NICs		Rest of the world	
P+M	C	P+M	C	P+M	C	P+M	C	P+M	C
-13	-24	4	-78	-3	-3	26	40	48	31

[a] With Albania.

Source: ECE [1983, pp. 517-519].

[1] See among others: Lenel [1980], Winiecki [1982], Misala [1985].

Unfavourable results of the respective analysis for the EE countries were different for each of them. It is confirmed by data in Table 7.

Table 7 - Product [7] and Market [M] Patters (combined) and Performance Components [C] of the Ratio of Average Annual Change in Actual Exports and Exports Necessary to Maintain a Constant Overall Share in the Developed Western Economies' Market for Individual EE countries in 1978-1981 (percentage points)

Exporters / Markets	Bulgaria P+M	Bulgaria C	Czechoslovakia P+M	Czechoslovakia C	GDR[a] P+M	GDR[a] C	Hungary P+M	Hungary C
EEC-9	-14	-3	-15	-42	-2	-42	-14	-12
EFTA	2	1	-15	12	-39	13	-16	-11
Greece, Portugal, Spain, and Turkey	-90	-105	-36	-18	-64	6	20	10
Yugoslavia	15	-108	-2	63	-17	38	17	-113
USA	67	45	45	-23	45	119	64	217
Canada	31	-85	19	-40	45	18	-20	-14
Japan	69	-124	65	-140	91	166	70	-80
Developed market economies	-20	-46	-11	-15	-16	9	-4	-21

Exporters / Markets	Poland P+M	Poland C	Romania P+M	Romania C	USSR P+M	USSR C
EEC-9	-34	-43	1	-64	-18	-107
EFTA	-77	-85	-27	-28	-2	-23
Greece, Portugal, Spain, and Turkey	-43	58	-63	188	-24	167
Yugoslavia	-6	-86	10	-111	-3	17
USA	36	-62	42	128	71	-51
Canada	-7	-23	-1	-51	16	-79
Japan	70	-218	103	-135	128	-179
Developed market economies	-29	-53	6	-23	4	-78

[a] Excluding internal German turnover.

Source: ECE [1983, p. 517-518].

In 1988, a very interesting analysis concerning the competitive position of the EE countries and five newly industrialized countries (Hong Kong, Singapore, Malaysia, South Korea, and Taiwan) on markets of the OECD countries between 1965 and 1986 was presented by Kostrzewa [1988]. First of all, he divided all the goods exported by these countries to the West into 5 groups enumerated in Table 8.

Table 8 - Structure of the EE countries' and 5 Newly Industrialized Countries' Exports to the OECD Countries by Factor Intensities in 1965 and 1986 (shares in percentages).

		Natural resource-intensive goods	Labour-intensive goods	Capital-intensive goods	Technology-intensive goods		Total
					easy to imitate	difficult to imitate	
EE (7)	1965	55.1	16.6	18.3	4.7	5.3	100.0
	1986	-97.8	17.2	11.9	7.0	6.2	100.0
USSR	1965	67,7	9.1	19.4	1.5	2.3	100.0
	1986	78.1	6.0	8.2	5.1	2.6	100.0
EE without USSR	1965	40.7	25.3	16.9	8.4	8.7	100.0
	1986	33.6	30.4	16.4	9.2	10.4	100.0
5 NICs[a]	1965	38.8	43.3	13.6	2.1	2.3	100.0
	1986	8.8	50.4	5.8	17.5	7.5	100.0

[a] Hong Kong, Malaysia, Singapore, South Korea, and Taiwan.

Source: Kostrzewa [1988, p. 22].

In spite of the increased EE countries' imports in the 1970s of technology-intensive goods,[1] a feature distinguishing their

[1] It is a different question that these countries imported from the West first of all middle and low technology-intensive goods. As appears from empirical analysis made by Drabek [1983], specific indices of "revealed technological advantage" in imports from the West indicated a falling tendency since the middle of 1980s. On the whole, he proved that the degree of technological dependence of CMEA countries on the West was in the 1980s relatively limited, and in the case of technology-intensive products, it actually declined gradually. It is well known that a certain role was then played by Eastern countries abandoning gradually the so-called import-led growth strategy.

exports to the West, especially the respective export structure of the former Soviet Union, was the high and generally increasing significance of natural resource-intensive goods. In the same period the share of resource-intensive products in exports of the five newly industrialized countries to Western markets declined considerably. On the other hand, in exports of these countries the share of technology-intensive goods significantly increased (including products difficult to imitate). Such a development influenced naturally the shares of the analyzed groups of countries in the global imports of the OECD countries in the case of individual product groups.

Table 9 - Share of Imports from the EE countries' and 5 Newly Industrialized Countries' in Global Imports of the OECD Countries within the Range of a Certain Group of Goods in 1965 and 1986 (in percentages)[a]

		Natural resource-intensive goods	Labour-intensive goods	Capital-intensive goods	Technology-intensive goods	
					easy to imitate	difficult to imitate
EE (7)	1965	5.5	2.1	2.6	1.6	0.9
	1986	6.9	1.8	1.3	1.1	0.7
USSR	1965	3.6	0.6	1.5	0.3	0.2
	1986	5.0	0.3	0.5	0.4	0.2
EE without USSR	1965	1.9	1.5	1.1	1.3	0.7
	1986	1.9	1.5	0.6	0.7	0.5
5 NICs[a]	1965	2.3	3.3	1.2	0.5	0.2
	1986	2.8	14.5	1.8	7.5	5.7

[a] Hong Kong, Malaysia, Singapore, South Korea, and Taiwan.

Source: Kostrzewa [1988, p. 25].

