NOTAT
NUPI
PAPER

No. 427 June 1990

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A Historical View

norsk
utenrikspolitisk
institutt
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ISSN 0800-0018

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The recent political events in eastern Europe have set stage for a strengthening of east-west relations but, so far, progress on the economic front has not been very impressive. This lack of economic dynamism may have historical roots. For the last 40 years the east European economies have been shaped to fulfil socialist needs, particularly those in the Soviet Union. Hence, a return to the pre-war patterns of east-west trade is not for tomorrow. This note tries to outline the changes in east-west economic relations from the Treaty of Versailles to the Gorbachev era. First it looks into the economic impact of the "cold war"; then it examines the changes between 1950 and 1980; and, finally, considers the prospects open by the new political environment.

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EAST-WEST ECONOMIC RELATIONS: A HISTORICAL VIEW

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1. Introduction

The recent political events in eastern Europe have set stage for a strengthening of east-west relations at all levels and are apparently enlarging the opportunities for a reinforcement of economic links[1]. However, so far, progress on the economic sphere has been less impressive than that on the political front.

The reasons for this lack of economic dynamism may have historical roots. Before the Second World War, the eastern economies were closely integrated in the western Europe; after the War, they became part of what Stalin designed as "a separate socialist market". In other words, from the years of the "cold war", the east European economies were shaped to fulfil socialist needs, in particular those of the Soviet Union. Moreover, in the 1960s and the 1970s, economic integration proceeded in the east and in the west, apparently with diversion effects on trade between the two blocs. Today, the economic structures of the eastern countries' are far from meeting the west European patterns with respect to quality, "performance", technology. Hence, a substantial growth in east-west trade and a re-integration of the east European economies in western Europe is probably not for tomorrow.

This note tries to outline the changes that occurred in east-west economic relations from the Treaty of Versailles in 1919 to our days. Broadly, the paper distinguishes between the period going to the end of the Second World War and the post-war decades. Firstly, it looks into the economic impact of "political

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[1] If not stated otherwise, the term "west" is used here to design the countries of western Europe and North America, while the term "east" refers to eastern Europe and the Soviet Union, the former being constituted by Bulgaria, Czechoslovakia, the GDR, Hungary, Poland and Romania.

distance": it describes the situation in the inter-war period, refers the shift from pre-war German domination to post-war Soviet influence and provides some data on the consequent collapse of east-west trade. The second part examines the changes that occurred between the 1950s and the 1980s. In particular it discusses the effects of separate processes of economic integration in east and in west and then focuses on some specific features of east-west trade in the past three decades. The paper ends with a reference to recent developments and considers the prospects open by the new political environment.

The statistical information used here is taken from publications of the United Nations' Economic Commission for Europe (ECE), one of the few international organizations where east-west relations have been the object of analysis in the post-war period[2].

2. The impact of "political distance"[3]

Before the Second World War the countries that form today eastern Europe were closely linked to western Europe, both politically and economically. In the years that followed the war, they fell into the political and economic orbit of the USSR. Relationships with the west weakened then steadily, reaching insignificant levels by the early 1950s. This section focuses on the different stages of this shift.

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[2] Most of the data is taken from "The Changing Intensity of East-West Trade, 1955-1984" in United Nations, Economic Bulletin for Europe, vol. 37, no. 4, Geneva, 1985. Other documentation include Foreign Trade in a Planned Economy, by I. Vajda and M. Simai (eds.), Cambridge University Press, 1971; Regional Integration in East and West, by C.T. Saunders (ed.), Macmillan Press Ltd., 1983; Essays on Planning, Trade and Integration in Eastern Europe, by J.M.P. van Brabant, Rotterdam University, 1974; and "Economic Developments in Eastern Europe: a Review Article", by P.G. Hare, in Oxford Economic Papers 41, (1989).

[3] This section draws largely on P.G. Hare, loc.cit and on the United Nations, Economic Bulletin for Europe, vol.37, no.4, Geneva 1985 (loc.cit.).

2.1 The interwar period

The Treaty of Versailles, which was signed on June 28, 1919, altered profoundly the European borders on the east, with new states emerging from the ashes of the Ottoman and the Hapsburg empires. These new states strove to break their former economic ties and to gain economic independence, primarily vis-a-vis the members of the former empires. Consequently, transactions inside eastern Europe fell sharply, allowing for increased trade with western Europe.

Quite interestingly, in the new States, great reliance was placed on Governments to promote development. Land reforms were among the early measures of all new governments and, in the early 1920s, many banks and enterprises fell into state hands. One might have expected the combination of a rising economic autarky with broad state intervention to result in a process of rapid economic development. In fact, the success of the east European countries in achieving economic independence and progress was rather questionable.

The new countries were faced with serious problems of minorities, nationalities and religion. Migration - rural/urban, but also moving national minorities to "their" countries- contributed to the region's slow demographic transformation. Investment was not sufficient to secure self-sustained growth. In most countries, agriculture was rather backward and the land reforms were not always very fruitful. In 1919-1923, the eastern countries - traditionally food exporters - became net importers. Their external accounts went rapidly into large deficits, fuelling extensive protectionism and further restricting trade.

In general, before the Second World War trade inside Europe was weak: between 1913 and 1937 the volume of industrial exports from all industrial countries expanded by 14 per cent, but intra-

European trade fell by 15 per cent[4]. This reflects, of course, the disruptive effects of the war, but other factors were also at work. There was a considerable drop in trade with the Soviet Union, which was cut by half in the 1920s[5]. Import duties were raised throughout the continent, first to protect import substituting industries that had started during the war and later, with the Great Depression, to shelter also traditional sectors. On the other hand, some west European countries- France, the United Kingdom - reinforced their links with the colonies at the costs of trade with Europe. Noteworthy Germany, having no overseas territories, developed alternative relations with eastern Europe. This will be further discussed below.

The period 1924-1929 witnessed a certain progress, which was extensive to eastern Europe. Agricultural output recovered, exports increased and investment began to rise. But growth was not sustained after the 1929 Crash: in the 1930s, investment weakened and there was little technological change. In the eve of the war, only Czechoslovakia and, perhaps, Poland, had an industrial sector comparable to that of most west European countries. Albania and Bulgaria were economically rather backward while Hungary, Romania and Yugoslavia, despite some progress, had weak and rather dependent economies.

In fact, despite the trade barriers that hampered exchanges within Europe, the east European countries became pretty reliant on trade with the more industrialized countries of western Europe, primarily Germany. In 1937 nearly 60 per cent of imports into eastern Europe originated in west European countries, while these absorbed 70 per cent of eastern Europe's exports[6].

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[4] A. Maizels, Industrial Growth and World Trade, Cambridge University Press, 1965.

[5] A. Maizels, op.cit.

[6] These shares are lowered by some 10 percentage points when an estimate corresponding to the German Democratic Republic is included in eastern Europe (see Chart 1).

2.2 From German to Soviet domination

The 1929 Depression led to the collapse of the multilateral trade and payments system. This was replaced by bilateral arrangements, which naturally gave advantage to the strongest partners. With great ability, Germany utilized this way to draw the east European countries into the economic and political sphere of the Reich. From the mid-1930s, through a series of Government level bilateral agreements, the east European countries were brought into the German economic space: they were expected to supply Germany with food and manpower, while acquiring German industrial goods. Later, these countries had to contribute to the "war effort".

During the war, important parts of the east European economic and financial assets came under German control or ownership, partly due to the expropriation of Jewish property. The German control of the energy and raw-materials sectors was eased by the relatively high concentration in these sectors. But the industrial activity in Czechoslovakia and Poland also became part of the German economic system. On the other hand, eastern Europe's international transactions were increasingly dominated by the Reichmark. In Hungary, Bulgaria and Romania this process was facilitated by existence of allied Governments; in Poland and Czechoslovakia, it came with the occupation. The region's integration within the German sphere of influence only came to an end with Germany's defeat in 1945.

In the years that followed the Second World War, the Soviet economic influence entered by the same door by which the German domination had come in: the breakdown of the (new) multilateral payments system and its replacement by bilateral agreements. In 1947, bilateral agreements on economic assistance and co-operation were concluded between the Soviet Union on one hand, and Bulgaria, Czechoslovakia and Poland on the other. Similar agreements were signed later with Hungary and Romania.

It should be reminded that the reinforcement of the economic relationships between eastern Europe and the USSR resulted, to some extent, of the western blockade. Economically isolated, the east European countries embarked Stalin's plan of responding to the boycott with the creation of a "separate socialist market". The development of this alternative market took a more formal character with the establishment, in January 1949, of the Council of Mutual Economic Assistance (CMEA), although this organization was initially quite limited in scope. Other steps included new long-term bilateral agreements, related to national development plans, the improvement of the system of transport and communications, the introduction of "stop prices" for intra-CMEA trade[7] and the setting up of national economic management systems inspired on the Soviet model[8].

