

Zbigniew KLIMIUK 

Institute of Labor and Social Studies, Warsaw, Poland

## Asymmetry and Imbalance in Trade between East and West in the 1980s

**Asymetria i nierównowaga w wymianie handlowej między Wschodem i Zachodem w latach 80. XX wieku**

### • Abstract •

An analysis of the development of East-West trade in the 1980s and earlier allows us to draw a conclusion about the imbalance in the importance of mutual economic relations at that time. This imbalance was multi-faceted and manifested itself in, e.g., imbalance in the structure of trade in goods, payment asymmetry, as well as various motives of OECD and Comecon countries when making decisions on mutual exchange. The imbalance in the commodity structure of the East-West mutual trade reflected the fact that complementary goods were exchanged instead of, as was the case in countries characterized by a modern exchange structure, substitute products. The complementary nature of East-West trade meant that the exports of the socialist countries to the markets of the Western countries encompassed, to a large extent, different commodity groups than the imports of the Comecon countries from this area. While exports from socialist countries consisted mainly of goods with a relatively low degree of processing, the exports of capitalist countries to their Eastern partners encompassed mainly finished products with a significant degree of processing and the involvement of modern technological thought.

### • Abstrakt •

Analiza kształtowania się wymiany handlowej Wschód–Zachód w latach 80. XX wieku i w okresie wcześniejszym pozwala sformułować wniosek o nierównowadze znaczenia wzajemnych stosunków gospodarczych w tym czasie. Nierównowaga ta była wielopłaszczyznowa i dotyczyła m.in. nierównowagi struktury wymiany towarowej, asymetrii płatniczej, jak też różnych motywacji krajów OECD i RWPG przy podejmowaniu decyzji o wzajemnej wymianie. Nierównowaga struktury towarowej handlu wzajemnego Wschód–Zachód odzwierciedlała fakt dokonywania wymiany towarami komplementarnymi, a nie jak miało to miejsce w przypadku krajów posiadających nowoczesną strukturę wymiany – produktami substytucyjnymi. Komplementarny charakter handlu Wschód–Zachód oznaczał, iż eksport krajów socjalistycznych na rynki krajów zachodnich zawierał w przeważającym stopniu odmienne grupy towarowe niż import krajów RWPG z tego obszaru. Podczas gdy eksport z krajów socjalistycznych składał się w głównej mierze z towarów o stosunkowo niskim stopniu przetworzenia, to przedmiotem wywozu krajów kapitalistycznych do ich wschodnich partnerów były przede wszystkim

produkty gotowe o znacznym stopniu przetworzenia, powstałe przy zaangażowaniu nowoczesnej myśli technologicznej.

**Keywords:** East-West relations; trade; exports and imports; trade structure imbalance; payment asymmetry; substitute and complementary products; protectionist policy; technology transfer

**Słowa kluczowe:** stosunki Wschód–Zachód; wymiana handlowa; eksport i import; nierównowaga struktury handlowej; asymetria płatnicza; produkty substytucyjne i komplementarne; polityka protekcjonistyczna; transfer technologii

## Introduction

The analysis of the development of East-West trade exchange in the 1980s and earlier makes it possible to formulate a fundamental conclusion (thesis) about the imbalance in the importance of mutual economic relations at that time. This imbalance was multi-faceted and concerned, among others: imbalance in the structure of commodity exchange, payment asymmetry, as well as different motives of OECD and Comecon countries when making decisions about mutual exchange (Hamilton & Winters, 1992). The imbalance in the commodity structure of East-West mutual trade is reflected in the practice of exchanging complementary goods instead of – as it was the case with countries characterized by a rational exchange structure – substitute products. The complementary nature of East-West trade meant that the exports of socialist countries to the markets of Western countries consisted of largely different commodity groups than the imports of Comecon countries from this area. While exports from socialist countries encompassed mainly goods with a relatively low degree of processing, the exports of capitalist countries to their Eastern partners consisted primarily of finished products with a significant degree of processing and the involvement of modern technological thought.

For the countries of the communist bloc, participation as a party occupying a less favorable position in trade cooperation based on an asymmetric, complementary model of commodity structure entailed many negative consequences, and above all, the petrification of existing structures and differences in economic development, unfavorable price relations, and also possibility of sudden and significant changes in terms of trade. The payment imbalance that emerged in the 1970s deepened in the next decade as a result of crisis phenomena and barriers to the development of socialist economies (Stankovsky, 1973). Payment asymmetry resulted in a drastic reduction in imports from capitalist countries and had a deleterious impact on the development opportunities of the economies of socialist countries and on the further

development of East-West economic cooperation. In this context, the impact of the debt of the communist bloc countries on the reorientation of their internal economic policy and external trade policy was also of high importance.

When analyzing the imbalance in the East-West exchange, one should not forget about the unfavorable phenomena that occurred in capitalist economies and which contributed to the emergence of the said imbalance. These include economic recessions in highly developed countries, which have a dampening effect on their propensity to import. This was clearly expressed in the protectionist policy of Western partners, one aimed at protecting production areas affected by crisis phenomena. The imbalance in the importance of mutual trade relations for both parties, evident not only in quantitative but also in qualitative terms, was associated with the greater importance of these relations for the economies of socialist countries (Brenton & Di Mauro, 1998). The share of capitalist countries amounted to over 20% of total exports and over 22% of total imports of socialist countries, while the share of socialist countries in the total turnover of highly developed capitalist countries amounted to slightly above 2%.<sup>1</sup> This asymmetry meant that East-West economic contacts, apart from purely economic aspects, also had to be assessed in political terms.