Quite contrasting changes in the shares of imports from the EE countries and 5 NICs to OECD countries within the range of analyzed groups of commodities were confirmed by results of changes in the competitive position figured out by Kostrzewa by means of the method put forward by Balassa. The next table contains respective indices.

Table 10 - Indices of Revealed Comparative Advantage [RCA] in Trade of the EE countries and 5 Newly Industrialized Countries with OECD Member Countries by Selected Groups of Products in 1965 and 1986[a]

		Natural resource-intensive goods	Labour-intensive goods	Capital-intensive goods	Technology-intensive goods	
					easy to imitate	difficult to imitate
EE (7)	1965	1.57	-0.22	-0.10	-0.94	-1.89
	1986	1.99	-0.07	-0.51	-0.72	-1.70
USSR	1965	2.19	-0.68	0.44	-1.79	-2.71
	1986	2.49	-1.00	-1.02	-0.72	-2.47
EE without USSR	1965	0.97	0.06	-0.51	-0.61	-1.43
	1986	1.21	0.38	0.08	-0.78	-1.27
5 NICs[a]	1965	1.48	0.33	-0.42	-1.87	-2.52
	1986	-0.04	1.15	-0.86	-0.16	-0.86

[a] Hong Kong, Malaysia, Singapore, South Korea, and Taiwan.

Source: Kostrzewa [1988, p. 27].

In the analyzed period, the smaller EE countries differed slightly from the former Soviet Union taking into account the structure of resultative competitiveness of exports being divided into groups of commodities with different factor intensities. It was common for these countries, however, that they did not succeed in improving their competitive position on Western markets in the case of technology-intensive products, which was in conflict with their abundance of production factors, especially with the statistical fact of possessing relatively abundant resources of highly qualified labour (the so-called human capital).

In the same time, as Kostrzewa puts it [1988, p. 28] "almost model-like were the changes in structure of the competitive position of the analyzed group of Asian countries. It was true for all considered groups of commodities. The changes measured by differences in the value of revealed comparative advantage indices were substantial. In 1986, these countries indicated a definitely better competitiveness than in 1965 for three groups of commodities, namely labour-intensive products, technology-intensive products easy to imitate, and even technology-intensive products difficult to imitate. Regardless of this, the level of indices of revealed comparative advantage in the case of natural resource-intensive and labour-intensive products declined dramatically". Such a development is explained by Kostrzewa by differences in the system of functioning of national economies in the EE countries on the one hand and in the Asian newly industrialized countries on the other. He goes on claiming that the evolution of the respective indices in the EE countries was closest to the evolution in Asian countries in the case of the country with the most liberal system (Hungary), the least close in the case of the country with the most centralised system of planning and managing the national economy (USSR). According to Kostrzewa, Poland fell between Hungary and the former GDR. Summing up his considerations he answers negatively the question asked by himself whether East European countries lose their ties with world market or not.[1]

In Poland and Hungary, a thesis obvious today has been put forward for many years, namely that a low level of openness of centrally-planned economies as well as their growing difficulties with the transformation of potential advantages, resulting from the participation in the international division of labour, into real advantages are system-specific.[2] Referring to works of Kalecki [1971] and Kornai [1979, 1980 and 1981], it has been underlined many times that some of the most significant effects of specific principles of functioning of the socialist socio-economic system and permanent shortages of production capacities in relation to the still growing demand (the so-called resource-constrained economies) are due to numerous deformations of the structure of the EE countries' economies, a low

[1] See also: Heitger [1990] and Stehn, Schmieding [1990].

[2] A comprehensive review of the literature may be found in the study of Winiecki [1990]. See also the review of literature in Misala [1987].

level of their integration, a small propensity to invent and innovate, a low quality of products, an underdevelopment of after sales' services, a high and even increasing resource-intensity of production and difficulties to maintain a balance on the domestic market and in foreign trade.

In 1968, Wakar already wrote that foreign trade always reflect the state of the whole national economy, and added that in case of state controlled planned economies "foreign trade infection resulting from drawbacks of internal economy" may be seen as a rule especially clear [Wakar, 1968, p. 163]. Later on it was mentioned many times that in the EE countries there appeared a specific feedback between exports and imports which could be presented as a closed cycle: low level of a pro-export specialization of production - low export growth rate - balance of payments difficulties - import substitution - low level of pro-export specialization of production etc. It has also been underlined many times that in the case of a shortage economy, there exists a great uncertainty on the deliveries of semi-finished goods, spare parts, etc. from domestic suppliers. As a consequence, the majority of enterprises tend to become quasi autark (so at the microeconomic level, too), which Winiecki [1990] rightly described as "do-it-yourself bias".[1]

It were J. Winiecki and E.D. Winiecki [1988] who made an interesting analysis of competitiveness of the EE countries' exports of industrial goods to the EC countries. The analysis comprised the 1965-1985 period and focused on unit (kilogram) prices of engineering products obtained by the EE countries on the EC market in comparison with average prices obtained by all

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[1] It is worth noting that the tendency of shortages and autarky development on the macro- and micro-economic levels in state controlled economies is to a large extent connected with the fact that always planned objectives were correlated positively with the system of material and non-material incentives, and at the same time there was only a loose connection between the system of incentives and the costs of production.

exporters there. It was rightly assumed that

a) differences in kilogram (unit) prices inform about the scope of value added realised for a given product on a given market due to better quality or higher technological sophistication etc., and

b) differences in kilogram (unit) prices point to a different product structure within a product group in terms of varying shares of products with lower or higher value added.

Of course, the results of such an analysis are very useful for estimating the competitiveness of individual countries and groups of countries.

