

PIRP PERSPECTIVES

Interpreting Changes in the USSR, Eastern Europe, and the European Economic Community: Some Guideposts for Communications and Information Industries

Oswald H. Ganley

Executive Director

December 1989

The geopolitical map of Europe of the past 45 years may have been redrawn the night of November 9, 1989 when the Berlin Wall was peaceably breached and hundreds of thousands of East Germans joyfully promenaded the streets of West Berlin. Other events in Eastern Europe, shifts due to perestroika in the USSR, and the European Economic Community approaches to 1992, may also redraw Europe's business and economic map. Should Soviet tolerance become exhausted and the USSR decide to reverse events in Eastern Europe and the USSR, it can do so by using sufficient force. Lest we had forgotten, we were vividly reminded of this by the Chinese Tiananmen Square crackdown of June 1989.

The purpose of this Perspective is not to predict what will happen further, an impossible task in any case, but to give our affiliates some indicators to watch for, and the beginnings of a framework in which to evaluate their interests.

Since much of the restructuring in both eastern and western Europe is an attempt to establish or to revamp communications and information based economies, these events are especially relevant to the communications and information (C&I) sector.

Background on European Developments in the 1980s

While events in the last six months in Eastern Europe have captured most of the attention by their rapid, dramatic, and seemingly unpredictable occurrence, their roots can be seen in a series of world-wide developments which have been building since the late 1970s and beginning of the 1980s.

The economic and political shifts in Europe began somewhat in response to changes in the Pacific, where, in the late 1970s, Japan and then the NICs rose to economic prominence by converting to information-intensive economies, and China became the first communist government to seek similar modernization.

Having never quite recovered from its 1960s "technological gap" with the U.S., Western Europe entered the 1980s suffering from so-called Eurosclerosis. This was a combination of high unemployment and a sense of increasingly falling behind not just the U.S., but also Japan and the NICs, especially in the C&I area. In an effort to deal with this chronic malaise, in 1986 the Economic Community member countries passed the Single European Act. While the

primary purpose of the Act was to mobilize political will to deal with economic problems, a second important motivation was to securely anchor the Federal Republic of Germany into the Community's economic and political future.

Since the Community had previously made a number of false starts toward economic integration, the EC'92 effort was largely disregarded for a year or so by other industrialized nations. When first Japan, then the U.S. did grasp that a significant change with important consequences was under way, they saw it mainly as an economic opportunity and threat, that is, as a trade matter. In the U.S., for instance, there was little recognition of the political implications of these changes, either for the NATO alliance or for East/West relations.

Mikhail Gorbachev had come to power in the USSR in 1985, and initiated his perestroika program to restructure the Soviet economy. The relative openness accompanying glasnost quickly revealed to the Soviet people, the East Europeans, and the outside world, the very serious weaknesses of the centrally planned Soviet economy, and the drastic measures needed to correct them. Open political unrest broke out in the USSR and most of the countries of Eastern Europe. Like the USSR, much of Eastern Europe is trying to shake loose from the economic failures of communism, and reform movements began to be directed toward attainment of "less communist" governments, fledgling "democracies," and market economies, in Poland, Hungary, Bulgaria, East Germany, and Czechoslovakia.

These events in eastern and western Europe were not occurring in isolation but, on the contrary, were directly influencing each other. The first formal interaction between east and west occurred when, in June 1988, the USSR, dropping its insistence that the EC was just the economic arm of NATO, permitted an agreement to be signed between COMECON and the EC. Separate trade agreements by the EC with Hungary and Poland were then quickly forthcoming. Then, at the Western economic summit in July 1989, the EC agreed to coordinate aid, including U.S. aid, to Poland. This marked the EC's conversion from an almost strictly economic organization to one willing to shoulder major foreign political and security responsibilities, a crucial turning point in European history.

In the fall of 1989, the major upheavals in the countries of Eastern Europe brought with them two critical political and security issues. First, the reunification of Germany entered center stage as a possibility, opening the wounds of World War II and greatly complicating EC'92 efforts and Western/Soviet relations. Second, concerns were reawakened for the future direction of Poland, Hungary and Czechoslovakia, countries historically noted for their political instability.

It is important to note that these events have largely happened outside the control of the United States, although the U.S. role, especially as a superpower, is still critical. The Western Europeans appear to be taking greater responsibility and exerting greater influence on events than at any time since World War II. Thus, the familiar order of European East/West

relations, in place since that war, has changed dramatically.

We are presently entering a period of great uncertainty and instability which may nevertheless offer many political and economic opportunities. But there are substantial dangers to be taken into account by the many involved governments and by private players.

GUIDEPOSTS/INDICATORS

Amidst the many uncertainties, there are numerous guideposts to watch for. Carefully interpreted, these indicators can offer the decision maker a certain amount of direction and guidance.

The guideposts which follow have been grouped under two main headings: Those pertaining to the Soviet Union and Eastern Europe, and those having to do with Western Europe, the United States, and Japan. Each main grouping has been subdivided into multiple categories.