The imbalance in the importance of bilateral contacts between the East and the West was also closely related to the motives for establishing them. The most important economic motives of Western countries for developing economic cooperation with socialist countries included:

- a) import demand for raw materials and fuels;
- b) search for absorbent export markets.

The interest of individual countries in this respect differed. Similarly to political motivations, there was also a general divergence between the position of the United States on one hand and Western Europe on the other regarding economic factors. Two main considerations determined this: in the American economy, economic relations with socialist countries played (in quantitative terms) a smaller role than in the case of economies of Western European countries (Bergstrand, 1985). Moreover, exports of American goods included mostly mass-produced goods, while the commodity structure of exports from Western European countries was dominated by highly processed products and technologies. In addition to such circumstances as import demand and interest in exports, there were many additional considerations

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<sup>1</sup> The share of OECD countries in the global exports of European Comecon countries was 30% in 1980, 24% in 1985, and 20% in 1986. The corresponding amounts on the import side were as follows: 32%, 24%, and 22%.

that were important for the policy of economic relations of Western countries with socialist countries:

- a) traditions of cooperation with individual partners and the related interest in maintaining lasting ties with them;
- b) national specificity of general economic policy;
- c) attitude towards cooperation with foreign countries;
- d) political attitude towards countries with a different economic system.

The importance of these factors was confirmed by the maintaining of close economic ties, especially between specific partners from Western Europe on one hand and from Comecon on the other, despite unfavorable economic changes and political tensions.

### **The volume and dynamics of goods exchange**

The beginning of the decade of the 1980s was characterized, on the one hand, by a deterioration of the political climate and an increase in tension in relations between socialist and capitalist countries caused by aggression and the entry of Soviet troops into Afghanistan (1979) and by the introduction of the martial law in Poland (December 1981), and on the other hand, by the economic recession in capitalist economies and the economic crisis in the communist bloc countries (Oblath & Pete, 1985). As a result of these circumstances, there was a breakdown in the development of trade between the countries of the East and the West. Manifestations of this included: a decline in mutual trade turnover, expansion of the Coordinating Committee for Multilateral Export Control (COCOM) list, difficulties faced by the socialist countries in access to Western technologies, and financial, trade and political sanctions imposed by Western countries on Poland, the USSR and other socialist states.<sup>2</sup> The year 1980 brought a sharp economic downturn in the OECD countries, one which lasted almost until mid-1983, and resulted in a significant decline in world trade turnover.<sup>3</sup> Global exports of the OECD countries in 1983 were approximately 8% lower (in constant prices) than in 1980. In the analyzed period, also in the Comecon countries there was a visible breakdown in the dynamics of exports and imports (in Poland in 1981–82, in Czechoslovakia in 1981, and in Hungary in 1983, exports – in current prices – were lower than in the previous

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<sup>2</sup> Only on February 19, 1987, President Reagan announced the lifting of the last restrictions against Poland.

<sup>3</sup> This was an unprecedented phenomenon in the period after World War II.

year). The Soviet Union, whose exports were stimulated by the export of fuel and energy raw materials, demonstrated an unusual situation for the entire grouping. The three-year period of collapse in the dynamics of global exports and imports was reflected in East-West trade. The reduction in global exports of the OECD countries in 1981–83 was accompanied by a five-year period of reduced exports to Comecon countries. In the years 1981–85, Comecon countries' imports from the OECD countries decreased from USD 42.4 billion to USD 33.8 billion (i.e., by approx. 20%). The reduction in the volume of exports of the OECD countries to socialist countries stemmed primarily from the reduction of imports by Poland, Czechoslovakia, Romania and Hungary, and to a lesser extent by Bulgaria and the GDR (Holzman, 1985). At the same time, the USSR's imports from the OECD countries increased from USD 21.6 billion up to USD 22.4 billion and it was only in the years 1985–87 they started to decline.

The economic downturn in capitalist countries was also reflected in the dynamics and volume of imports in this group of countries. In the years 1980–83, their total imports decreased by approximately 13% and their imports from European socialist countries by 9% (while imports from the USSR stabilized). The decline in imports of the OECD countries from the socialist ones was mainly the result of reductions by Germany, France and Finland of imports from Romania, Poland and Hungary, and reduction by Austria, Great Britain and Italy of imports from Bulgaria, Czechoslovakia and East Germany. At the turn of the 1970s and 1980s, the average annual growth rate of imports (in current prices) in the OECD countries amounted to respectively 3% (1979–82) and -1% (1982–86). In the years 1980–86, imports to the OECD countries from Comecon countries decreased from USD 43 billion to USD 37 billion. Expressed in constant prices, the dynamics of East-West trade was much lower than the dynamics of world trade. The average annual growth rate of exports of socialist countries to the OECD countries in the years 1979–82 amounted -3% in constant prices, and in the period 1982–86 to +6% (the corresponding indicators for imports of Comecon countries from the OECD countries were as follows: -0.9% for the years 1979–86 and -0.4% for the period 1982–86). Starting from 1984, there was a visible economic recovery and an increase in the foreign trade turnover of OECD countries. Exports and imports of economically developed Western countries were characterized by high dynamism in the period 1984–86. In the years 1982–86, the average annual growth in exports amounted to approximately 5% (in constant prices), while in imports it exceeded 7%. However, the improving economic situation and acceleration of trade turnover in the OECD countries did not result in the improved dynamism of East-West

trade and economic cooperation, because their mutual exchange depended largely on the payment abilities of the Comecon countries.