Table 11 - Unit (kilogram) Prices of Engineering Goods Obtained by the EE Countries on the EC Market[a] in 1965-1985 (percentages, average price = 100 per cent)

	1965	1970	1975	1977	1980	1985
Bulgaria	32	39	36	34	30	25
Czechoslovakia	47	39	38	36	32	25
GDR[b]	58	47	48	44	37	33
Hungary	77	72	52	53	47	35
Poland	36	36	36	44	34	23
Romania	37	39	38	45	38	29
USSR	46	43	30	30	29	23
EE[c]	50	45	37	38	35	28

[a]Relating to average prices obtained by all exporters there.- [b] Without intra-German trade.- [c] Weighted average.

Source: Winiecki E.D., Winiecki J. [1988, p. 10].

In the 1965-1985 period prices obtained by the EE countries on the EC market almost continously went down. Only in a few years during the 1970s, these countries were able to stop or reverse the fall in kilogram prices. This was, however, really a transient result of the catching-up strategy through technology imports. Significantly, the differentials between average kilogram prices by all exporters on the EC market and those obtained by the EE countries were greater in the case of more sophisticated industries, even leaving aside engineering and not taking into consideration the waste of resources in order to maintain the appropriate share in the EC market.

Table 12 - Unit (kilogram) Prices of Various Manufactured Product Groups Obtained by the EE Countries on the EC Market[a], 1970-1985 (in percentages, average price = 100 per cent)

	1970	1980	1985
Engineering	45	35	28
Chemicals	42	50	38
Tyres	82	72	56
Pulp and paper	68	55	58
Furniture	42	41	36
Glass and glass products	51	73	84
Footwear	41	60	68
Textiles	47	73	70
Clothing	53	73	84

[a] Relating to average prices obtained by all exporters there.

Source: as in Table 11.

An attempt to analyze the level of price competitiveness of the EE countries on the EC market was also made by Saunders [1986] in a rather critical group of products - non-electrical machinery. The purpose was to identify two elements in the competitive position of these Eastern products on the market of the EC member countries:

a) by measuring the Western import market held by the EE countries in each product, and

b) by examining the characteristics of EC countries from the EE countries, compared with those from other sources, in terms of their relative unit values per ton.

Hence, when it was possible, relative values per appropriate machine were additionally compared.

Based on such an analysis which was essentially static and limited in scope, Saunders came to the conclusion that the tempting hypotheses that the EE countries' export performance in machinery is systematically linked with relative unit values - either per ton or per machine - and that "lightness for money" can be expected to bring about competitive advantage can derive some, but not an overwhelming support from the presented evidence. He added: "It is clear enough that Eastern machines are heavier than competing machines in most of the categories analyzed and that in some categories better market shares are achieved by products with higher relative unit values and, presumably, the higher ratios of value added to raw material content. Although the associations are weak, there may be implications for Eastern production and planning techniques". At the end of the paper he suggested to continue empirical studies of this kind on a wider scale (combined with the studies of technical characteristics of the products examined). It should be highly appreciated that also such an approach could lead to useful practical conclusions to reinforce openness and international competitiveness of the EE countries and to integrate the economies of these countries into the world economy.

3. Openness and Competitiveness at the Turn of 1980s and 1990s

At the turn of the 1980s and 1990s, conditions of the EE countries' development and economic performance have changed considerably. They affected also the level of openness and competitiveness of their national economies.

3.1. New Conditions

New conditions of openness and competitiveness of the EE economies are connected with deep political, systemic and economic changes taking place in Eastern Europe since the beginning of the 1989. They are characterized by the loss of authority by political parties ruling in these countries so far, changes of the system towards parliamentarian democracy and attempts to create a market economy according to the example given by West European countries. The changes take place especially in Poland, Hungary, and Czechoslovakia but to some extent also in other EE countries. The situation in the former GDR has developed in a peculiar way. It has been united politically and economically with the FRG.

The changes taking place in the former USSR and other countries of Eastern Europe mean the disintegration of the command system which was the basic reason for the shortages on the domestic markets of these countries and for the numerous deformations of the structures of their economies (e.g. underdevelopment of services, neglect of agriculture), for high capital-, energy-, and material-intensities of national income as well as for difficulties to maintain the balance on domestic markets and in the balance of payments. The ultimate task of governments in the majority of the EE countries is the introduction of the market mechanism (with state intervention of some sort). It should help to improve the efficiency of the economies, to bring desired structural changes and to transform the national economies into economies with surplus of supply over demand (into the so-called demand-constrained economies). Such intentions have been declared first of all by the first Polish non-communist government which at the end of 1989 presented Parliament a radical economic program and legislation enabling its accomplishment [Balcerowicz, 1989].

The political changes and changes of the system taking place in the EE countries had a great impact on the view concerning the principles and methods of functioning of their integration organization, the more so that attempts to animate its activities made for over twenty years as well as attempts to improve the mechanism of co-operation and economic integration of former socialist countries have failed. Representatives of the countries combining the Council expressed it quite clearly during the 45th Session held in Sofia in 1990. The so-called Special Committee was appointed then in order to prepare new rules and measures favouring co-operation of the CMEA member countries. At the end of 1990, these countries decided to dissolve the CMEA and replace it with a new organization. The 46th Session of the CMEA was planned to take place in Budapest on February 27-28, 1991, to put a formal end of the Council and to establish as its successor the Organization for International Economic Cooperation. However, the Budapest session was cancelled. On March 14-15, the permanent representatives of the CMEA member countries met in Moscow for consultations and agreed that this organizations will be definitely dissolved at the end of August, 1991. They expressed their hopes that till that date all the controversies over the division of the CMEA's property will be cleared and that plans for a new consultative and informative organization will be prepared.