The economic and social transformation of eastern Europe progressed at a rapid pace, helped by governments with an increasing communist influence. By 1948, through the nationalisations and land reforms, most enterprises were under state control. Moreover, mixed companies (i.e. with Soviet and national ownership) were constituted in Hungary, Romania and Bulgaria, while Soviet companies established in the newly formed German Democratic Republic. This contributed to tighten the economic links with the USSR and facilitated the adoption, by 1950, of planning systems closely modelled on Soviet tradition.

The period of 1950-53 has been described as the "peak of Stalinism": "building on the unexpectedly rapid postwar recovery,

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[7] This system was introduced at the time of the Korea crisis and aims at purging prices in intra-CMEA trade of the cyclical changes in world market prices. Since 1975, prices have been set annually on the basis of a moving average of world market prices in a preceding period, normally five years.

[8] "... these (eastern) countries have joined together economically, establishing economic co-operation and mutual assistance... It may be confidently said that, with this pace of industrial development, it will soon come to pass that these countries will not only be in no need for imports from capitalist countries, but will themselves feel the necessity of finding an outside market for their surplus products". See J.V. Stalin, Economic Problems of Socialism in the USSR, Moscow, 1952.

these were nevertheless the years of subjugation to the USSR, isolation from the West, and the adoption of Soviet economic and planning practices, without regard to local conditions or stage of development"[9]. Albania and Yugoslavia, where communist regimes were already in power by the end of the war, were allowed a greater independence in relation to Moscow[10]. This relative "independence" turned later into a conflict.

2.3 The post-war collapse of east-west trade

As the links between eastern Europe and the Soviet Union were being reinforced, economic relationships with the west weakened sharply. After a short-lived recovery in 1946-47, east-west trade declined drastically, reaching insignificant levels in the early 1950s. By 1953, the share of western Europe in exports from eastern Europe was less than 20 per cent, down from nearly 60 per before the war[11]. Most of this fall was offset by increased trade among the east European countries themselves and with the USSR (Chart 1). The latter, which in the 1930s did not account for more than 1 per cent of eastern Europe's exports, absorbed in 1953 almost 40 per cent. The proportion of Soviet exports directed to eastern Europe also rose steeply, from 9 to 54 per cent, while the share of western Europe fell from 64 to less than 11 per cent.

The share of eastern Europe in west European trade came to one quarter of its pre-war level. In some countries - Federal Republic of Germany, Greece, Belgium - which were formerly major trading partners of eastern Europe, the fall was even sharper. Only in Denmark and Sweden was the share of eastern Europe kept

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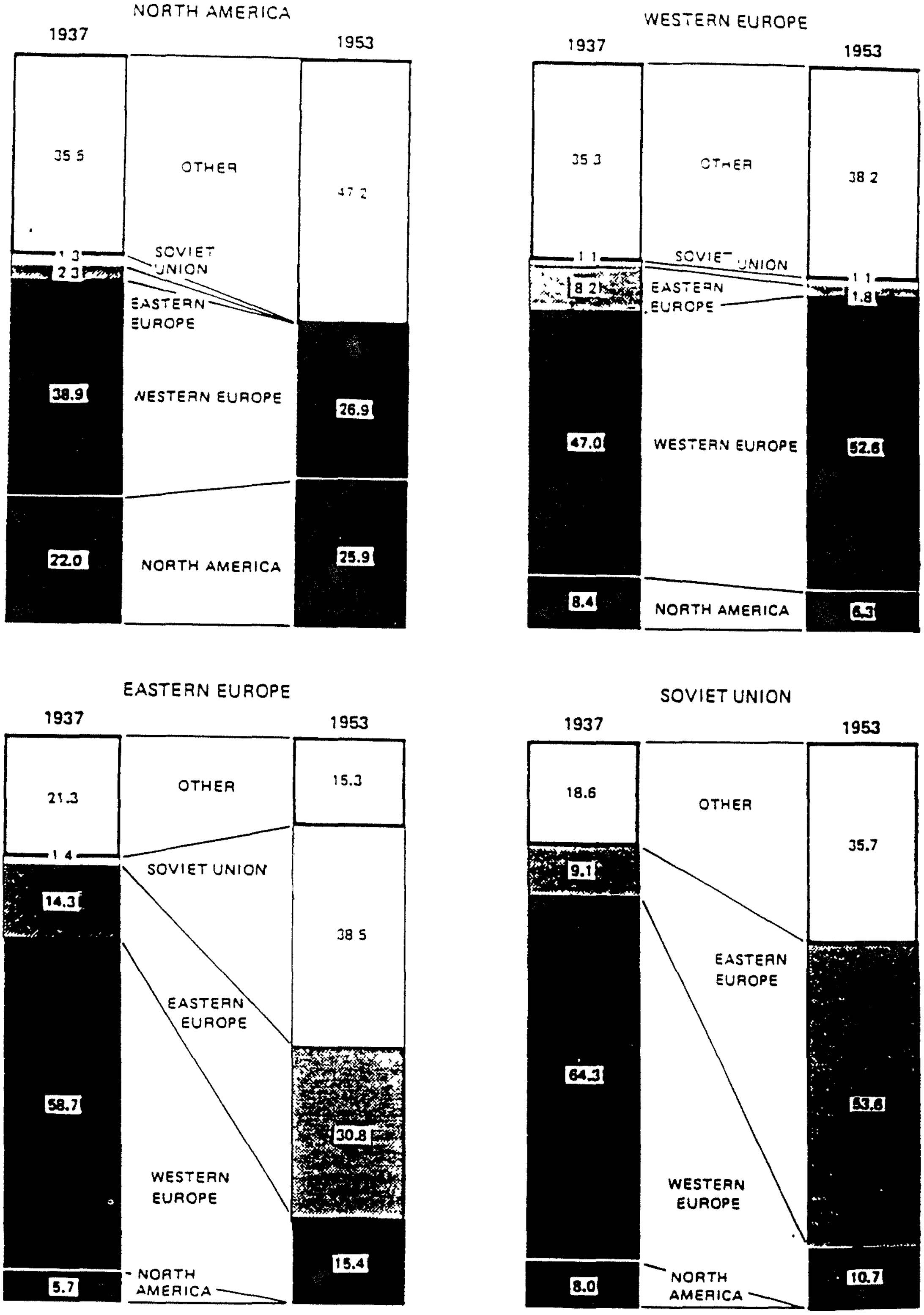
[9] P.G. Hare, loc.cit. page 680.

[10] Yugoslavia, for example, introduced the planning system in 1945-46 and, shortly after that, moved away from this system to a "self-management" one.

[11] The data for 1937 indicated here include, in eastern Europe, an estimate for the trade of the GDR. Though this is a rough figure, it makes the 1937 and the postwar data more comparable.

CHART 1

Regional structure of exports, 1937 and 1953
(Percentages)



Source: United Nations, Economic Bulletin for Europe, vol. 37, no. 4, December 1985.

at pre-war levels (mainly due to coal imports from Poland) and only in Finland did trade with the east increase[12].

These dramatic changes in east-west trade are also illustrated by the "trade intensity coefficients" in table 1. These coefficients stand for the share of a given market in a country's (or region's) exports, normalized by the share of the same market in world exports. A coefficient larger (smaller) than the unity reveals an "intensity" of trade between the two partners which is stronger (weaker) than what might be expected on the basis of the share of the market in world trade. At any given moment, the level of these coefficients reflects historical ties, geographical distances, production structures; changes in that level are expected to be determined by factors affecting economic distances (e.g. special trade agreements, discriminatory measures on either side against the other)[13].

The coefficients show that, until 1948, trade between eastern and western Europe was rather strong (coefficients above the unity), as still was trade between western Europe and the Soviet Union. But in 1953 the intensity of these links was less than one third of its level five years earlier. Meanwhile, the intensity of intra-east European trade more than doubled, whereas that of trade between eastern Europe and the Soviet Union increased more than tenfold.

The trade relations between North America and the east were already quite unimportant before the war, weakening further thereafter and attaining negligible levels by the mid-1950s.

The political atmosphere improved somewhat after Stalin's

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[12] United Nations, Economic Bulletin for Europe, vol.4, no.3, Geneva, 1952 and Economic Survey of Europe Since the War, Geneva, 1953.

[13] On these structural coefficients, see i.a. United Nations, Economic Bulletin for Europe, vol.24, no.2, 1973; H. Theil, Economics and Information Theory, Amsterdam, North-Holland Publishing Company, 1967 (Chapter 10).

death in 1953. fostering a revival in east-west trade. The "strategic controls" to which were subject western exports to the east were relaxed in August 1954. Nonetheless, trade between the east and the west continued to be conducted on the basis of bilateral agreements, which often required balanced trade between the two partners. Thus, despite some improvement since the mid-1950s, east-west trade remained rather modest, even if it was at times rather lively with respect to specific commodities - fuels and machinery. One reason that may explain this lack of progress - together with political tension that never dissipated - is the movement towards economic integration that occurred, separately, in east and in west. This point is considered below.