A significant reduction in imports from the OECD countries by socialist countries was aimed at improving the latter countries' current account balances. The severity of this tendency depended on the general payment condition of individual countries. The GDR and the USSR adopted a slower approach to achieving balance in the balance of payments, which allowed them to maintain the import growth rate of 6% per year (Grabska, 1989, p. 23). Romania and Poland, with high debts being partially repaid with export revenues, radically reduced imports, which resulted in their average annual decline over the entire five-year period (1981–85) amounting to 12% and 6%, respectively. In the other socialist countries the situation differed. Bulgaria, with a relatively favorable initial debt position, allowed its balance of payments imbalance to increase with the highest import growth rate among all those countries – at 10% per year.<sup>4</sup> As the sales of its goods on Western markets deteriorated, Hungary limited imports without achieving any visible results in terms of improved trade balance. Czechoslovakia, in turn, continued the traditional method of preventing visible disproportions between exports and imports, which, given the weak dynamics of exports, also resulted in a slight slowdown in the growth rate of imports.

Import restrictions and the policy of stimulating exports to capitalist countries implemented in the Comecon countries improved their trade turnover. In the years 1980–85, Czechoslovakia and the USSR had a positive trade balance in turnover with OECD countries, from 1981 – Romania, and from 1982 – Poland and the GDR, while Bulgaria and Hungary had a negative balance with this group of countries in the first half of the 1980s. The positive balance of trade between Comecon countries and the OECD countries resulted in a reduction in their gross debt (USD 93.1 billion in 1982 to USD 90.5 billion in 1983 and USD 85.7 billion in 1984) and in their net debt (from USD 77.4 billion in 1982 to USD 70.8 billion and USD 63.6 billion in 1983–84). In 1985, the trend was reversed: exports from European Comecon countries decreased, compared to 1984, by 2%, mainly as a result of a decline in exports of fuels and of some semi-finished products and chemicals (*Gospodarka światowa...*, 1986, p. 19). However, imports increased by 4%. At the same time, Soviet exports to Western countries decreased by 14%. This was due to a decrease in the volume of exports of crude oil,<sup>5</sup> petroleum products and natural

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<sup>4</sup> Imports were also increased to prevent social tensions.

<sup>5</sup> Net exports of fuel and energy accounted for 1/3 of Soviet production and 54% of total USSR exports (51% of exports to socialist countries) and 68% to capitalist countries.

gas. At the same time, the dynamics of imports from the West accelerated in the USSR by 9% (Becker, 1983, pp. 23–65). The increase in imports from socialist countries was a manifestation of a certain regularity characteristic for this group, namely the fact that the need to maintain the dynamics of commodity exchange as a whole required maintaining a relatively equal pace of both trade streams in the long term. The negative effects that could appear in the economy of socialist countries as a result of long-term restrictions on imports were connected to the fact that the functioning of certain sectors of production was based on the components imported from Western countries and to the undisputed role of investment imports in the reconstruction and modernization of industrial structures (Brada, 1988). As a result of the above-mentioned changes, the trade balance of the analyzed countries with Western countries deteriorated. The European Comecon countries maintained only a small surplus (USD 1 billion in 1985), while in the USSR the USD 6 billion trade balance surplus turned into a deficit in 1985. It was estimated that as a result of the deterioration of trade balances, the net debt of the European Comecon countries and the USSR increased from USD 64 billion in 1984 to USD 70 billion in 1985.

The year 1986 witnessed the deepening of the existing payment problems of socialist countries due to falling prices of oil and agricultural products as well as to the depreciation of the dollar. Unfavorable price trends affected primarily the current account balance of Hungary, Bulgaria, and the Soviet Union. The exception was Czechoslovakia, whose positive balance in 1986 was much higher than in 1985. The volume of exports of European socialist countries to the West increased by approximately 5% in 1986 compared to 1985. Imports from the West increased in the same period by 6% (*Gospodarka światowa...*, 1987, p. 22). Despite similar rates of growth in the volume of exports and imports, the significant deterioration in the terms of trade of Central and Eastern European countries in exchange with Western countries meant that the increase in the dollar value of imports was almost twice as high as that of exports. The value of imports from this group of countries increased in 1986 by 29%, and the value of exports by 15%. As a result, the surplus of European socialist countries in exchange with the West amounted to only approximately USD 480 million in 1986, compared to USD 1.3 billion in 1985 (*Gospodarka światowa...*, 1987, p. 24). The drop in oil prices resulted in a significant decline in the USSR's revenues from exports to the West. In 1986, the dollar value of these exports decreased by 5%. The increase in export volumes (especially of oil) failed to compensate for unfavorable price relations. USSR imports from the West were reduced in volume terms by 18% and in value terms by 0.5%. As a result of these phenomena taking place in the world economy, the debt of Comecon countries

increased in 1986 to USD 73.5 billion (this debt also included the liabilities of Comecon banks, estimated at USD 4.2 billion).