The real collapse of the CMEA's principles, mechanisms and activities came earlier. During the session held in Sofia in January 1990 the Polish delegation proposed a gradual transition to a market-oriented trade system with various mechanisms and "shock-absorbers" protecting the mutual cooperation against the impact of new regulations. But after the economic situation of the former USSR worsened (growing shortages, balance of payments' problems etc.) the Soviet government undertook a unilateral decision to dismantle the traditional trade system and to switch to a trade in convertible currencies and at world market prices as soon as possible. On July 24, 1990, President Gorbachev issued a decree "on introducing changes into the Soviet Union's foreign economic relations" committing the Soviet government to bring about a transition in economic relations with other CMEA countries from January, 1991. As Rosati [1991, p. 5] rightly underlines "this decision left little choice for smaller CMEA members - they had to accept the reality... . Faced by the "fait accompli", the EE countries concluded in the second half of 1990 bilateral agreements among themselves, establishing the new institutional framework of trade relations. The transferable rouble was to be replaced by convertible currencies (mostly US dollars), artificial CMEA prices by world market prices, and detailed annual protocols by general agreements supplemented by "indicative" lists for selected commodities". It is worthwhile to add in the meantime the Gulf crisis broke out and the first trade effects of German unification appeared [ECE, 1991].

3.2. New Problems

The new internal and external conditions are undoubtedly significant objectives of the modifications of openness and competitiveness of the EE countries, where the desire of active participation in the international exchange of products and production factors is explicitly underlined. From this point of view the transition from a command system to the market economy system with surplus of supply over demand is of great importance.

In the framework of the command system, the international economic exchange played a passive role, and therefore did not help to increase the level of openness of the EE countries as well as to increase their abilities to compete for advantages connected with the participation in the international division of labour. With chronic shortages, the international exchange of goods and services was treated as a residual and simultaneously as a buffer of some kind facilitating the adjustment of the actual composition of national income to the structure of production and consumption needs of the society. In these circumstances, imports were treated mainly as the sources of reducing the shortages of investment and consumer goods. On the other hand, exports were mainly undertaken in order to obtain foreign currencies which were indispensable to finance imports. As a rule they were confined to the sale of surplus natural resources, to the sale of goods exceeding production and consumption needs of society and often also to the sale of goods in short supply, whose exports did not threaten much the accomplishment of priorities of the central planners.

In the new system characterized by surplus of supply over demand, the role of the international exchange is different. There are different conditions and functions of imports and exports. They can play active roles, with exports occupying the first position as a source of additional demand and growth as well as being the driving force of structural changes.

The experience of Western countries and many newly industrialized countries prove that it is mainly the case of surplus of supply over demand on the domestic market that creates an imperative of some sort to participate actively in the international division of labour and to maintain a high level of competitiveness of the national economy. It sounds optimistic for Poland, Hungary, and Czechoslovakia where after checking the "inflation of empty shelves" we have actually to do with a surplus of supply over demand. But this is only one side of the question. Putting it generally, checking inflation and achieving a surplus of supply over demand do not mean at all to produce automatically incentives to export-led growth, especially in the short run.

The political changes in Eastern Europe at the turn of 1989-1990, the start of the transition process to market-oriented economic system in the majority of the EE countries, associated in Poland, Hungary, and Czechoslovakia with stabilization programmes to reduce economic imbalances and to restructure national economies, were accompanied by a significant albeit differentiated fall of output. Moreover, due to changes in the mechanism of mutual economic cooperation, these countries lost protection on their main markets (especially on the market of the former GDR) and were forced to compete on markets of other countries (the trade diversion effect). Additionally, due to the rise of world energy prices associated with the Gulf crisis, and due to the shift to convertible-currency settlements and world market prices within the former CMEA, the terms of trade of the EE countries clearly worsened (the terms of trade effect) and this in turn increased in most of them (especially in the former Soviet Union) the shortage of foreign exchange (the foreign exchange shortage effect). Thus, the domestic recession (the domestic contraction effect) came together with three other negative effects and just at a particularly inopportune time when the process of struggle with many systemic and structural problems has begun [ECE, 1991; Rosati, 1991].

The new internal and external situation of the EE countries in 1989 and, especially, in 1990 has led to the evident decrease in the level of openness and competitiveness of their national economies and it happened mainly due to the contraction of their mutual trade. It is true that such a development meant to some extent a positive adjustment; some output, which was in fact system-specific waste, disappeared and, in addition, the strong bias towards the former CMEA market was weakened, what signified in reality the decline of the deficiencies in external sectors of the analyzed countries (e.g. inter-industry rather than intra-industry specialization, distorted trade structures, inconsistent with the pattern of comparative advantage). However, the negative short- and medium-term consequences were of greater importance although - as illustrated

Table 13 - Trade Intensity Coefficients[a] for the East European Countries and the Soviet Union, 1980 and 1985-1990[b]