TABLE 1

Coefficients of trade intensity among major regions, 1937, 1948, 1953 and 1955a

Exporter	Destination	North America	Western Europe	Eastern Europe	Soviet Union
North America	1937	..	0.82	0.38	..
	1948	1.29	0.79	0.26	0.14
	1953	1.88	0.70	-	-
	1955	1.79	0.75	0.02	-
Western Europe	1937	0.56	1.00	1.34	1.10
	1948	0.44	1.13	1.39	1.22
	1953	0.58	1.36	0.36	0.31
	1955	0.50	1.32	0.43	0.34
Eastern Europe	1937	0.38	1.25	2.34	1.36
	1948	0.12	1.24	6.50	12.10
	1953	0.04	0.34	6.16	10.69
	1955	0.05	0.46	6.17	11.78
Soviet Union	1937	..	1.36	1.49	-
	1948	0.69	1.05	14.70	-
	1953	0.02	0.28	10.72	-
	1955	0.05	0.37	10.56	-

Source: United Nations, Economic Bulletin for Europe, vol. 37, no. 4, December 1985.

a Figures for 1937 are adjusted to be comparable with post-war data: estimates for trade of the German Democratic Republic are included in eastern Europe.

3. The post-war period

Since growth in east-west trade resumed in the mid-1950s, transactions between the two areas have tended to reflect specific developments in the economies involved. In particular, the formation of a free trade area in western Europe and the creation of instruments for economic integration in the east are likely to have had some impact on east-west trade. But other factors were also at work. Throughout the 1960s and the 1970s, eastern imports from the west were fostered by increased use of credits and, from the first oil shock, by rising revenues from exports of energy. But, in the 1980s, eastern purchases in the west were much affected by the financial constraints facing some east European countries. This section discusses further these aspects.

3.1 Economic integration in east and in west

Both in east and in west, "economic integration" has been viewed as a reallocation of production aiming at a more rational division of labour, in which each country specializes in the lines of production for which it has the greatest comparative advantage.

In western Europe, the integration of production is expected to be brought about by the removal of obstacles to trade, together with the free movement of labour and capital. In the east, the integration of the production structures was to be attained through the planning system, which would determine production decisions. The strengthening of trade among the countries concerned would be the result, rather than the cause, of production integration[14].

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[14] M. Maximova, "Socialist and capitalist integration: a comparative analysis", in C.T. Sauders (ed.), op.cit.

3.1.1 Steps towards integration

In the post-war years, trade amongst the west European countries was also mainly ruled by bilateral agreements, which allowed for quantitative restrictions through a system of export and import licences. Trade liberalization measures were first adopted in early 1949, in the framework of the Organization for the European Economic Co-operation (OEEC)[15]. Further steps towards trade liberalization in western Europe include the creation of the Benelux Union and the European Coal and Steel Community. In 1957, a customs union was formed by six west European countries (the European Economic Community, EEC, later designed European Community, EC). This was followed, in 1960, by the creation of a free trade area among seven other countries (the European Free Trade Association, EFTA). In the early 1970s, the EC was extended to two former EFTA members, while free trade agreements were established between this union and the remaining EFTA members. In the 1980s, three south European countries joined the EC.

As a result of these arrangements, trade in industrial goods inside western Europe became virtually free of tariffs and quotas. Trade in agricultural goods and in services is still subject to a number of barriers, as are the movements of labour and capital. The ongoing completion of the "internal market" aims at tackling with these issues. Whether a real integration of production has been or is being achieved in western Europe is a controversial matter; but there is some evidence that, inside some industries (machinery, transport equipment), there has been an increased division of labour across borders[16].

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[15] This organization was created in 1947, in relation with the implementation of the "Marshall Plan", following the inability of the east and the west to agree on a joint recovery programme.

[16] See "Aspects of Intra-West European Trade in Manufactures, 1962-1985", in United Nations, Economic Survey of Europe in 1987-1988, New York, 1988 (Section 2.7).

In the east, the development of a "separate socialist market" started with the above mentioned bilateral agreements between the east European countries and the USSR and was furthered by the creation of the Council of Mutual Economic Assistance (CMEA). This organization was first a forum for information and policy co-ordination but, from the early 1960s, it focused on the adaptation of member states' production structures to each others' requirements.

By seeking complementarity at the production level, the activity of the CMEA probably had trade effects as those associated with the dismantling of trade barriers. In commenting upon this point, Vajda writes that "...if we wish to define the concept of integration by its economic content and its attainable objectives, we have to realize that the purpose of Comecon is the furthering of the economic integration of its member states and that, therefore, a parallel between the EEC and the Comecon is not unjustified"[17].

3.1.2 Eastern industrialization and socialist integration

It was mentioned above that integration in the east aimed at the complementarity of the socialist economies. But this goal was not set before the mid-1950s. In the years that followed the end of the war, the east European governments were more concerned with rebuilding their national economies and securing economic self-sufficiency than with socialist complementarity. The development strategies pursued in the early 1950s, which were much inspired in those followed in the Soviet Union in the 1920s, aimed at the establishment or enlargement of "key" industrial sectors. The 1950s witnessed very high rates of capital accumulation, sometimes at the costs of living standards. Trade with socialist partners, which made up the bulk of east European trade, continued to be conducted in terms of government-level bilateral agreements with mutual clearing.

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[17] See I. Vajda and M. Simai, op.cit.

In 1962 and again in 1971 the functions of the CMEA - the institutional vehicle for socialist integration - were reinforced, respectively with the adoption of the "Basic Principles of the Socialist International Division of Labour" and the "Programme for Further Deepening and Perfecting of the Co-operation and the Growth of Socialist Integration Among the CMEA Member Countries"[18].

From the early 1960s, trade and investment decisions started to be related to each country's comparative advantages. In this process, however, <u>the Soviet Union played a dominant role</u>, by providing a continuing demand for many east European products - which could not easily be sold in the western markets - and by supplying technical information and advice (though not much direct investment). Moreover, <u>the east European countries adopted Soviet industrial standards and measures</u>. Bilateralism continued to be the basis for economic relationships within the eastern bloc - a feature that some view as a strategy adopted by the Soviet Union to "divide-and-rule"[19].

Hence, <u>the further industrialization of the east European countries was basically oriented towards the socialist markets, primarily that of the Soviet Union</u>. This had a number of consequences regarding trade with the west. On the one hand, the east European industrial goods are adapted to eastern industry-standards and demand patterns and these differ substantially from western requirements. On the other hand, the east European countries have developed, vis-a-vis the Soviet Union, a comparative advantage in capital-intensive goods; but, as compared to the countries of western Europe, they would probably have a greater advantage in producing labour, skill or technology-intensive products. Will the east European countries be able, in the years to come, to accommodate their industrial structures to a new framework of comparative advantages?

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[18] J.M.P. van Brabant, <u>op.cit.</u>

[19] P.G. Hare, <u>op.cit.</u>

3.1.3 Did integration affect east-west trade?

It is generally recognized that the freeing of trade inside a given area has "trade creation" and "trade diversion" effects. The former is the increase in total imports arising from a substitution of home production; the latter is the increase in imports from the free trade area corresponding to a deviation of imports from partners outside the free trade area.

It has been shown that the liberalization of trade in western Europe had these type of effects[20]. Also the formation of a "separate market" in the east appears to have had trade creation an trade diversion effects, at least in its early stages. In fact, according to a review of trade developments in the early 1950s, "the two most general features of the trade of the group of countries comprising the eastern world market are the increase in its total volume and the extremely high concentration of the trade amongst the countries of the region, with a corresponding decline in the relative importance of their trade with the rest of the world"[21].

The integration effects, however, are very difficult to measure. A usual indicator is the proportion of trade within the group in the total trade of the countries concerned. But the "trade intensity coefficients" described above are also a rather appropriate indicator, as changes in these coefficients tend to reflect special developments in the trade flows between two partners, including those arising from "preferences" or "discrimination". These statistics are shown in Table 2 and

[20] See i.a. B. Balassa, "Trade Creation and Trade Diversion in the European Common Market", The Economic Journal, March 1967; EFTA Secretariat, The Trade Effects of EFTA and the EEC, 1959-1967, Geneva, 1972; M. Ponte Ferreira, Trade Effects of Integration: A Comparison Between Norway an Other Countries, NUPI Raport (Forthcoming).

[21] United Nations' Economic Survey of Europe in 1954, New York, 1955.

"intensity coefficients" for eastern trade with the EC and EFTA, in 1965-1984, are also depicted in Chart 2.