The year 1987 did not bring any significant changes in trade turnover between the East and the West. The Comecon countries recorded a slight increase in the volume of exports (approx. 1%) and a slight decrease in the volume of imports (approx. 2%), mainly due to the reduction of imports by the USSR. Exports to advanced capitalist countries increased in several countries, but in very different ways: from 1% in Czechoslovakia to over 20% in Bulgaria and Hungary – in the latter two cases, favorable price patterns played an important role (*Gospodarka światowa...*, 1988, p. 21). A significant reduction in imports in this group of countries occurred in the Soviet Union and Bulgaria (by 8% and over 12%, respectively). However, an increase in imports took place in Czechoslovakia and Hungary (by over 13%) and in Poland (by approx. 8%). The terms of trade of the OECD countries did not change significantly in 1987, while socialist countries recorded some improvement in price relations in foreign trade. The Soviet Union's terms of trade with the West deteriorated by 40% in 1986 and by 30% in 1987. The deterioration of exchange conditions was explained by the structure of Soviet exports (it was dominated by energy raw materials) and by the structure of imports from the West, which consisted mainly of industrial products (Vanous, 1990, pp. 4–34). The Soviet Union responded to the decline in prices of energy raw materials and the increase in prices of industrial products by expanding the volume of its exports to the West by 21% in 1986 and by 10% in 1987, while reducing the volume of its imports by 19% and 13%, respectively. Thanks to quite good harvests, the USSR was able to reduce expenditure on grain imports. Despite this, the USSR's trade with the West resulted in a deficit of USD 4 billion in 1986 and approximately of USD 0.5 billion in 1987. Other countries of Central and Eastern Europe, i.e., Bulgaria, Czechoslovakia, East Germany, Poland, Romania, and Hungary, were less affected by price changes on world markets. Their terms of trade deteriorated by 12% in 1986 and by 4% in 1987. As a result of a rather stringent import policy, the total trade balance of European socialist countries with the West was in a small surplus in 1987, amounting to USD 17 billion (i.e., 7 billion more than in 1986).

In the perspective of the decade of the 1980s, 1988 was one of the best years, both for highly developed capitalist countries and socialist ones. On the one hand, this was related to an improvement in the economic situation, and on the other, to an improvement in the political climate in international relations, especially in the East-West dimension (Steiner, 2014). The improvement in East-West relations resulted from the signing of an agreement in December 1987 to limit medium-range missile weapons by 50%, progress in resolving regional conflicts, and especially



the withdrawal of Soviet troops from Afghanistan. An important media event was the declaration (by M. Gorbachev at the UN Session) of a unilateral, significant reduction of Soviet troops in the countries of Central and Eastern Europe (more propaganda ploy than real development). The revival of diplomatic contacts, including state visits at the highest level between the USSR and the USA, and between the countries of Western Europe and the countries of Central and Eastern Europe, was also important. The political dialogue between the USSR and Japan was also resumed. New development prospects in East-West economic relations were also associated with the conclusion of an agreement in June 1988 on the establishment of relations between the EEC and Comecon and with the signing of the first economic cooperation agreements between the EEC and Hungary and Czechoslovakia (*RWPG-EWG...*, 1990, p. 29).

The factors that stimulated the export dynamics in case of Hungary and Poland in 1988 included, first of all, reforms in the field of foreign trade, exchange rate, and currency policy.<sup>6</sup> Moreover, an external factor contributing to the improvement of the foreign trade situation of the countries of Central and Eastern Europe entailed the further increase in import demand on the part of Western countries, which enabled the Comecon countries to direct a larger mass of goods to the West (Rosati, 1990). Export push (especially by Poland, Hungary, and Romania) was also associated with an attempt at improving the credit position in connection with their application for loans at the IMF, the World Bank, and private financial institutions. What is worth emphasizing is the revival of trade between the United States and the countries of Central and Eastern Europe and the USSR. The volume of their mutual exchange of goods increased by 11%. In value terms, the turnover of the Soviet Union's trade, e.g., with the USA, increased by over 100%. Exports of the remaining European Comecon countries to the West increased by 6% (in constant prices). The situation in socialist countries' imports improved significantly in 1988. After a decline in 1987, the volume of Soviet imports increased by 6%. Moreover, the stagnation in import demand in this group of countries was overcome. The price relations of European socialist countries in exchange with the West deteriorated in 1988 by approximately 3% (*Gospodarka światowa...*, 1989, pp. 39–41). As far as the trade balance is concerned, they achieved a more favorable balance than in the previous year, while the USSR posted a deficit of USD 2.4 billion. In the second half of 1988, economic relations between East and West entered a new phase of development thanks to the radical nature of the political changes in the Central and

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<sup>6</sup> With Hungary on trade and economic cooperation, with Czechoslovakia on trade in industrial products.