Country	Year	EE 6	EE 5	SU	DME	DEU
Bulgaria	1980	3.79	3.31	14.30	0.22	0.79
	1985	4.42	3.97	12.81	0.12	0.81
	1986	4.72	4.10	14.21	0.09	0.70
	1987	5.27	4.62	15.47	0.09	0.71
	1988	5.54	4.90	16.07	0.09	0.66
	1989	5.86	5.04	16.80	0.11	0.49
	1990	5.28	5.06	17.84	0.12	0.46
Czechoslovakia	1980	6.37	5.56	10.20	0.31	0.65
	1985	5.24	4.39	7.49	0.36	0.95
	1986	5.53	4.70	7.77	0.35	0.98
	1987	6.67	5.76	8.56	0.35	0.86
	1988	7.34	6.54	8.59	0.37	0.78
	1989	7.90	7.14	7.86	0.42	0.77
	1990	5.97	5.83	6.98	0.57	0.65
Hungary	1980	4.78	4.23	8.40	0.48	0.70
	1985	4.86	4.20	7.60	0.42	0.79
	1986	5.00	4.20	7.88	0.42	0.78
	1987	4.87	4.10	8.28	0.48	0.74
	1988	5.29	4.49	7.10	0.53	0.80
	1989	5.39	4.49	6.47	0.57	0.82
	1990	3.83	3.59	5.60	0.71	0.69
Poland	1980	4.83	4.26	8.94	0.49	0.59
	1985	5.09	4.85	6.42	0.48	0.79
	1986	4.72	4.32	6.42	0.46	1.03
	1987	4.62	4.27	6.28	0.56	0.91
	1988	4.95	4.49	6.30	0.58	0.80
	1989	4.78	4.23	5.36	0.65	0.82
	1990		3.05	4.27	0.83	0.55
Romania	1980	4.08	3.61	5.62	0.49	1.24
	1985	3.98	3.67	4.86	0.50	1.24
	1986	4.62	4.01	5.44	0.44	1.33
	1987	4.85	4.31	5.54	0.49	1.29
	1988	4.98	4.49	5.58	0.47	1.36
	1989	5.49	4.62	5.82	0.49	1.25
	1990	4.28	4.22	7.01	0.55	0.92
Soviet Union	1980	9.55	9.56	-	0.45	1.16
	1985	12.06	11.90	-	0.35	1.26
	1986	13.50	13.15	-	0.26	1.43
	1987	14.12	13.61	-	0.28	1.53
	1988	14.95	14.52	-	0.29	1.49
	1989	15.63	15.56	-	0.32	1.54
	1990	na	na	-	0.38	na

[a] These coefficients relate the share of a market in "i" country's exports to the share of the same market in world exports, according to the formula:

$$T\,(i,j) = \frac{x\,(i,j)\ :\ x\,(i,\bullet)}{x\,(\bullet,j)\ :\ x\,(\bullet,\bullet)}$$

where: x (i,j) - exports from country i to market j;

x (i,•) - total exports of country i;

x (•,j) - world exports to market j;

x (•,•) - total world exports.

[b] Aggregation of rouble and non-rouble trade flows made at national cross-rates; EE 6 - East European countries without the USSR but including the GDR; EE 5 - East European countries without the USSR and GDR; DME - developed market economies, DEV - all other countries.

Source: Rosati [1991, p. 41].

in Table 13 - the strong bias towards EE countries' markets was weakened only to a small extent (in the case of Bulgarias' trade with the former Soviet Union, this bias even increased), it still existed the "radial" structure of their mutual trade (stronger trade links with the Soviet Union than with other EE countries), the unification of the two German states has left the remaining small - and medium-sized EE countries with relatively weak mutual trade links, simultaneously they have lost to a great extent a relatively important market of the former GDR, and last but not least, the trade diversion from East to West and to South was rather limited, in 1989 even negligible.

Qualitative aspects constituted in this context especially troublesome problems. Firstly, the commodity pattern of the EE countries' mutual trade didn't change substantially; the former Soviet Union remained netto-exporter of natural resources and raw materials while other countries have been netto-exporters of processed industrial goods. Secondly, the output and export pattern of the small and medium-sized EE countries remained similar. And thirdly, because of the change of the terms of trade (increasing prices for natural resources and falling prices for industrial products exported on the Russian market by producers from Eastern Europe), the former Soviet Union stood out as the single surplus country in the analyzed region, while all other countries had a more or less balanced trade between themselves and high deficits with the former Soviet Union. It is worthwhile to add that all the EE countries faced an acute need for a fundamental production and trade restructuring, reached different stages of institutional reforms and their mutual political credibility was rather weak [Rosati, 1991].

4. Future Options and Challenges

At present, one can only speculate what will happen in the world economy and in the international division of labour in the following years and decades. What we know is that mainly due to systemic reasons the EE-countries have not participated in the international division of labour in an optimal way, and therefore, there exists economic potential to change the situation. On the other hand, more active and intensive participation of the EE countries in the international exchange, can improve their economic performance and speed up their economic growth. The main preconditions for closer integration of these countries into the world economy are systemic and structural changes.

History shows that every transition period is burdened with enormous difficulties. The recent experiences of the EE-countries confirm this; systemic reforms and structural changes are very difficult to realize. However, on the other hand, there are no viable alternatives. Quite sure, the most successful countries in promoting reforms and structural adjustment can expect to perform better in the future than the other countries.

The degree of advancement of reforms and structural changes within the EE-countries differs. While the "point of no return" of the reforms in Bulgaria, Romania and especially in the post-Soviet states has not yet been reached the direction and determination of the reforms in Czechoslovakia, Hungary and Poland are rather unquestioned. As it seems, just within these countries the "critical mass" of systemic changes has been overcrossed. However, it is hard to say over what period troublesome endeavours of Czechoslovakia, Hungary and Poland will lead to greater openness and competitiveness of their national economies; there are some possibilities, but also many challenges. Interesting enough is that all the necessary changes request among others substantial liberalization of the current account (goods and labour markets) and of the capital account. Without these crucial steps, the unavoidable speeding-up of the demonopolization and privatization processes are hardly to imagine. Full liberalization of domestic markets and a full currency convertibility are the next necessary ingredients. Without them, the real comparative advantages of national economies will remain by and large unknown, while just establishing these advantages is clearly a starting point of the reintegration into the world economy and of the necessary increase in competitiveness.