The data in Table 2 shows that trade inside western Europe tended to strengthen between the 1950s and the 1970s; but the "intensity" of trade among the European CMEA members remained rather unchanged since 1960, after it had declined from its very high level in the mid-1950s.

TABLE 2

Intra-regional trade in western Europe and in the European CMEA area: trade shares and intensity coefficients, 1955, 1960, 1973 and 1984

	Share of exports (per cent)	Share of imports (per cent)	Trade intensity coefficient
Total western Europe[a]			
1955	55.3	49.8	1.32
1960	56.8	54.1	1.34
1973	69.1	65.3	1.47
1984	64.9	63.9	1.73
CMEA Europe			
1955	60.1	61.9	7.68
1960	62.3	62.6	6.17
1973	56.5	57.3	6.29
1984	50.0	55.6	6.03

Source: See Table 1.

a Includes Yugoslavia.

There are a number of reasons for this lack of change in the strength of intra-eastern trade. Firstly, in restructuring their post-war economies, the east European countries aimed at economic independence rather than at the complementarity of the socialist market. They often adopted highly autarkic development strategies. On the other hand, in the cold war years, the "intensity" of intra-eastern trade attained levels that hardly could continue to rise. Hence, as the political situation improved, trade with the western partners recovered somewhat.

There is empirical evidence that, other things being equal, the formation of a west European free trade area had diversion effects on trade with the east[22]. Nonetheless, the data shows that, from 1965 to 1974, eastern trade with both the EC and EFTA strengthened (Chart 2). From the mid-1970s, however, the "intensity" of east European exports to these two areas did not change much, while imports weakened. Soviet trade, on the other hand, kept growing.

One reason for these developments is that eastern exports to western Europe have been largely made up of food and raw-materials (some 50 per cent for eastern Europe and as much as three quarters for the Soviet Union) and these have not been the object of trade liberalization inside western Europe. On the other hand, the assumption of "other things being equal" does not hold in practice and other factors may have counteracted the diversion effects that western integration apparently had on trade with the east. These aspects will be further investigated in section 3.2.

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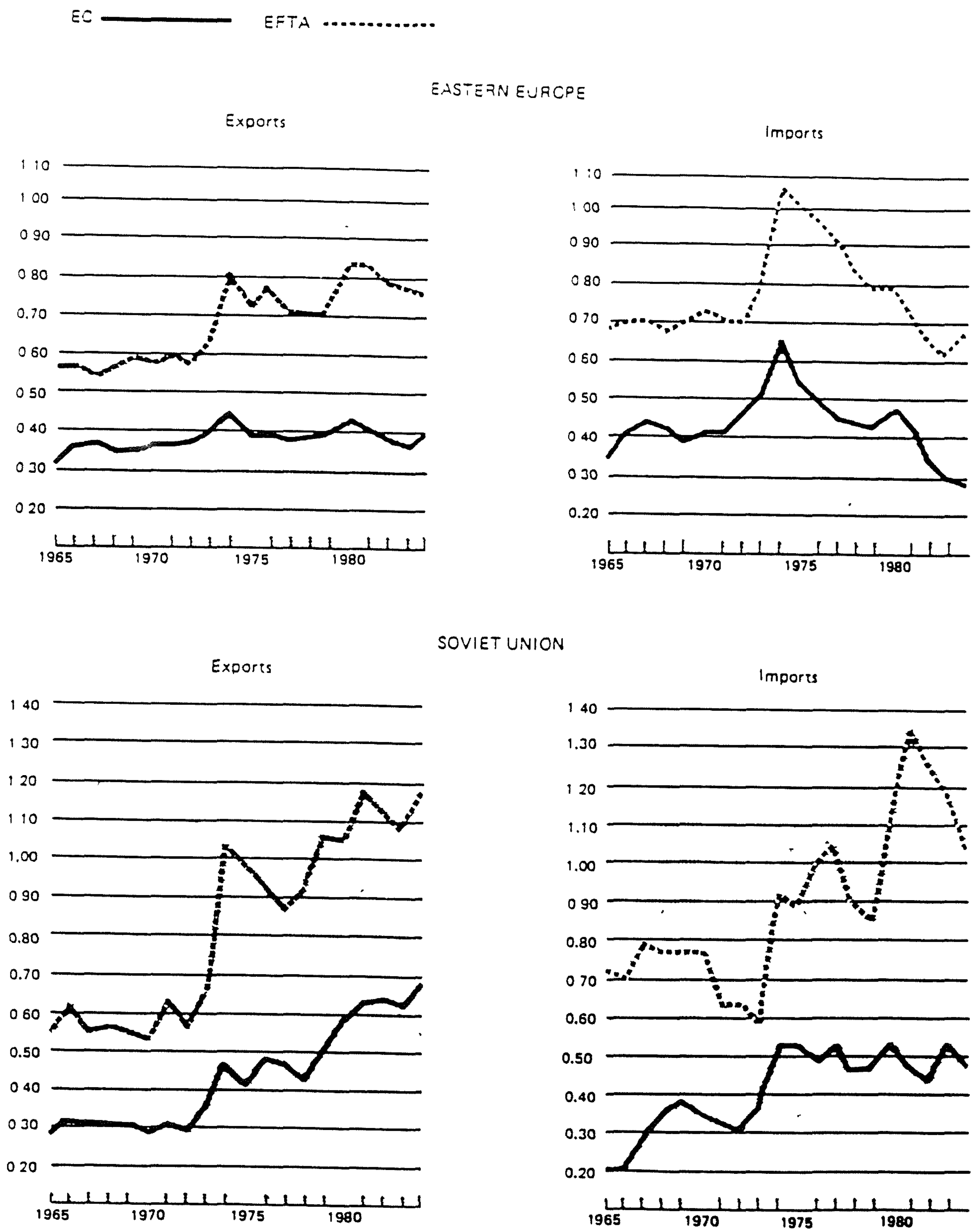
[22] See B. Balassa, loc.cit.; "The Effects of West European Integration on Imports of Manufactures from Eastern and Southern Europe", in United Nations, Economic Survey of Europe, 1988-1989, New York 1989 (Section 2.5); M. Ponte Ferreira, The Effects of Integration: A Comparison Between Norway and Other Countries, NUPI Raport, Oslo (forthcoming).

CHART 2

Eastern trade with the EC and EFTA: intensity coefficients
1965-1984



Source: See Chart 1.

3.2 East-west trade in the past three decades[23]

The easing of political tensions that followed the death of Stalin led to the acceptance that co-operation - first of all in the economic sphere - could be developed "between countries with different socio-economic systems". From the mid-1950s, east-west trade resumed and, at times, grew quite rapidly. But much of this revival reflected specific trade flows: eastern imports of investment goods from the west and western imports of fuels from the east. Otherwise, transactions between the two areas remained at a quite modest level.

3.2.1 Little change in trade structures

Between 1955 and 1973 western exports to the east increased faster than the region's total exports and the share of the east in exports from the west generally rose. From the mid-1970s, as a reflection of balance of payments constraints facing the east European countries, exports from the west to these countries declined, but western imports kept growing. Trade with the Soviet Union remained rather lively, with the west importing mainly oil and exporting manufactured goods.

Despite these positive developments, the importance of the eastern markets to western exporters did never reach pre-war levels: since growth in east-west trade resumed in the mid-1950s, eastern Europe represented, at most, 3 per cent of western Europe's exports and Soviet Union 2 per cent (Table 3). These shares are smaller than the shares of these markets in world exports, inicating that the "intensity" of east-west trade has fallen significantly below what it might be expected on pure economic grounds (Chart 3). Trade between North America and the east has been rather insignificant, with eastern Europe representing less than 1 per cent of American exports and the USSR accounting, at the best, for less than 2 per cent.

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[23] This section is mainly based on United Nations, Economic Bulletin for Europe, vol. 37, no. 4, Geneva 1985 (loc.cit).