Eastern Europe and in the USSR. Poland and Hungary were the first to undertake economic reforms aimed at marketization of economies, reducing the importance of central planning and management, as well as instilling ownership changes. The changes discussed allowed not only to revitalize and create a better atmosphere for contacts at the government level and between various institutions, but also to significantly expand the possibilities of establishing economic cooperation between enterprises (Economic Commission for Europe, 1988). Unfortunately, the opportunities for cooperation could not always be fully exploited, for example, due to the negative impact of the decline in production in the Comecon countries in the previous period (Wienert & Slater, 1986). The improved terms of trade with the West worked to the advantage of the Central and Eastern European countries. This improvement was particularly marked in the case of the Soviet Union. Thanks to the increase in oil prices on the international market, the USSR's terms of trade with the West improved for the first time in five years. Only two countries – Hungary and Bulgaria – managed to achieve really good results in exports to the West in 1989. The value of their exports increased by 15% and 11%, respectively. Imports of Comecon countries from the West increased – mainly because of Poland, East Germany, and Hungary. Soviet imports also increased quite significantly. Imports to Bulgaria and Czechoslovakia were close to stagnation, and Romania continued to reduce them – the value of its imports from the West dropped to mere USD 1 billion.

In 1989, the current account situation (expressed in convertible currencies) of the countries of Central and Eastern Europe and the USSR deteriorated. Their combined current account surplus decreased, while gross foreign debt increased (with the exception of Romania). The burden on the economies of Central and Eastern Europe (excluding the USSR), measured by the ratio of net debt to exports, decreased in 1989. Only in Bulgaria the situation worsened dramatically – in 1988, the discussed ratio exceeded 200% (considered borderline for high burden) and in 1989, it increased to over 300%. For the USSR and all countries of Central and Eastern Europe (excluding Romania), the ratio of foreign debt servicing costs to exports deteriorated in 1989.

The analysis of the dynamics and volume of trade in goods between Comecon and the OECD presented above can be subdivided to cover several sub-periods, most characteristic of the decade of the 1980s. In 1980–82, the development of East-West trade, in addition to economic reasons, was seriously influenced by political factors. Their importance was gradually strengthened. During that time, the dynamics of mutual trade significantly slowed down. This was especially evident in case of imports of the communist bloc countries from the West, the value of which decreased

in absolute terms. This was often determined by the absolute decline in trading volume. When it comes to exports of Central and Eastern European countries to the OECD, absolute declines in its value and volume were also observed. In terms of volume, certain tendencies towards improvement were already visible in 1985, while in terms of value – in 1984 and 1985.

In the years 1982–85, the countries of Central and Eastern Europe faced serious difficulties in access to the international financial market. In this situation, in order to ensure the servicing of their debt, they took actions aimed at limiting import demand and stimulating exports (Drabek & Greenway, 1984). These policies resulted in the transformation of current account deficits into surpluses. However, in 1985 the effectiveness of this type of policy began to decline noticeably. There was an increase in imports with a significant decrease in exports. The investment restrictions introduced in previous years, the decline in inventories and the diversion of parts of the supply of goods from the domestic market to exports (although in the initial period they brought some ad hoc effects) actually slowed down both the necessary pace of changes in the production structure and the dynamics of economic and technical progress. The weakening of the competitiveness of the CEE countries resulted in the stagnation of exports to Western countries despite the observed relatively high growth rate of the latter countries' import demand.

In the following years (1986–87), Comecon countries tried (with varying degrees of success) to equalize both turnover streams, thus wanting to avoid the previous mistakes. Generally, it can be said that these were the years of stagnation in trade between the East and the West. A visible revival in mutual economic relations began in 1988. The change in the political climate and internal changes in the Comecon countries significantly increased the dynamics of mutual trade (Messerlin, 1989). There were many indications that the mentioned recovery would be long-term, thus ending the long-term decline in economic cooperation between the East and the West.

Table 1. Exports of CEE Countries and the USSR to the OECD Countries in 1980–89 (Percentage Changes Compared to the Previous Year)

| Specification               | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 |
|-----------------------------|------|------|------|------|------|------|------|------|------|------|
| Value (US dollars)          |      |      |      |      |      |      |      |      |      |      |
| CEE and the USSR including: | 22   | -8   | –    | -1   | 6    | -8   | -1   | 12   | 3    | 10   |
| CEE                         | 12   | -14  | -6   | 1    | 10   | -2   | 10   | 13   | 7    | 5    |
| USSR                        | 31   | -3   | 5    | -5   | 3    | -11  | -10  | 10   | -2   | 15   |

| Specification  | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 |
|----------------|------|------|------|------|------|------|------|------|------|------|
| Volume         |      |      |      |      |      |      |      |      |      |      |
| CEE including: | -3   | -8   | 4    | 7    | 12   | -4   | 10   | 3    | 4    | 5    |
| CEE            | -2   | -8   | -2   | 8    | 16   | -1   | 1    | –    | 6    | 5    |
| USSR           | -5   | -8   | 10   | 7    | 7    | -7   | 21   | 7    | 4    | 7    |
| Prices         |      |      |      |      |      |      |      |      |      |      |
| CEE including: | 25   | 1    | -4   | -8   | -5   | -4   | -11  | 7    | -1   | 4    |
| CEE            | 13   | -5   | -4   | -6   | -5   | -2   | 9    | 13   | 2    | –    |
| USSR           | 35   | 6    | -5   | -9   | -4   | -5   | -26  | 2    | -6   | 8    |

Source: *Economic Bulletin for Europe*, Vol. 36 (1984), s. 2; Vol. 38 (1986), s. 26; Vol. 42 (1990), s. 55.

