Lone Rangers? – What Happened to Eastern European Trade During the Cold War?

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Eastern European countries share a lot of history with the West. Their economic development, however, could hardly be more different. Industrialisation reached these areas in the 20th century and was heavily impacted by the World Wars.[1] At the same time, these countries turned towards a new organisational system of society, Socialism, that had a completely different understanding of economics. Despite its geographic proximity and importance in understanding 20th-century history, we know relatively little about economic policies in Socialist Europe. This is puzzling since it depicts the economic reality of around 40% of the European population and half of its landmass, making it an important study to understand how a significant portion of Europeans lived for over four decades. The gap also includes trade and trade policy, which is surprising given that balance of payments issues, of which foreign trade is a crucial part, were considered as a relevant problem.[2]

This chapter focuses on quantifying trade in Eastern Europe during the Cold War. Using numbers from statistical yearbooks, it traces the foreign trade of 8 Socialist countries by trade partner and product class. In the case of Poland and Yugoslavia, the main sources were the statistical trade yearbooks of the respective countries which present trade data in a highly

[1] T. Dennison and A. Klein. «The Socialist Experiment and Beyond: The Economic Development of Eastern Europe.», in *The Cambridge Economic History of the Modern World,* edited by S. Broadberry and K. Fukao, Cambridge University Press, 2021, p.74.

[2] R. Allen, «The Evolution of the External Debt and Balance of Payments of Eastern Europe and the USSR since 1970», *BIS Working Papers*, no.7, 1982, p.2.

detailed fashion. To the best of the author's knowledge, this is the first database that gathers foreign trade in Cold War Eastern Europe at this scale. In addition, as countries were recording in domestic currencies, official US-dollar exchange rates were gathered through the Central Bank of successor states if they were not available in the yearbooks themselves. Of particular interest are trends and changes over time as well as differences between countries, which opens a range of questions: How did trade develop in Eastern Europe during the Cold War? Does trade data indicate the rise and decline of the Eastern Bloc? Did Socialist countries experience structural change by moving from agriculture to industry?

The results of this investigation are summarised in terms of seven stylised facts: (i) Trade streams grow at a near-constant rate. (ii) Countries are mostly running a trade deficit. (iii) Trade partners differ quite significantly and follow economic, political and geographic rationales. (iv) Traded goods differ by bloc and are directly related to the relative competitiveness within an economy. (v) The share of the trade in the West is, in general, increasing. However, levels and trends diverge towards the end of the Cold War. (vi) Yugoslavia differs from other Socialist countries in terms of trade patterns. (vii) Trade data indicates that Eastern Europe did experience structural change.

From the results, it is clear that Eastern European countries were part of an international trade network within the East but also traded across ideological barriers. Economic goals would often win over ideological concerns and trading with the "enemy" was commonplace. Socialist economies react according to economic incentives, which can be seen in the differences in trade composition by trade partners. Moreover, trade patterns indicate more broadly that Socialist countries acted like other developing countries and followed standard procedures to achieve development.

Naturally, the list of stylised facts is selective and does not nearly encompass all patterns that can be found in the data. Nonetheless, they do indicate a range of interesting results. Most

importantly, to bring it back to the initial question of this paper, Eastern European countries at the time were certainly not lone rangers. They had to work within the limits of their relatively rigid system but that does not mean that they were fully isolated. Countries traded with both, Socialist and Non-Socialist countries and would cross ideological borders for economic gains. Even more, they would even enter explicitly Capitalist organisations such as GATT. Self-sufficiency was a key topic across the bloc but the realities on the ground, in particular the access to raw materials, made economic cooperation necessary.

In addition, despite the different socio-economic setups, basic economic concepts seem to have hold for Socialist countries, too. Countries would react to incentives and terms such as competitiveness or excess supply were anything but foreign to them. Even the development patterns follow the standard playbook for industrialisation that can be found in other non-Socialist developing countries.[3] So, one might think that Socialist countries are acting in a relatively intuitive fashion despite all differences. This is great news for future research in this field as this might allow the use of standard economic theory, which was invented for Capitalist economies, in this context. Of course, adaptions will be necessary to account for differences in production and pricing, but the general dynamics remain remarkably similar.

But there are also wider implications for trade and trade history beyond Eastern Europe. First, this is a sign that there was indeed an international trade network after World War II that would encompass both Socialist and Non-Socialist countries. Even though economic institutions did shape incentives and created a situation where trading with political allies was particularly beneficial. However, these zones were not sealed in any way and trading beyond borders intensified throughout the Cold War. Second, it indicates that trade patterns are shaped and incentivised by institutions and procedures. This might not be surprising in any form, but the degree to which it can incentivise behaviour, as could be seen in Fact (iv), is

[3] For a list of typical policies, see H. Pack and K. Saggi, «Is There a Case for Industrial Policy? A Critical Survey», *The World Bank Research Observer,* 21, no. 2, 2006, pp.267-297.

striking. Third, it points towards a connection between trade, technology and development. Fact (vii) is a clear example of this idea given that the economic transition of Eastern European countries came along with a change in the trade composition at the same time. Moreover, given that technology played a significant of imports, it becomes clear that these topics are highly intertwined.

Even though it is tricky to create a list of recommendations for contemporary policy given that the Eastern Bloc dissolved in 1989, there are a few lessons to take away. First, successful trade relations do not necessarily imply political alignment. Socialist and Non-Socialist countries would wage a range of proxy wars across the globe and still keep on trading goods. This is an encouraging signal for a world that is plagued by geo-political issues. Second, trade shares with an economic area can increase even if a country is a member of a different trade area. In a more modern context, one interpretation could be that being a member of the European Union and its single market does not restrict trading with countries outside the zone and expansion towards other parts of the world can be pursued successfully. Finally, it is further proof that small countries do have leeway in international trade policy that they can use to leverage their economic possibilities. Even though small and in multiple ways highly dependent on the Soviet Union, Eastern European countries did not fully comply with the demands of the superpower. In other words, compliance with Soviet trade policy was neither guaranteed nor properly enforced in practice despite the unequal relationship.