TABLE 3

Structure of exports by area of destination in selected years
(Percentages)

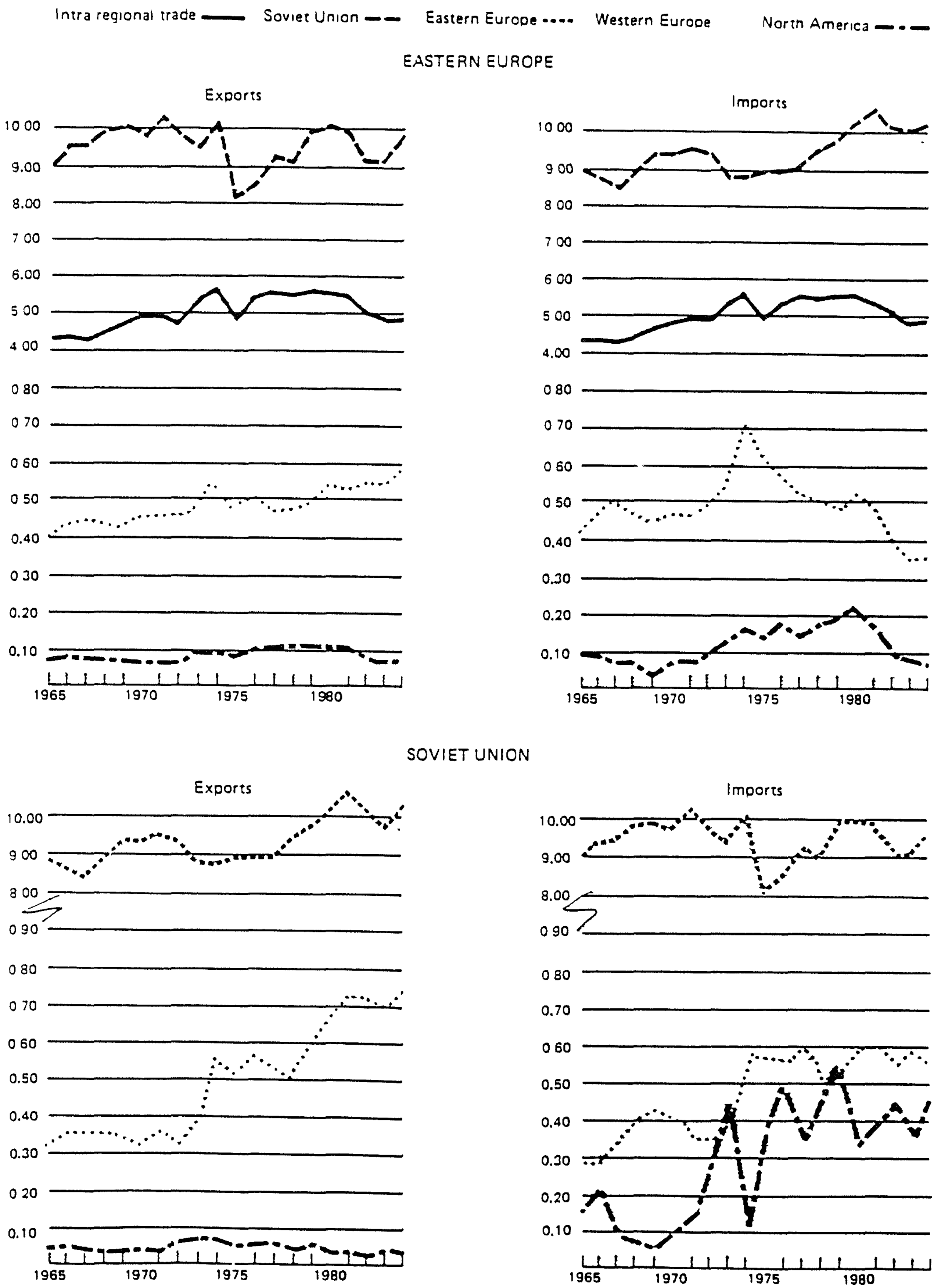
Exporter / Destination	North America	Western Europe	Eastern Europe	Soviet Union	Other	World
North America						
1955[a]	30.2	31.5	0.1	-	38.2	100.0
1965	29.2	31.2	0.6	0.7	38.3	100.0
1973	34.7	25.9	0.7	1.7	37.0	100.0
1984	39.5	19.6	0.2	1.8	38.9	100.0
Western Europe						
1955[a]	8.4	55.3	2.0	1.1	33.2	100.0
1965	9.1	64.8	2.6	1.3	22.2	100.0
1973	8.6	69.1	2.9	1.5	17.9	100.0
1984	11.2	64.7	1.5	2.0	20.6	100.0
Eastern Europe						
1955[a]	0.9	19.4	28.4	37.7	13.6	100.0
1965	1.1	18.9	27.0	39.9	13.1	100.0
1973	1.4	22.8	28.3	34.8	12.7	100.0
1984	1.5	22.6	20.2	36.8	18.9	100.0
Soviet Union						
1955[a]	0.8	15.4	48.6	-	35.2	100.0
1965	0.6	15.4	55.7	-	28.3	100.0
1973	1.0	18.7	46.7	-	33.6	100.0
1984	0.4	27.1	43.5	-	29.0	100.0
World						
1955[a]	16.9	41.9	4.6	3.2	33.4	100.0
1965	15.4	45.9	6.2	4.4	28.1	100.0
1973	16.2	47.0	5.3	3.7	27.8	100.0
1984	20.7	37.9	4.2	3.7	33.5	100.0

Source: See Table 1.

a Excluding trade between German Democratic Republic and Federal Republic of Germany; Yugoslavia is included in western Europe.

On the other hand, ever since the 1950s, transactions inside the eastern bloc have been intense, actually 10 times stronger than one could expect on the basis of the share of this region in world trade.

CHART 3
Trade intensity coefficients, 1965-1984



Source: See Chart 1.

The product composition of trade between east and west has changed somewhat. West European exports to the east are dominated now by manufactures, while in the 1950s primary products accounted for a significant proportion (Chart 4). In exports from North America, industrial goods account for a minor share, whereas primary products - particularly foodstuffs - make up 80 to 90 per cent.

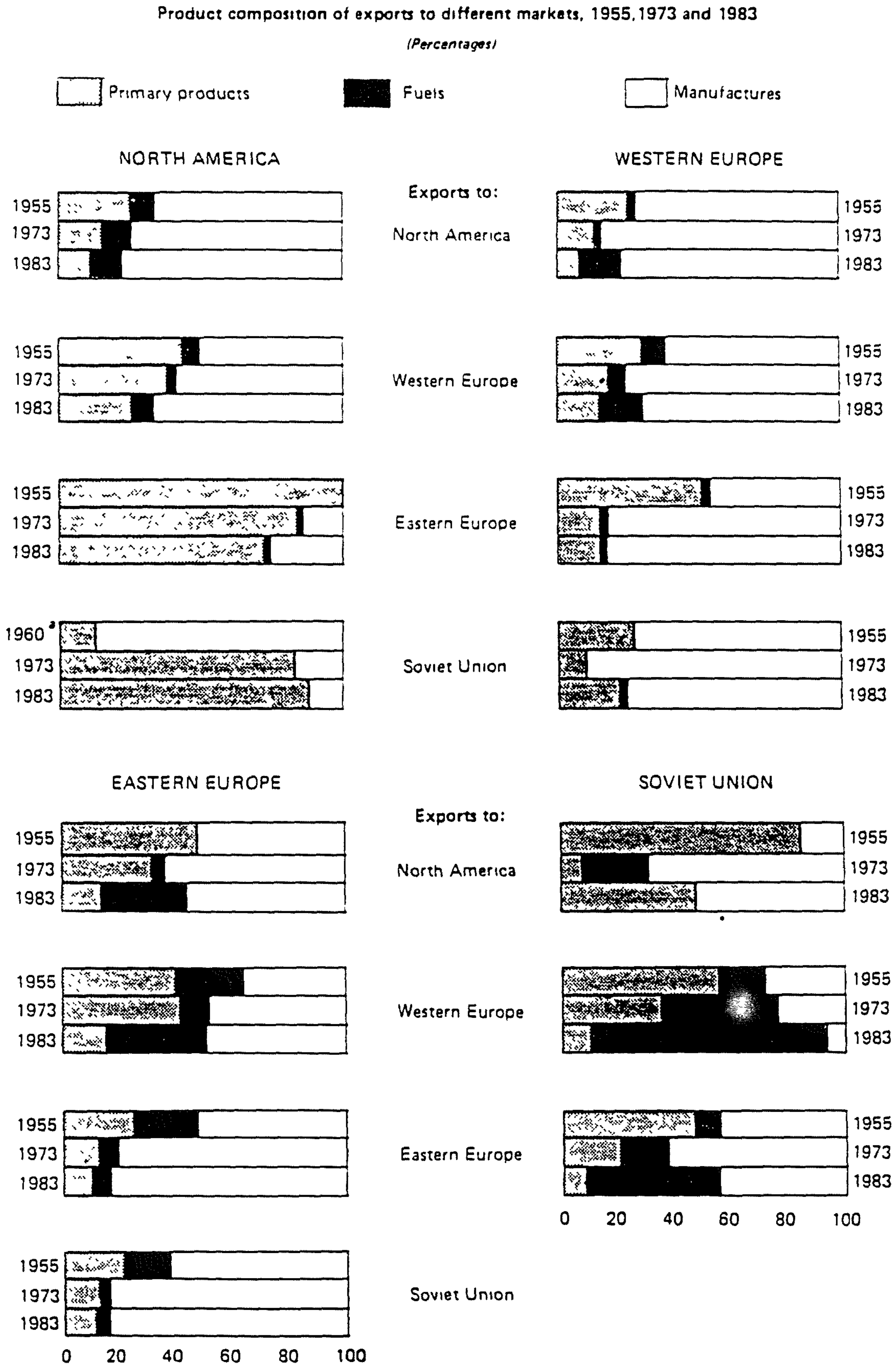
Primary products and fuels are also quite important in east European exports to the western markets, representing about 50 per cent of exports to both western Europe and North America. The share of these goods in east European exports to the Soviet Union is, however, much smaller, as some 80 per cent of these flows correspond to manufactured goods.