Table 2. Imports of CEE Countries and the USSR from the OECD Countries in 1980–89 (Percentage Changes Compared to the Previous Year)

| Specification               | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 |
|-----------------------------|------|------|------|------|------|------|------|------|------|------|
| Value (US dollars)          |      |      |      |      |      |      |      |      |      |      |
| CEE and the USSR including: | 11   | -4   | -7   | -4   | -3   | 2    | 6    | 4    | 12   | 14   |
| CEE                         | 9    | -16  | -18  | -5   | -5   | 8    | 18   | 13   | 7    | 11   |
| USSR                        | 16   | 8    | 5    | -4   | -2   | -1   | -3   | -3   | 18   | 16   |
| Volume                      |      |      |      |      |      |      |      |      |      |      |
| CEE including:              | 4    | 6    | 4    | –    | 4    | 3    | -13  | -4   | 5    | 13   |
| CEE                         | -2   | -5   | -2   | -2   | 2    | 7    | -1   | 2    | –    | 11   |
| USSR                        | 9    | 15   | 10   | 2    | 5    | –    | -20  | -9   | 9    | 15   |
| Prices                      |      |      |      |      |      |      |      |      |      |      |
| CEE including:              | 7    | -9   | -4   | -5   | -7   | -1   | 20   | 9    | 8    | –    |
| CEE                         | 11   | -12  | -4   | -3   | -7   | 1    | 20   | 11   | 7    | -1   |
| USSR                        | 5    | -6   | -5   | -6   | -7   | 2    | 20   | 7    | 8    | –    |

Source: *Economic Bulletin for Europe*, Vol. 36 (1984), s. 2; Vol. 38 (1986), s. 26; Vol. 42 (1990), s. 55.

## Commodity and geographical structure of trade

The unfavorable, from the perspective of the Comecon countries, structure of exports to the West constituted the specific feature of East-West trade, in which agricultural and food products, fuels, and mineral raw materials constituted approximately

50–60% of the total exports of socialist countries, while industrial products accounted for approximately 40–50% (Bożyk & Misala, 1988, pp. 138–155). In some years, the share of fuels and raw materials in the USSR's exports reached 85% of total exports directed to economically developed capitalist countries. In the 1980s, the structure of exports of Comecon countries to the OECD countries had undergone changes towards a significant increase in the share of raw materials and materials at the expense of a shrinking share of finished products. This concerned especially Soviet exports, where the share of materials and raw materials expanded significantly. This was achieved by increasing the share of mineral fuels in the value of total exports, which, for example, in 1985 amounted to 77%. There the main impetus for such a significant increase in exports of this commodity group came undoubtedly from the growth trend of prices of crude oil, which began in 1973, and therefore also from the growth of the prices of other energy raw materials (natural gas, hard coal).

The commodity structure of exports of other European Comecon countries also deteriorated in the period in question, although to a lesser extent than in the case of the USSR. In these countries (taken together), exports were visibly dominated by raw materials and semi-finished products (Csaba, 1988). Taking advantage of the high prices of mineral raw materials, they started refining those metals. The share of raw materials and semi-finished products in the total value of exports to the OECD countries increased in 1985 to 64%. Contrary to the case of the Soviet Union, where the increase in exports of raw materials was accompanied by a shrinking exports of finished products (a 50% drop within a decade), in smaller Comecon countries, the increase in the share of exports of natural resources and materials was achieved mainly at the expense of a decline in the share of agri-food products (up to 12% in 1985). There are many reasons for the decline in exports of agricultural and food products from Comecon countries. Among others: low agricultural productivity in most countries, caused by underinvestment and ineffective farming methods certainly had an impact (Csaba, 1985). The years of crop failure at the beginning of the decade also left a visible mark.

As far as the structure of imports of the Comecon countries is concerned, there were also unfavorable changes in the analyzed period. Attention was drawn primarily to the increasing import of agricultural and food products since 1980 (Grabska, 1989, pp. 29–31). The strengthening of this tendency in countries that had all the endowments to not only be self-sufficient in this respect, but also to achieve a significant surplus, was undoubtedly highly irrational. By absorbing an increasing share of hard-earned foreign exchange (in 1980, 20% of import expenditures was earmarked for this purpose), food purchases seriously limited the possibilities of

importing investment goods that could be used to improve the technological level of the industry (Bertsch, 1988, pp. 23–47). With regard to the smaller Comecon countries, the strong increase in agricultural imports was largely temporary. After reaching the highest level in 1981, food imports began to decline significantly, stabilizing in the mid-1980s at a level slightly lower than the initial one. In the USSR, the level of imports in this commodity group remained high, and the development trend was characterized by significant unevenness. The relative slowdown of the growth in imports was certainly influenced by better harvests in 1983, 1985, and 1986, which caused a decrease in grain imports from the OECD countries by respectively 4 million tons, 3 million tons, and by 10 million tons in 1986. The second element of changes in the commodity structure of imports of Comecon countries entailed an unfavorable trend in the import of finished products. It involved both a decrease in the share of this commodity group in the total value of imports and a decrease in the share of machinery and equipment within this very group. In the imports of the USSR, the share of finished products in total imports to the USSR decreased to 33% in 1985. In case of imports of the other Comecon countries, the decline in the share of this commodity group in total imports was much smaller and was characterized by uneven developments with the a stagnation tendency settling at a lower level than the initial one in the examined period.