The failure of Soviet-type development and industrialization left Eastern Europe with very modest comparative advantages, which today are difficult to define precisely even in Czechoslovakia, Hungary and Poland. Nevertheless, some important aspects and determinants are known. The EE-countries, especially some post-Soviet states possess first of all many valuable natural resources. But - as it seems - of greater importance is these countries' stock of relatively cheap and simultaneously relatively well qualified labour. That's why after opening of the EE-countries' economies to foreign portfolio and direct investment they may gain a significant comparative advantage in mobile Schumpeter industries and this in turn can result in high growth rates of production, exports and incomes [Klodt, 1991]. In such circumstances, one can imagine a relatively quick change in the nowadays very heavy demand conditions in Eastern Europe - very important determinant for changes in competitive advantages [Porter, 1990]. The development of strong market segments with a high demand for products, together with increasingly sophisticated buyers, can greatly contribute to the improvement of the EE-countries' international competitiveness [Czinkota, 1991].

Small- and medium-sized EE-countries and - especially - post -Soviet states are suffering great deficiencies in their economic infrastructure. However, relatively many efforts are being gradually undertaken there to improve transportation and communication systems, internal sets of hotels, banks etc. Along with the processes of deregulation, demonopolization and privatization, the interlinking between branches, industries and firms are increasing. One can also observe steadily growing domestic competition and formation of new corporate conditions. A growing number of people try out their entrepreneurial skills or wish to do it in the near future. Without doubt, these phenomena would be even more visible in better, more liberal internal and external environment.

There are many external challenges which will determine the future level of openness and competitiveness of the EE-countries and - quite funny - the most important ones are directly connected with their mutual cooperation. On the one hand, as pointed out earlier, these countries' economies are heavily interdependent and the weakening of these dependencies is rather a long-term process; on the other hand, mainly due to many structural problems, the reestablishment and, especially, the remarkable intensification of mutual economic links are hardly feasible and manageable. First of all, the future situation within the former Soviet Union with its various political and economic difficulties is still rather unpredictable. Second, the small and medium-sized EE-countries are generally not ready to engage in rebuilding asymmetrical and inefficient integration structures with elements of planning, programming etc. Third, because of the structural tendency to unbalanced trade between the former USSA and other EE-countries, the relatively low intensity and big similarity of structures of their mutual trade, the acute need for fundamental production and trade restructuring, the different stages of institutional reforms, and the lack of political credibility the rapid establishment of market-oriented instruments (e.g. full convertible currencies) and mechanisms (e.g. customs or payments union) is quite clearly difficult, almost impossible [Paszynski, 1991; Rosati, 1991].

In order to promote trade and other forms of economic cooperation between the EE-countries, the idea of "integration in triangles" has been advanced, where the creation of free trade area between Czechoslovakia, Hungary and Poland has been treated as the most likely and feasible one [Bozyk, 1988]. But, as M. Paszynski [1991, p. 7] rightly stated "Whatever economic advantages of such smaller-scale integration, two factors appear to stand in the way of its successful achievement. One is strictly economic and results from similarity of production structures, an outcome of the communist economic system imposed in the past, with its stress on the expansion of less technologically advanced heavy industries, producing basic material- and energy-intensive commodities and machinery. Second is political, and stems from the lack of mutual confidence deeply rooted in harsh competition that was characteristic for the CMEA system, with the first factor strengthening the second. ... The inadequacy of mutual trust could not be easily overcome." One has to add that the future of political and economic relations between the Czech and Slovak republics is still an open question [Capek, 1991] and that even the smaller-scale regional integration would require larger involvement of West European countries [Jenszenszky, 1990].

The other possibility of small-scale regional economic integration is the creation of a free trade area or customs union between Poland and the three Baltic republics. However, due to the political and economic reasons (e.g. actual political tensions between Poland and Lithuania, marginal role of Baltic republics in Polish foreign trade, tendencies in Latvia, Lithuania and Estonia to integrate themselves with other post-Soviet states and with Scandinavian countries), prospects for the establishment of such an integrational grouping are rather gloomy. Because of the same reasons, even more gloomy are the prospects of small-scale regional integration between Poland, Czechoslovakia, Hungary, Ukrainia, Byelorussa or Kazakhstan. This does not mean, however, that the economic cooperation between these countries should not or will not develop in the future. Quite contrary. The same is true for the EE-countries' economic relations with developing countries. However, due to several geographical (distance, transport costs), historical (late coming to the post-colonial markets being already penetrated by former metropolises), structural (inter-industry rather than intra-industry specialization) and systemic reasons (antitrade bias) these countries can hardly compete with West European ones [Paszynski, 1991].

Bearing in mind the EC-EFTA talks for the creation of the European Economic Area, Kostrzewa and Schmieding [1989] have suggested to find via EFTA a better chance for an easier access to the Communities' market. It was not and even could not be the right solution. Firstly, due to many structural and technological reasons an economic gravitation of the EE-countries towards EC was clear and actually is increasing. Secondly, there was obvious trend within EFTA countries to accede to the European Community directly, with some, like Austria and Sweden, lodging formal application, and others, like Finland, openly declaring their to do so, and in such circumstances entering into agreement on free trade area with EFTA could lose its potential importance. Thirdly, one could hardly expect that EFTA will concentrate its attention on talks with Central and Eastern European countries to conclude them before agreement with the Community is reached. It was the real case; in October 22, 1991 EFTA countries concluded the European Economic Area agreement with the Communities. Thus the EC and EFTA created the world's largest and most integrated market, made up of 19 countries with a total of 380 million inhabitants, in which goods, services, persons and capital will be able to move freely. Quite sure, cooperation in a large number of flanking policies will be intensified.

