"East-West Trade Must Go Both Ways," by Peter M. Thall.
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Many entertainment experts have applauded new and abounding opportunities for Western businesses due to Eastern Europe's relaxing political and economic structures. They propose to sell a multitude of entertainment products—including those that have proven unsalable here—to these new Eastern European customers. Although the lawyers and businessmen who propose this undoubtedly know a good thing when they see one—and their ability to recognize a business opportunity may be even greater than their ability to pick a hit record or the latest trend—their vision of the Western entertainment industry's role in Eastern Europe is seriously flawed.

Certainly, entertainment executives and attorneys are well situated to help these fledgling economies leap the lost generations and participate on a par with the traditional capitalist societies. Our unique access to information, information sources, and media are unequaled among professionals in industry or finance. But to use our positions solely to open up the East for exploitation by the West deals with only half the challenge; the better route to follow is to attempt to open up *both* worlds to each others' cultures. Indeed, as will later be seen, it may well be our responsibility to do so.

Through artist exchanges, joint ventures between Eastern and Western entrepreneurs, and global entertainment events, Western know-how and Eastern artistry will become more intertwined in the years to come. Inexpensive Eastern labor will result in lower prices for motion pictures and television production and the manufacture of compact disks. What were formerly the Iron Curtain countries are now beckoning all who wish to come East to taste the delicacies of economies that rival Peru and Argentina in their need for Western hard currency. But what will we find when we get there? Not the mythical opportunities that some pundits say abound there.

There are certain realities that simply cannot be ignored. First of all, the *people* of Eastern Bloc countries have owned everything for so long that *individuals* do not know how to own anymore. Consequently, the most urgent problem to acknowledge is that the business structures in the East are antiquated or inefficient, if they exist at all. This is even more the case in arts and communications-related businesses than in manufacturing businesses. Products related to food, clothing, and shelter (and defense!) were never permitted to languish to the same degree as were those products reflecting creativity and the varying media by which ideas could be expressed.

Second, those businesses that have survived the nearly 50 years of incarceration are often either ownerless or political or legally challenged. This is one of Eastern Europe's most daunting problems. The state cannot operate these businesses with the same lethargy and mismanagement that have given central planning a bad name. On the contrary, these activities will have to be privatized. Ownership must be given back to individuals, with the right to freely transfer shares.

Third, Western lending institutions will look no less acutely at the financial structures of these businesses than at those in the West. Yet Eastern firms will often not have the balance sheets and other documentation that financial institutions regularly use for determining whether or not a given loan is a good risk. After the damage that many of the West's financial institutions experienced in the freewheeling '80s, they will be more stringent than ever in analyzing the risks in these investments, which could, in a sudden backlash, again be nationalized. To top off the challenges to good, old-fashioned bank judgment, the predictions for these economies are so dire that *political* instability in the future is almost a certainty, inviting even more shaky economic prospects.

Of course, the standards of determining credit risk for institutions will apply to individuals as well. It will be difficult, if not impossible, to compile in the East the credit histories of individuals comparable to those available to financial institutions in the West.

Fourth, there are the predictable problems of establishing competitive world-class industries (entertainment industries included) in countries that have no publicly traded securities or convertible currencies, that suffer from severe licensing restrictions, and that lack people with executive and management skills. The reforms we have observed, particularly in Poland, will not be able to overcome these obstacles in the short run. A successful market economy can be established in Eastern Europe, on an industry-by-industry basis, only if we in the West focus on the mutual benefits to be derived from helping the Eastern Europeans to create vertically and horizontally integrated institutions within each industry.

The entertainment industry can lead the way partly because it owes its existence to the free exchange of information and its worldwide prestige to the way in which it has managed the internationalization of its products. It can also boast a century of experience in capitalist deal-making on the most competitive fronts.

It is essential that our industry not seek to achieve integration with the East solely based on the philosophy suggested by some entertainment professionals of selling to the East products (such as vinyl records) that are of little or no value to the West. Clearly, the issues are more complicated than that. Even if this type of one-sided commerce succeeds for some, for whom will it be profitable? Certainly not the Eastern Europeans.

The one-way approach would deplete their foreign exchange reserves and waste well-intentioned financial assistance and investment from the West. In addition, such practices would cause resentment based on well-founded suspicions of Western greed and exploitation.

Once we acknowledge these realities, it becomes clear that the only responsible and moral result that we can seek to achieve for the Eastern Europeans is to help them to establish an indigenous entertainment industry through which they can operate as real-world players rather than as piecemeal participants.

This mission cannot be fulfilled by well-meaning entertainment entrepreneurs alone; nor can foreign investment capital accomplish the task in a vacuum. It will take the mutual effort of Eastern European governments and trade organizations, together with those of the West and their financing institutions, to isolate the problems that have to be solved and to identify the fundamental elements of industry that must be laid as the foundation for the pyramid that will rise above it.

When McDonald's opened in Moscow recently, its most extraordinary accomplishment was to establish a network of Soviet suppliers of everything from potatoes to paper napkins. Merely locating these suppliers was a feat; even more impressive was the fact that McDonald's organized them and educated them in the steps required to maintain a continuity of product and services that the store on Pushkin Square and Gorky Street required. Such a continuity is practically unknown among Soviet restauranteurs.

While Eastern Europeans admire Western capitalist methods and business facility, they are suspicious of our smooth techniques and styles—to say nothing of our motivations. Even Eastern securities markets, once up and running, will bear the sophisticated imprint of the West. Neophytes will suffer many a turnaround and disappointment before getting the knack of the system.

It is obvious that the high expectations of some of our entertainment executives and attorneys are premature at best. As it will take some time to identify and solve the problems and accomplish the goals alluded to in this article, as well as those others that necessarily will arise in due course, a certain number of piecemeal transactions can provide at least some symbolic gratification for those who want to engage in trade with the East. And surely it is historically significant if we can participate at all in the creation of an Eastern, market-oriented entertainment industry.