The countries of the communist bloc were not only suppliers of raw materials to OECD countries, but also a sales market for the latter countries. It is worth noting here that in both of these roles they aroused different interest from Western Europe and the USA. For example, in 1981, EEC countries exported goods to Comecon countries whose value was five times higher than the value of American exports to this area. In the case of all Western European countries, the value of trade with the European Comecon countries (including intra-German trade) was 10 times higher than in the case of USA (*Wpływ zmian na Wschodzie...*, 1990, pp. 2–3). However, in 1984, the exports of Western European countries to socialist countries were almost 1.5 times greater than the exports of the USA, Japan, and Canada combined (*Zachodnia polityka...*, 1987, p. 25). The importance of the socialist market was also demonstrated by the fact that in 1984, the value of exports of EEC countries to the European Comecon countries corresponded to half the value of their exports to the USA and was almost four times higher than the value of exports to Japan (Eurostat, 1985, p. 281).

The difference in approach resulted, of course, not only from quantitative disproportions, but also from a different structure of exports. The US trade with socialist countries was characterized by small size, one-sided structure and unstable development. The main exports of the United States to Comecon countries were

Table 3. Balance of Trade Turnover of European Comecon Countries with the West in 1980–89 (in Billion US Dollars, Current FOB Prices)

| Specification                 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 |
|-------------------------------|------|------|------|------|------|------|------|------|------|------|
| Total trade with the West     | -0.6 | -2.1 | 1.0  | 2.2  | 6.1  | 3.4  | -3.3 | 1.7  | -2.2 | -4.8 |
| – Comecon without the USSR    | -3.4 | -2.4 | 0.3  | 1.2  | 3.7  | 2.1  | 1.0  | 1.2  | 1.5  | 0.1  |
| – USSR                        | 2.8  | 0.3  | 0.7  | 1.0  | 2.4  | -0.2 | -1.8 | 0.9  | -3.5 | -4.4 |
| Trade with Western Europe     | 5.1  | 4.6  | 8.3  | 7.3  | 11.0 | 6.2  | 2.1  | 3.7  | 0.9  | -0.3 |
| – Comecon without the USSR    | -1.2 | -1.1 | 1.0  | 1.6  | 3.1  | 1.6  | 0.6  | 0.6  | 0.6  | -0.5 |
| – USSR                        | 6.3  | 5.7  | 7.4  | 5.7  | 8.0  | 4.6  | 1.5  | 3.2  | 0.3  | 0.2  |
| Trade with the USA and Canada | -4.0 | -4.3 | -4.4 | -3.0 | -3.6 | -2.4 | -0.9 | -0.7 | -1.9 | -3.4 |
| – Comecon without the USSR    | -1.6 | -0.8 | -0.3 | 0.1  | 0.8  | 0.8  | 0.8  | 0.9  | 1.0  | 0.5  |
| – USSR                        | -2.4 | -3.6 | -4.0 | -3.1 | -4.3 | -3.2 | -1.7 | -1.6 | -2.9 | -4.0 |
| Trade with Japan              | -1.7 | -2.4 | -5.1 | -2.1 | -1.4 | -1.9 | -2.1 | -0.9 | -1.1 | -0.5 |
| – Comecon without the USSR    | -0.6 | -0.5 | -0.4 | -0.5 | -0.1 | -0.3 | -0.4 | -0.3 | -0.2 | –    |
| – USSR                        | -1.1 | -1.9 | -2.7 | -1.6 | -1.3 | -1.6 | -1.7 | -0.7 | -0.9 | -0.5 |

Source: *Economic Bulletin for Europe*, Vol. 36 (1984), s. 99; Vol. 38 (1986), s. 34; Vol. 42 (1990), s. 64.

food products – mostly grain (foodstuffs constituted 60% of exports). Trade in these goods was less sensitive to trade policy disruptions because their exports could be easily curtailed and restarted. However, the exports of Western European countries were dominated by industrial products, especially investment goods, the introduction of which to the market required long-term contacts and negotiations. Moreover, while the USA had a receptive internal market, which to some extent cushioned the negative effects of trade policy towards socialist countries, for Western European countries whose economies largely depended on foreign trade, exports to Comecon countries were more important (Lavigne, 1990).

Certainly, within the economic contacts of Western Europe with socialist countries, there was the so-called “industry involvement”, both on the side of exports and imports. In some areas (metal processing machines, mechanical engineering industry – including digital machines) its level was significant. For example, in the mid-1980s, socialist countries accounted for over 12% of the total exports of metalworking machines and equipment from Western European countries, which in value terms exceeded the latter countries’ exports in this product group to the United States and Japan (6 times). For selected countries, this share was much higher, as

in the mentioned period it amounted to 15% for Germany, 42% for Austria, 35% for Finland, and 10% for Italy, Sweden, and Switzerland (Smith, 1987).