The conclusion of the European Economic Area gave a very positive signal to the EE countries but they will not be able to benefit from its advantages immediately. The second best solution is to continue negotiations with EFTA on the establishment of free trade areas as it is the case of Czechoslovakia, Poland and Hungary.[1] But the first one is to improve institutional framework for a wider European economic integration via European Communities which provide the only realistically available set of institutional arrangements to manage the integration of the European economies and thus to promote also openness and competitiveness of the national economies of the EE countries [CEPR, 1990].

Table 14 - Share of the EFTA and EC Member Countries in the Global Exports of the East European Countries and the Soviet Union in 1980 and 1990. [%]

Specification		EFTA countries	EC countries
Eastern Europe with USSR			
	1980	6.4	19.3
	1990	5.8	28.2
USSR			
	1980	7.1	22.6
	1990	5.5	27.1
Eastern Europe without USSR			
	1980	5.7	16.0
	1990	6.4	29.7

Source: UN [1991]

[1] In 1991 EFTA has also taken up relations with the three Baltic states and started a dialogue with Bulgaria and Romania.

At the turn of the 1980's and 1990's some of the EE countries, namely Czechoslovakia, Hungary and Poland, started to exploit the most promising alternative of not being economically isolated. They have engaged in negotiations with the EC's Commission in order to conclude association agreements, which were treated there as a specific vehicle to full membership in the EC. It was assumed among others that the association with the European Communities will really promote openness and competitiveness of the national economies of Czechoslovakia, Hungary and Poland. There were chances. First of all, an association of these countries with the EC could alleviate the difficult process of systemic transformation and simultaneously of adjustment to the present EC requirements. That was treated as very important since the transformation into market economies calls not only for the changes in the political and economic systems and their legal frameworks, but also for the establishment of the material and institutional infrastructure to secure smooth involvements into and interactions with the world economy. Second, conclusions of association agreements with provisions regarding the liberalization of trade and of migration of production factors would mean automatically more competition and more trade in accordance with the basic principle of international exchange - the principle of comparative costs. What is more, according to the theory and practice of economic integration, the trade creation effects is usually accompanied by the so-called dynamic effects (increase in welfare and demand due to scale economies, speeding-up of the technological progress etc). Last but not least, the conclusion of association agreements could increase the external credibility of Czechoslovakia, Hungary and Poland, and the internal credibility of their governments realizing the transformation processes (growing confidence of people that liberalization, growing openness, belonging to Europe etc. are the right ways to improve growth and welfare), and simultaneously these governments could be in a position to use EC's institutions and regulations as a specific umbrella where promoting liberalization of domestic markets and external sectors and coping with the still present tendencies to economic autarky and isolation (the argument of "binded hands"). This argument is really very important since protectionist tendencies are there still very strong. No wonder. Coping with protectionism is always a hard task. After many years of communist political and economic autarky and isolation this task is especially difficult to achieve.

According to the assumptions it was not only the process of building market oriented economies in Czechoslovakia, Hungary and Poland and the process of adjustment to the present EC requirements what the association agreements could and should smoothen and speed-up. There was a third, very important task of the EE countries' association with the EC, which should make these agreements clearly unique ones. They could and should simultaneously smoothen and speed up the adjustment process of the EE countries to the future EC requirements. More precisely, to the "Europe 1992" challenge, which seems to be especially painfully for them. First of all, exporters from the EE countries will confront much stronger competition on the Communities' internal market. Second, economic units from these countries have nowadays only to a small extent been adjusted to the structural, technological and organizational realities of the EC after 1992. Third, possibilities of the EE countries to overcome expected difficulties in the trade with EC and EFTA members through the expansion of technology and capital are very limited. However, on the other hand, the creation of the larger Single Market and of the European Economic Area will bring many opportunities to intensify economic relations with the West European countries (e.g. possibilities of the exploitation of the economies of scale and of the increased demand). The same seems to be true taking into account long-term consequences of the economic integration of Germany [Misala, 1991].

The EC countries, especially Germany, were and are still motivated to support the political and economic transformation in Czechoslovakia, Hungary, Poland and other EE countries. Many statements and concrete actions in favour of stabilisation, adjustment and systemic reform policies confirmed it (e.g. substantial economic assistance, promotion of direct investments in Eastern Europe, abolition of the various discriminatory measures). However, on the other hand, the EE countries' efforts to establish market economies with increasing economic ties to the West, especially to the EC, were cyclically frustrated, encouraged and then dashed again (e.g. French veto in September, 1991 to the EC Commission's proposal to grant trade concessions to Czechoslovakia, Hungary and Poland). The somewhat ambivalent EC countries' and EC Commission's attitude towards these countries revealed also contents of the association agreements of Czechoslovakia, Hungary and Poland with the EC concluded in December, 1991.

Association agreements of Czechoslovakia, Hungary and Poland with the EC are surely of great political importance for these countries. On the one hand, these rather unique agreements establish an appropriate framework for the political dialogue, for the promotion of the economic and cultural relations, for the promotion of the Communities' financial and technical assistance to associate countries and thus also for their gradual integration into the Communities, and on the other, the present and future governments of these countries are committed in many respects (e.g. the successive reduction of trade barriers, the granting for the establishment of Communities' companies and nationals a treatment no less favourable than that accorded to associated countries' nationals and companies in accordance with the agreed timetable). For the countries characterized by strong internal resistance to the liberalization of external sectors and by still big political instability (e.g. many political parties in the Parliament of Poland, political tensions between Czechs and Slovaks) these commitments can be created as factors of stabilization and vehicles to increase internal and external credibility. Of course, the commitments is to fullfil in an appropriate way and it is one of the most important challenges for the future.