Exports from the Soviet Union to western Europe consist mostly of fuels, but these are not exported to North America: the Soviet exports to this region include, in equal proportions, primary goods and manufactures.

3.2.2 Exchanging machines by fuels

The "extensive" pattern of industrialization of the east European countries - much centred on the expansion of "key" sectors - changed somewhat in the 1960s, when emphasis started to be placed on the improvement of the existing industrial structure. This fostered eastern purchases of western investment goods. In fact, whenever financial circumstances allowed - in terms of export earnings or credit availability - most eastern countries raised their imports of western machinery and equipment. Throughout the 1970s, east European countries did not face serious financial constraints. On one hand, the eastern governments benefited from easy credit made available by a highly liquid Eurocredit market. On the other hand, after the first oil shock, these countries, especially the Soviet Union, obtained convertible currencies through increased exports of fuels to the west.

CHART 4



Source: See Chart 1.

a In 1955 there were practically no exports from North America to the Soviet Union

Consequently, the share of capital goods in east European imports from western Europe rose steadily, from less than 10 per cent in the 1950s to more than one third in the 1970s (Table 4). But this share declined in Soviet imports - from 46 to 37 per cent. These trends were reversed in the 1980s: the proportion of capital goods in eastern imports from the west fell while it increased in Soviet imports. It has been argued that the west was determinant in the "second" stage of eastern industrialization. The figures, however, do not corroborate this idea: despite the rapid increase in eastern purchases from the west, the latter never supplied more than one quarter of eastern imports of capital goods (Table 5).

TABLE 4

Shares of machinery and transport equipment in eastern imports by area of origin[a], 1955, 1965, 1973 and 1983
(Percentages)

Exporter / Importer	Western Europe[b] Total	ECC[c]	EFTA	Eastern Europe	Soviet Union	World
Eastern Europe[d]						
1955	9.0	9.1[e]	14.2[e]	32.0	16.8	17.8
1965	28.1	31.6	25.5	26.5	17.8	24.0
1973	34.5	36.2	34.2	53.8	27.7	35.0
1983	23.6	28.7	30.5	53.8	13.7	24.0
Soviet Union						
1955	46.2	45.4[e]	46.9[e]	45.5	-	32.2
1965	41.2	43.7	42.7	49.3	-	36.6
1973	37.0	39.0	40.0	51.0	-	36.6
1983	38.6	37.0	43.3	60.3	-	39.5

Source: See Table 1.

a Eastern imports from North America represent less than 1 per cent of eastern imports of these goods.
b Including Yugoslavia.
c Excluding Greece.
d Excluding trade between the German Democratic Republic and the Federal Republic of Germany,
e EEC and EFTA original members.

The trade counterpart of increased imports of machinery into the east was the rise in eastern fuel exports to the west. This was particularly strong after the second oil shock, when the west European countries were keen to divert their purchases away from the Gulf. From 1979 to 1983, exports from the OPEC declined by 10 million barrels a day, while non-OPEC exports increased by one million. The USSR accounted for 40 per cent of this growth.

TABLE 5

Shares of eastern and western Europe in eastern imports of machinery and transport equipment[a], 1955, 1965, 1973 and 1983
(Percentages)

Exporter / Importer	Western Europe[b] Total	EC[c]	EFTA	Eastern Europe	Soviet Union	World
Eastern Europe[d]						
1955	8.4	3.8[e]	4.4[e]	53.3	39.0	100.0
1965	22.7	15.3	4.6	46.5	30.1	100.0
1973	25.2	18.6	5.0	46.3	26.1	100.0
1983	17.9	11.0	4.6	50.8	27.8	100.0
Soviet Union						
1955	19.1	5.2[e]	5.6[e]	79.4	-	100.0
1965	16.4	8.1	5.6	80.8	-	100.0
1973	19.6	14.1	4.2	75.1	-	100.0
1983	26.0	14.5	7.4	69.5	-	100.0

Source and footnotes: As for table 4

In the early 1980s, more than 80 per cent of Soviet exports to the west were energy products, against a bit more than one third in the early 1970s (Table 6). Part of the increase in Soviet exports seems to correspond to re-exports of oil purchased to OPEC sources (e.g. Libya)[24]. The share of western Europe in Soviet oil exports increased markedly, from one third to more than a half, while the proportion of Soviet supplies in western oil imports rose from less than 5 per cent in 1973 to almost 20 per cent in the early 1980s.

TABLE 6

Eastern exports of fuels to western Europe: trade shares in 1965, 1973, 1978 and 1983
(Percentages)

	Share of western Europe in eastern fuel exports			Share of eastern supplies in west European fuel imports			Share of fuels in eastern exports to Western Europe		
	Total western Europe	EC[a]	EFTA	Total western Europe	EC[a]	EFTA	Total western Europe	EC[a]	EFTA
Eastern Europe[b]									
1965	21.3	10.7	9.6	2.5	1.6	8.1	12.7	9.7	20.5
1973	37.7	21.0	14.7	1.9	1.3	6.0	10.1	7.7	17.6
1978	42.0	26.0	12.6	2.1	1.6	5.3	17.4	14.7	24.8
1983	62.7	32.1	22.2	3.6	2.3	9.9	34.5	28.1	42.9
Soviet Union									
1965	32.5	18.0	12.9	6.3	4.3	17.9	37.8	32.0	49.7
1973	36.2	21.6	13.9	4.8	3.5	14.5	39.7	34.2	54.2
1978	44.9	27.9	15.3	9.0	6.9	26.0	62.6	56.4	76.8
1983	54.4	38.5	13.9	18.7	17.0	37.0	84.1	87.4	82.5

Source: See Table 1.

a Excluding Greece.
b Excluding trade between the German Democratic Republic and the Federal Republic of Germany.

24 These are estimated to have accounted for 13 and 60 per cent of the rise in Soviet oil exports to the west in 1982 and 1983, respectively.

Fuel exports from eastern Europe also expanded steadily between the early 1970s and the first half of the 1980s. Part of the rise corresponds to non-oil fuels, like Polish coal; but exports of crude oil and oil products played the most significant part. It is worth noting that the east European exports of oil to the west were probably fed by OPEC and Soviet supplies, as all east European countries had become net oil importers in the 1980s[25].

In fact, due to the "stop price" system for intra-socialist trade, Soviet fuels were delivered to the east European countries (except Romania) at prices that corresponded to a five-year moving average of world market prices. Therefore, when world market prices swelled, the eastern countries purchased Soviet oil at much lower prices and then re-exported it to the west with good profits. This situation changed drastically with the sharp fall in oil prices in the mid-1980s. Consequently, in 1988 and 1989 east European exports of fuels to the west declined, while Soviet exports kept growing.

3.2.3 Eastern financial constraints

The decade 1965-1975 is generally viewed as a period of considerable economic progress in eastern Europe, with living standards improving firmly throughout the region. But domestic expenditure grew faster than output, indicating the need to rely on external resources. In fact, eastern Europe's trade deficit with the west rose steadily from the 1960s to the mid-1970s. Then it started to decline and, thanks to stringent adjustment policies, turned into a surplus by the early 1980s (Chart 5). The Soviet trade account in convertible currencies has been generally in balance or surplus: a deficit with the industrial economies was often more than offset by a surplus in trade with the developing countries.

---

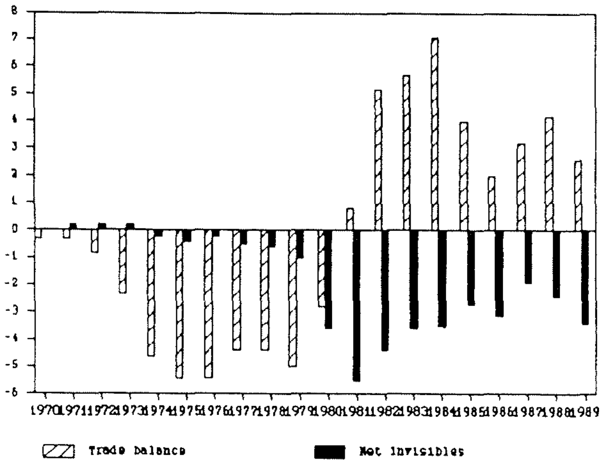
[25] Romania was a net exporter until the mid-1970s, but in the first half of the 1980s it had to import half of its requirements.