On the side of imports to Western European countries, the supply of energy raw materials, chemical products, non-ferrous metals, etc., played an important role. For example, in 1984, supplies of natural gas from Comecon countries (mainly from the USSR) to Western European countries amounted to approximately 21% of the total imports of this raw material, and they were of particular importance for Finland – 100% of imports, Austria – 95%, and Italy – 40%. For Germany this share amounted to approximately 27%, and for France – 20%. The share of crude oil and semi-finished products accounted for 14% of imports in Western Europe, while the share of coal imports for 18%. As it was stated earlier, the dominant part of the trade turnover of socialist countries with the OECD countries belonged to Western European countries (Bożyk & Misła, 1988, pp. 134–138), i.e., 85–90% of all exports of Comecon countries to the OECD countries were directed to the capitalist countries of Europe (in 1987 this indicator was approximately 87%), including 65–70% directed to twelve EEC member countries. In 1986, 23% of the exports of Comecon countries to economically developed capitalist countries were exports to the Federal Republic of Germany, to France – 12%, to Italy – 11%, to Finland – 8%, and to Austria – 6%. At the same time, approximately 75% of purchases made by socialist countries on the markets of capitalist countries came from Western European countries (Góralski, 1990). Among the OECD countries, the main suppliers of goods to socialist countries were: Germany (approx. 20–25% of global purchases of Comecon countries made in OECD countries), Japan (8–12%), Finland (6–10%), France (8–11%), and the USA (6–11%).

Among the Eastern countries the Soviet Union was the main trading partner of the OECD countries, accounting for 50–60% of the imports and exports of capitalist countries in trade with the Comecon countries. In the 1980s, the GDR became the second, following the USSR, partner of the OECD countries (approximately 15% of the exports and 9% of the imports of socialist countries in 1985–86). Among the OECD countries, the main trading partners of socialist countries were: Germany, France, Austria, Italy, Finland, and Japan. About 60% of imports to socialist countries from OECD markets derived from six countries (Germany, Japan, Finland, France, Italy, and the USA). Germany was the most important trading partner of all Comecon countries among the OECD countries. Trade with the Federal Republic of Germany accounted for from  $\frac{1}{3}$  to  $\frac{1}{2}$  of the trade conducted by individual socialist countries with developed capitalist countries. An important position (along with the Federal Republic of Germany) in the foreign trade of the communist bloc countries was occupied by: Austria (in the trade of the GDR,



Czechoslovakia, and Hungary), Finland (in the trade of the USSR), France and Italy, as well as Japan and the USA (especially in the imports of the USSR and Romania). In the 1980s, imports from capitalist countries accounted for from 13% to 35% of the global imports of individual Comecon member countries, while socialist countries allocated between 10% and 34% of their exports to Western countries. High indicators of the share of trade with OECD countries in the trade exchange of socialist countries attested to the significant importance of East-West trade in the economy of Comecon countries. Meanwhile, trade with the East was marginal for most of the OECD countries (Nello, 1990, pp. 5–7). In the mid-1980s, exports to European Comecon countries accounted for only approximately 2–3% of global exports of OECD countries, approximately 4% of exports of Western European countries and approximately 3% of exports of EEC countries. The market of socialist countries was important as a sales market for countries such as: Finland (in 1986, exports to the European Comecon countries constituted approximately 25% of the country's global exports), Austria (the corresponding indicator amounted to approximately 17%), Greece (approx. 7%), Iceland (approx. 11%), and Germany (approx. 5%).

Also in relation to imports, the market of socialist countries was of supplementary importance for OECD countries. In 1985, imports from European Comecon countries accounted for only about 3% of imports of OECD countries, about 5% of imports from Western European countries and about 4% of imports from EEC countries. In the years 1980–85, exports of socialist countries accounted for approximately 3–4% of imports of the OECD countries and approximately 4–5% of imports of the EEC countries. For most of the OECD countries, imports from European socialist countries in the 1980s did not exceed 7% of their total imports. For only five capitalist countries did imports from Comecon countries have a significant importance as a source of supply, namely Finland (imports from Comecon countries in 1985 accounted for approximately 27% of this country's imports), Austria (approximately 12%), Iceland (about 12%), Turkey (about 8% in 1984), and Greece (approximately 8% in 1984).

## Summary

Evaluation of the results of trade exchange between both groups of countries points to the relatively low share of the socialist countries in the total volume of foreign trade of the OECD countries. Only in the case of some goods and industries, the importance of Comecon countries as sales or supply markets was slightly more

significant. However, for socialist countries, trade with the OECD countries was of fundamental importance (Steinherr, 1992). This was evidenced by both the high share of this exchange as well as by its structure. The imports of highly processed goods (which are carriers of technology) from Western countries gave the Comecon countries a chance to compete on the constantly changing international market. It should also be emphasized that Western European countries were much more interested in developing economic relations with the East than was the case in other OECD members. There was an economic justification for this. A look at East-West economic relations from the perspective of the communist bloc countries revealed much less complexity of conditions and motives (Ickes, 1990). This was due to the fact that the economic policy of the Comecon countries towards Western partners was shaped by the common conditions of the political system and a generally similar economic situation. The economic policy of socialist countries in relation to the development of relations with the West was characterized by serious interest, which had its main source in strictly economic motives. It was primarily about maintaining investment imports from OECD countries, which played an undeniable role in the reconstruction and modernization of industrial structures. The ability to adapt to the changing conditions of the international environment and, in some cases, the ability to function normally as economies also depended on this. Political reasons played an important role insofar as they were related to the need to counteract the negative influence resulting from the instrumental treatment of these relations by Western countries. In general, it can be said that the scope of economic conditions shaping the economic policies of the West and the East was much broader than the political motivations of capitalist countries in their relations with socialist countries. For the balance and stability of economic cooperation between the OECD and Comecon countries, the internal economic development of each party, as well as the nature and intensity of mutual connections, were also of general importance.

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