Introduction

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In recognition of the key position of international trade in the transition and the need for concentrated discussions of topical trade issues the International Institute for Applied Systems Analysis (IIASA) organized an international conference on "International Trade and Restructuring in Eastern Europe" which took place in Laxenburg, Austria, on 19 and 21 November 1992. The Austrian National Bank joined IIASA to co-sponsor the event. Participants of the conference were experts of international economics and trade policy from East and West, policy makers, and representatives of international organizations like the IMF, the Commission of the European Communities, the OECD, and the European Bank for Reconstruction and Development (EBRD). The papers prepared for the event and the lively discussions during the conference itself prove that the topics are intellectually challenging and timely for policy makers.

It has widely been recognized that international economic relations play a crucial role in the transition of countries of Central and Eastern Europe. The scope, speed, and success of the efforts to transform the formerly centrally planned economies to market economies have increasingly become dependent on the pattern these countries have in their relation to the rest of the world.

Transition comprises three major processes: macro-stabilization, marketization, and restructuring. The success of these three hinges to a large extent on the response of these economies to the new conditions set by international trade and exchange regimes.

J. Gács et al. (eds.), *International Trade and Restructuring in Eastern Europe*

Many of the new governments in these countries have found that the most appropriate fixed point (the so-called nominal anchor), to which stabilization measures should be attached, is the nominal exchange rate of their own currency. A more reasonable exchange rate than that in the former system of central planning has required a full reorganization of trade and exchange relations including the establishment of some kind of currency convertibility and deregulation of international trade transactions. Part I of this book deals with exchange rate regimes that have played and may play a role in supporting political and macroeconomic stabilization, on the one hand, and competitiveness of domestic production, on the other.

For the new, democratically elected governments of Central and Eastern Europe marketization means primarily the establishment of basic institutions of the market, liberalization of prices, decentralization of financing, providing the opportunity for free entry and fair competition, and privatization of the majority of formerly state-owned companies. It was soon recognized that without an increasing reliance on international trade, as well as external financial and technical assistance, the transition to the market would be delayed for an intolerably long time. Liberalized imports and joint ventures may promote competition in a heavily monopolized economy; privatization would be slower without the participation of foreign investors, and it would be harder to establish basic institutions of the market without the technical assistance of international organizations.

The switch from one system to the other implies an enormous restructuring of trade and production, as well as a major reallocation of the factors of production. In signaling the preferred directions for restructuring, international trade is an extremely sensitive instrument: through world market prices, through demand for exports and supply of imports, international trade gives guidelines to producers who were accustomed to the distorted signals of a planned system. The collapse of trade in the framework of the CMEA has caused additional pressures for international readjustment in these economies.

As a consequence of systemic changes and the demise of the CMEA the countries of Central and Eastern Europe have had to undergo far-reaching geographical and sectoral restructuring of their production and trade since 1990. This restructuring has no parallel in history apart from those countries in the transition to a wartime economy. For foreign trade the structural changes had two implications: (1) shift in the sectoral and geographical composition of trade and (2) the modification of the behavior of enterprises.