CHART 5

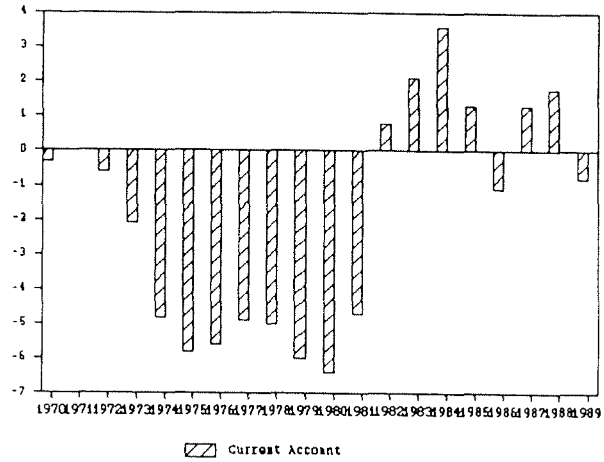
Balance of Payments in Convertible Currencies, 1970-1989
(Billion US dollars)

EASTERN EUROPE

Trade balance and Net Invisibles

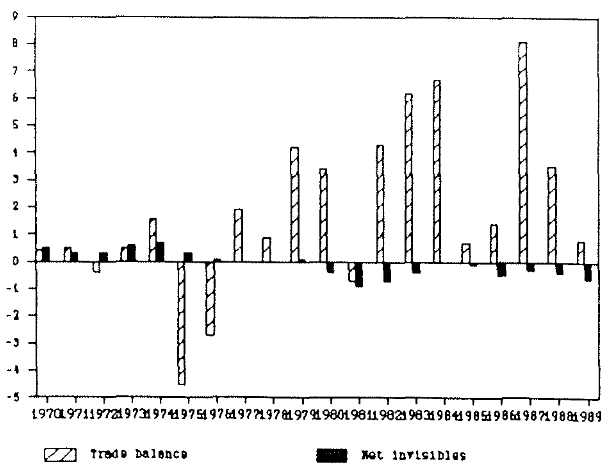


Current Account

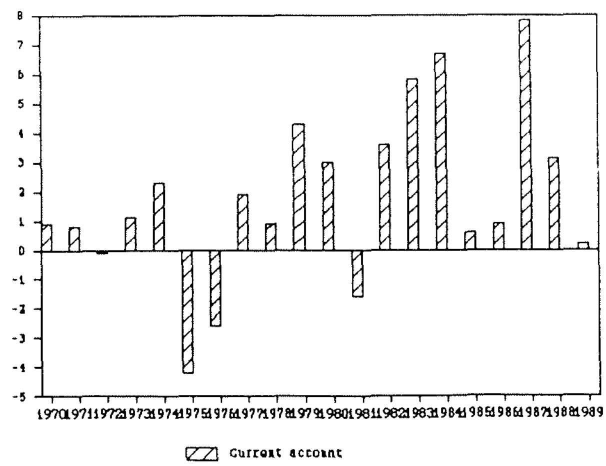


SOVIET UNION

Trade Balance and Net Invisibles



Current Account



Source: Based on data from United Nations, Economic Bulletin for Europe, no. 41, New York, 1989.

While trade balances started to improve from the mid-1970s, the eastern debt vis-a-vis the west continued to swell. As already mentioned, the east European countries were then considered by western banks as highly creditworthy and they took advantage of the relatively favourable conditions prevailing, at the time, in the international financial markets (i.a. due to the recycling of OPEC revenues).

By 1980 the eastern debt in convertible currencies was at 90 billion dollars, against less than 7 billion in 1970 (Table 7). Of this total, the largest shares corresponded to the Soviet and Polish debts with, respectively, 25 and 24 billion dollars. The rest was mostly accounted for by the GDR (13.6 billion), Romania (9.6 billion) and Hungary (slightly more than 9 billion). Bulgaria and Czechoslovakia were relatively little indebted[26]. Moreover, the repayment structure of this debt - almost half being less than one year - and the rise in interest rates, made the debt service particularly heavy. In 1980-81, Poland and Romania were unable to meet their obligations, a situation that coincided with a deterioration of the political climate. The 1981 "crisis" provoked a withdrawal of international bank lending to the eastern countries and forced sharp adjustment measures in all the region.

In most countries, the adjustment policies led to drastic import cuts, particularly in purchases to the west: in 1982 the volume of east European imports from non-socialist countries was 22 per cent below its level two years earlier[27]; for imports of engineering goods the fall was 17 per cent. In the Soviet Union, however, a marked improvement in the terms of trade - due to the second oil price hike - allowed for a further rise in imports from the west.

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[26] The main creditors include the Federal Republic of Germany, Japan and France, whose banks account for over one half of international bank loans to the east.

[27] The term "non-socialist" refers to all market economies, including developing countries.

TABLE 7

Eastern Europe and USSR: gross debt in convertible currencies

(Billion US Dollars)

	1970	1975	1980	1985	1989*
Bulgaria.........	0.7	2.7	3.6	3.5	8.1
Czechoslovakia...	0.3	1.0	4.5	3.3	5.0
GDR..............	1.1	5.2	13.6	13.6	21.7
Hungary..........	1.0	3.9	9.1	11.8	17.2
Poland...........	1.2	8.4	24.1	29.7	38.9
Romania..........	1.0	2.9	9.6	6.6	-
Eastern Europe	5.1	24.2	64.6	68.5	90.9
Soviet Union.....	1.6	15.4	25.2	31.4	42.9
Total............	6.7	39.5	89.7	99.8	133.8

* Estimate

Source: United Nations, Economic Bulletin for Europe, vol. 41, New York, 1989.

In the years 1979-82 the trade deficits vis-a-vis the west turned into surpluses. But economic growth weakened markedly. For eastern Europe, the average growth of the Net Material Product (NMP) did not attain 1 per cent, compared with nearly 7 per cent in 1970-78 (Table 8). The shift was particularly dramatic in Poland, where NMP fell by more than 6 per cent, against an average increase of almost 8 per cent in most of the 1970s. In Romania, Hungary and Czechoslovakia, economic activity slowed down noticeably, while in Bulgaria and the GDR it weakened less.

Since 1983, growth has strengthened again in all countries except Hungary, the average rate attaining some 4 per cent. Apparently, the upswing has entailed a new deterioration in external balances, with a clear narrowing of the past few years' trade surpluses and a widening of the deficit on the invisible account (due to interest payments on the foreign debt). Thus, the combined current account of the east European countries is likely to turn into deficit, after having been in surplus since 1986. This points to new constraints on imports from the west, even if an easing of the external constraint may come from the various support measures launched by the west.

TABLE 8
Net Material Product
(Average annual percentage change)

	1970-78	1979-82	1983-88
Bulgaria...............	7.2	5.4	4.3
Czechoslovakia.........	5.2	1.5	2.7
Germ. Dem. Republic....	5.0	4.0	4.4
Hungary................	5.6	1.4	1.1
Poland.................	7.7	-6.5	4.4
Romania................	10.1	3.5	5.4
Eastern Europe......	6.9	0.8	4.1
Soviet Union...........	5.9	3.3	3.6

Source: Unite Nations, Economic Survey of Europe in 1988-1989, New York, 1989 (Appendix Table B.1).

4. Recent developments and prospects[28]

Nobody will question the fact that the incredibly fast process of political and economic liberalization in the east will greatly facilitate east-west economic relations. Contacts have been and are being established at all levels - governmental, multilateral institutions, enterprises. But so far, this has not translated into a visible strengthening of east-west trade.

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[28] The situation referred to here is that of end-1989. Meantime, as it is well known, things have evolved rapidly in the sense of an increased political liberalization in the east. Still, this does not seem to have changed much the economic outlook described here.

4.1 Western support[29]

In June 1988, culminating long negotiations, the European Community (EC) and the Council for Mutual Economic Assistance (CMEA) produced a Joint Declaration, establishing official relations between the two organizations. In the wake of this declaration, several trade and co-operation agreements between the EC and individual east European countries have been concluded or are under negotiation: by the end of 1989, trade and co-operation agreements had been signed with Hungary and Poland, respectively in September 1988 and November 1989; an industrial co-operation agreement had been established with Czechoslovakia in December 1988; a trade and co-operation agreement with the Soviet Union was at an advanced stage of negotiation, whereas arrangements with Bulgaria and the GDR were at the stage of preliminary talks. Negotiations with Romania had been suspended in April 1989 over political disagreement. The events since the end of 1989, especially with respect to the GDR and Romania, have given impetus to a closer co-operation.