Indicators may point in opposite directions and give contradictory signals, and their relative importance and significance must be weighed and interpreted according to the players' varying interests, stakes, and objectives. No one guidepost will show a trend, but a number of them taken together may give a fair idea of where things are heading. While the guideposts can point to an intent to reduce tensions, and to increase cooperation and trade, they may also reveal conditions that could unleash destabilizing or regressive forces. Judgment needs to be made by individual players as to what set of circumstances will lend greater security in their particular situation.

I. USSR AND EASTERN EUROPE:

1. Military/Strategic Changes

- Reduction of offensive capabilities
- Increased warning time
- Withdrawal of Soviet forces from Warsaw Pact countries
- Reduction of actual forces
- Destruction of weapons systems
- Hold on modernization of weapons systems
- Laboratory research but non-deployment of resulting innovations
- Conversion of military R&D to civil R&D and applications
- Decrease in real defense spending
- Cohesion and reliability of Eastern European components of the Warsaw Pact

2. Regional Conflicts

Resolution of regional conflicts resulting in lowered tensions between the superpowers in:

- Central America
- Afghanistan
- Southeast Asia
- The Koreas

3. Level of Democratization

"Free" elections

Level of permissible dissent, such as free assembly and free speech

Level of freedom of the press, to include:

- broadcasting
- free interchange of information within countries
- free information interchange among eastern European countries and the West

Advances in human rights

Degree of Communist Party control of government and legislature

Level of self determination

Institutional changes to guarantee freedoms

Level of stability of the new governments

Ethnic and nationality pressures

4. Economic Determinants

Convertibility of currencies

Ability to repatriate profits

Inflation levels

Resolution of East European debt issue

Price controls

Acceptance of IMF conditions

Availability of goods including basic food and other necessities

Level of dependence on black markets

Labor unrest

Means of generating hard currency

Availability of capital markets

5. Structural Impediments

Bureaucracy, including bureaucratic controls

Central planning and obstructions to movement toward a market economy

Level of conversion to Western business practices, including incentive structures

Inadequate distribution systems

Inadequate transportation and telecommunications facilities

Unavailability of skilled labor

Delays in availability of quality materials

Delays in factory construction

6. Free Flow of Information

Freedom of telecommunications networks use:

- for ordinary business
- by foreigners
- by locals
- for in-country long distance calls
- for international voice
- for fax
- for computer-assisted services

Declassification of statistical and other information

General compatibility with Western ways of doing business

II. THE WEST AND JAPAN

1. Western Europe/Eastern Europe Interactions

Degree of economic, social, and political interaction of the Federal Republic of Germany/German Democratic Republic

Degree of formal and informal interaction of Eastern Europe:

- with the Economic Community
- with the Council of Europe
- with EFTA

Level of assistance to Eastern Europe and the USSR:

- Financial
- Technical, including business practices and public management

2. Export Controls

Degree of relaxation of US unilateral export controls

Degree of relaxation of COCOM controls

Consensus on acceptable levels of safeguards

3. U.S. Actions/Public Opinion

Reduction in real defense spending

Reduction of troops in Europe:

- unilaterally
- in concert with allies
- by treaties with the USSR

Level of aid to Eastern Europe and/or Soviet Union

- amount earmarked for telecommunications and computers

Domestic economic/social adjustments to a less Cold War economy

Availability of trade credits:

- commercial
- concessionary

Incentives for American companies to invest in Eastern Europe

- (investment insurance, for instance)

Mood of the Congress and U.S. public opinion:
ability to maintain steadfast course over the long term
willingness to accept varying standards for "democracy"
Anti-communist backlash

4. The Role of Japan

Level of commercial activity
Level of assumption of political and financial responsibilities in
Eastern Europe
Resolution of Japanese/USSR World War II territorial disputes
Possibility of a Japanese/USSR peace treaty

Interpreting the Indicators

Especially important in interpreting the above indicators are time and cost factors. A key question here is, in what time frame and at what cost is a certain action or event reversible?

Not all indicators are equally applicable to all parts of eastern Europe. It is suggested that the reader differentiate between at least five different geopolitical/economic relationships, the first three obviously being the most important for most decision makers:

- 1) The Soviet Union
- 2) Poland, Hungary, and Czechoslovakia
- 3) The German Democratic Republic
- 4) Bulgaria
- 5) Romania and Albania

Special attention is drawn to the section entitled Structural Impediments. Much of the attention is presently directed toward the rapid changes in the USSR and Eastern Europe, but a great many obstacles to doing business there will remain stubbornly in place. While these obstacles are to some degree susceptible to political and macroeconomic policies and directives, they follow their own dynamics and are probably changeable only in the long term. Not least of these obstacles may be that, while the demand for Western high tech goods and services promises to be substantial, the means of payment are conspicuously lacking.

Most of the indicators pertain to the political, macroeconomic and security environments which will continue to circumscribe the actions of the various players in eastern Europe for the foreseeable future. Careful interpretation can assist in decisions such as, how safe will my investment be, can I go in for the long term, and what political risks do I run domestically on the defense/government side of my business in trading with the east?

These broad guideposts are probably not useful in making narrow

marketing decisions, although the sections on Economic Determinants, Structural Impediments, Free Flow of Information, and The Role of Japan may offer some guidance.