Many others are connected with the real scope of established institutional framework for a wider economic cooperation and therefore also for the promotion of the transformation processes and of the openness and competitiveness of the national economies of Czechoslovakia, Hungary and Poland. Having in mind what was expected and is really needed in these countries one has to see some important discrepancies. Firstly, the essence of the discussed association agreements is almost limited to the creation of the free trade areas; as it seems, even if these areas will be created in the next ten years Czechoslovakia, Hungary and Poland will not be in a position to benefit fully from advantages of the Single European Market and additionally from advantages of the European Economic Area and therefore the adjustment process of their economics to the present and future requirements of West European countries is to be treated as a harder one than in a more advantageous circumstances. Secondly, what leads to the same conclusion, it goes only about the creation of the limited free trade areas in this sense that: a) many agricultural products are excluded from the liberalization process or treated in a specific manner and b) even turnover with some for associated countries important products (like textiles, coal and steel products) is to be liberalized with great delay and under specific conditions. Thirdly, the association agreements contain a lot of escape clauses, especially in case of trade with agricultural products. Therefore, it is hardly to believe that the expected trade creation effects will be substantial and that the so-called dynamic effects of economic integration will speed-up remarkably the growth rates of national economies of Czechoslovakia, Hungary and Poland, and will help dramatically to increase their openness and competitiveness. Moreover, such a state of affairs is to some extend harmful if we take into account that it means relative increase (in comparison with the expected and possible solutions) in the difficulties that accompany the processes of transformation and structural changes and relative increase in social discontent brought by these difficulties. What seems also important, is that such a state of affairs mean underutilization of the "binded hands" argument and even give new arguments for advocates of protectionism operating also with the slogans "EC discriminate too", "EC don't want to bind clearly and definitely own hands too" or "Europe doesn't want us." More realism was and is still needed. Quite sure, Czechoslovakia, Hungary, Poland and the other EE countries need cooperation with the EC in order to realize systemic and structural changes, to open their economies more, to increase the level of competitiveness, to dampen social dissatisfaction stemming from many hardships in the transition period and to avoid possible negative political implications. But the EC member countries need also the cooperation with more open, more competitive and more stabilized Eastern Europe. As M. Czinkota [1991, p. 26] puts it rightly "it must be understood that instability does not just result from tanks, but also from the knowledge that the next-door neighbour lives in poverty-driven volatility."

CONCLUSIONS

In the contemporary world the tendency to internationalization of economic life is being clearly exposed and that is why the EE countries' joining the international division of labour is an imperative. It must not only be an active participation in the international exchange of goods and services but also an active participation in the international exchange of production factors. It is tantamount with the necessity to start the process of the so-called real openness of national economies understood as increasing ability to compete for the advantages connected with active participation in the international division of labour. The real openness of national economy (described also as factors' competitiveness) is nothing but its ability and disposition (people's skills too) to transform potential advantages resulting from the participation in the international division of labour into real ones.

A clear difference should be made between factors' competitiveness and the so-called resultative competitiveness (called sometimes also the competitive position). The so-called resultative competitiveness (similarly as a matter of fact to factors' competitiveness) is still a category difficult to measure. It is especially difficult to measure the level of the so-called factors' competitiveness in state controlled economies.

The results of the empirical analyses presented above testify with no doubt that in the 1970s and 1980s the level of openness of individual EE countries was definitely lower than their share in world resources and production. It proves that in the economic development of these countries external factors were not utilized proportionately to their economic potential.

Many factors hinder a greater openness of the EE countries' economies of which the most significant one was the decline in the level of their competitive abilities being reflected by low and usually decreasing tendency of indices of the so-called resultative competitiveness (competitive position). It was a direct consequence of the distorted structures of exports and insufficient elasticity in adjusting the structure of internal production to the structure of domestic and external demand. The reasons for this state of affairs were much deeper. Generally, they were typical drawbacks of the so-called resource-constrained economies. The effects of these drawbacks appeared in all EE countries, though with different intensity. As a consequence, economies of these countries were characterized till the end of the 1980s by explicitly limited abilities to transform potential advantages, resulting from the participation in the international division of labour, into real ones.

At the turn of the 1980s and 1990s, the conditions of the EE countries' development and economic performance have changed considerably. Some of them, mainly Czechoslovakia, Hungary and Poland, shifted clearly from centrally planned to market-oriented economies with surplus of supply over demand. However, even in these countries it was not possible to increase the level of openness and competitiveness of the national economies. It was due to mainly the fall of internal demand which accompanied the start of the transition process to market-oriented economic systems, and the collapse of intra-CMEA trade.

Prospects for the necessary increase in the level of openness and competitiveness of the EE countries by the re-establishment and intensification of their mutual links are rather gloomy. There exist many political, institutional and structural obstacles which will hamper mutual economic cooperation of these countries throughout many years. An even further decline in the intensity of intra-East European trade and other forms of economic cooperation is highly probable, if not unavoidable, unless market mechanisms are not fully adopted, and all the necessary external support delivered (trading, funding, investments, technology transfer etc.).

In order to increase the level of openness and competitiveness of the EE countries and to speed up transition processes in Eastern Europe, there exists no other alternative for the countries of this region than to develop closer economic relations with the European Communities. Of special importance seems to be the fullfilment of association agreements' provisions and then joining the EC. These unique agreements can smoothen the processes of building market economies, as well as smoothen the processes of necessary adjustments. However, too much optimism seems to be unjustified. What matters are the many discrepancies between basic needs and expectations in Czechoslovakia, Hungary and Poland - on the one hand, and the established institutional framework of economic cooperation - on the other.

External support seems to be necessary in order to increase the level of openness and competitiveness of Czechoslovakia, Hungary Poland and other EE countries. However, more important is the autonomous liberalization of internal markets and external sectors of these countries. When liberalizing the current account (goods and labour markets) and the capital account (financial markets) one has to look to the liberalization in the main economic partners and their groupings.

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