At the July 1989 Economic Summit of Heads of State in Paris, the EC was given responsibility for coordinating the support effort of 24 west European countries - the Group of 24 - to assist Hungary and Poland. The support measures that have been agreed or are under discussion refer mainly to trade liberalization (GSP treatment, elimination of discriminatory quantitative restrictions, improved access to the EC market for Hungarian and Polish agricultural products) and financial assistance (various grants, new multilateral and bilateral credits, debt relief, funding for technical assistance, financial backing for direct investment, several forms of investment guarantees, food aid). The various types of commitments made by the Group of 24 to Hungary and Poland totalize some $5 billion. However, most of these commitments are multi-year facilities and,

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[29] In describing the western support initiatives, the GDR is not considered since the goal of unification with the FRG makes it a "special case".

in many cases, have been designed by the donors to specific uses. In the short-term they may not change very much the financial outlook for these countries.

4.2 Eastern structural problems

It is still too early to assess the extent to which the political changes in the east have incited to increased trade with the west. Data for 1986-88 do not point to any profound improvement: in 1988 the "intensity" of eastern trade with the west was rather at the same (low) level of 1986 and much weaker than in 1980 (Table 9).

TABLE 9

East-West trade: "Intensity coefficients"

	1980	1986	1987	1988
Exports from:				
Eastern Europe	0.55	0.46	0.46	0.47
Soviet Union	0.65	0.37	0.40	0.41
Imports into:				
Eastern Europe	0.60	0.41	0.42	0.45
Soviet Union	0.67	0.44	0.39	0.44

Source: Based on data taken from United Nations, Economic Bulletin for Europe, no. 41, New York 1989

Provisional data for 1989 indicates that eastern imports from the west expanded strongly. In eastern Europe, the upturn follows three years of virtual stagnation, while in the Soviet Union, a strong upswing had already occurred in 1988. Eastern exports to the west, on the other hand, grew less than total western imports, suggesting that the eastern supply capacity is more relevant to eastern exports than western demand.

In fact, one might expect that, in the absence of balance of payments constraints - which, actually, are likely to occur- eastern imports from the west will tend to rise at a fast pace, given the ongoing economic reforms and the urgent need for renewing a capital stock that has become obsolete. But, in the short-run, the possibilities for eastern exports to the west appear less bright.

There are several reasons for gloomy export prospects in the east. Firstly, with respect to industrial goods, the eastern production is not adapted to the rather demanding western markets. Secondly, the eastern countries may be affected by an increased integration in western Europe - the enlargement of the EC to southern Europe, the completion of the EC-market and a reinforcement of EC-EFTA relations. Thirdly, restructuring the eastern economies requires time, financial support and technology imports. These conditions are now eased, but increased loans and imports will imply a more onerous debt burden in the future. These points are further discussed below.

It was argued above that the east European industrial development was largely dictated by the requests and standards prevailing in the "socialist market", the bulk of which was the Soviet Union. These differ substantially from western demands. Up to now, the east has exported to the west mainly primary products and various intermediate goods; manufactures have been mostly exported to other eastern countries and to the Soviet Union. This lack of adaptation of eastern products to western demand was, for a long time, denied by the eastern governments who accused western protectionism for the poor performance of eastern exports. But, already in 1985, the Soviet representative to a UNCTAD meeting maintained that, the diversification of the socialist countries' exports "was also hampered by the insufficient competitiveness of the export goods and their unsuitability in terms of the needs of foreign markets"[30].

The manufactures exported by eastern Europe tend to compete with those exported by the south European countries, which are now members of the EC[31]. In the short-run, the enlargement of the EC to southern Europe is likely to be more important for eastern Europe than the completion of the EC-market or the reinforcement of EC-EFTA links. As Vosicky puts it, "in their co-operation, the EC and EFTA aim to resolve university level problems whereas the CMEA and western Europe are trying to enter high school"[32].
In fact, it has been shown that EC's imports from eastern Europe have been somewhat diverted in favour of southern Europe[33]. This occurred especially in textiles and machinery. The recent bilateral agreements between the EC and some east European countries will contribute to foster east-EC transactions, but the EC enlargement and a closer integration in western Europe poses a real challenge to eastern exporters.

The economic reforms under way in the eastern countries generally introduce market elements into the centrally planned systems and incorporate an increased role for foreign economic agents. Recent political events indicate that, in most countries, fully-fledged market economies are to be established. These institutional changes, however, is not easy to implement, after 40 years of central planning and in societies where

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30 UNCTAD, Draft Report of Sessional Committee II, TD/B(XXXI)/SC.II/L.1/Add.1, 24 September, 1985.

31 A recent study indicates that the product structure of manufactured exports from east and south Europe has become markedly more similar in the past two decades, the similarity being higher for Spain and Portugal. With respect to the market orientation, the similarity with eastern Europe is larger for Greece (See "Effects of West European Integration on Imports of Manufactures from Eastern and Southern Europe", in United Nations, Economic Survey of Europe in 1988-1989, New York, 1989).

32 E. Vosicky, "Relations between the CMEA and the EC, EFTA Bulletin, 2/87.

33 United Nations, Economic Survey of Europe in 1988-1989, New York, 1989 (loc.cit.)

entrepreneurship has been absent. It is important to appreciate that, in the interwar period, the east European countries failed in establishing an indigenous capitalism, ending up by placing great reliance on the state to promote development. Thus, even before the Soviet domination, these countries lacked a laissez-faire tradition.

Furthermore, the eastern economic modernization depends critically on imports of technology-intensive goods and on the availability of means of payments (e.g through increased credit) - two requirements that may be difficult to fulfil in the presence of tightening external constraints. To realize their economic reforms and to catch up with western countries in terms of income levels, the eastern countries are in urgent need of capital. The western support initiatives include i.a. the promotion of direct investment and technical assistance. But the east European countries have to improve their international competitive position as domiciles for direct foreign investment: problems of exchange rates, currency inconvertibility, supply bottlenecks, bad functioning of telecommunications - all need a quick answer.

5. Concluding summary

The main purpose of this note was to provide a summary overview of the main changes which have occurred in east-west economic relations from the inter-war years to the Gorbachev era and to discuss the prospects for the years to come.

Before the Second World War, the countries of eastern Europe were, from a political and economic point of view, rather dependent on western Europe, particularly on Germany. The German influence increased from the mid-1930s and important parts of east European economic assets came under German control or ownership. In Hungary, Bulgaria and Romania this process was facilitated by existence of allied Governments; in Poland and Czechoslovakia, it came with the occupation.

In the years that followed the war, the east European economies became increasingly attached to the Soviet Union. After a short-lived recovery following the end of the war, east-west trade steadily weakened, reaching insignificant levels in the early 1950s. Trade between eastern and western Europe was particularly hit. Meanwhile, trade inside eastern Europe and between the region and the Soviet Union, rose considerably.

In this period, the east European countries adopted development strategies which aimed at a large degree of self-sufficiency. But in the 1960s and 1970s, they participated in the process of "socialist economic integration", which was to be attained through the production planning process. This implied that the furthering of east European industrialization was largely oriented towards the socialist markets, especially that of the Soviet Union.

After Stalin's death in 1953, the political atmosphere improved and east-west transactions recovered somewhat. But much of this revival reflected specific trade flows: eastern imports of machinery from the west and western imports of eastern fuels. Otherwise, east-west trade remained at relatively modest levels. It is possible that trade between the two areas was affected by the creation of a west European free trade area and by an increased integration of the eastern economies.

The "extensive" pattern of eastern industrialization changed somewhat in the 1960s, with emphasis being placed on the improvement of industrial structures. This fostered easter purchases of western investment goods. Up to the late 1970s, the eastern Governments did not face important financial constraints: they benefited from western credit and obtained convertible currencies through increased exports of fuels. But, in the turn of the decade, these countries were confronted with serious financial constraints, as some of them were unable to meet their foreign debt obligations. They were forced to adopt stringent adjustment policies, which entailed important cuts in imports from the west.

While the eastern countries imported machinery from the west, the west European countries increasingly imported fuels from the east. The western fuel imports rose rather strongly after the second oil shock, when the west European countries were keen to divert their purchases away from the Gulf. Most of the imported energy products came from the Soviet Union, but exports from eastern Europe also increased considerably. These countries seem to have taken advantage of the lower prices they paid to the Soviet Union to re-export Soviet oil to the west at world market prices.

The ongoing process of political and economic liberalization in the east is likely to translate into a reinforcement of east-west trade. But, so far, progress on the economic front has been less spectacular than at the political level.

Provisional data for 1989 indicate an upsurge in eastern imports from the west, but no particular expansion on eastern exports. In fact, the short-term prospects for eastern exports to the west may be rather gloomy. The reasons for this include: the lack of adaptation of eastern industrial products to western demand; the possible diversion effects that a closer integration in western Europe (EC enlargement, completion of the EC market, stronger EC-EFTA links) may have on imports from the east; the time, experience and resources which are required for a modernization of the eastern economies and industrial structures. The latter would be eased with the help of direct foreign investment. Yet, the east European countries have to improve their conditions as receivers of foreign capital.

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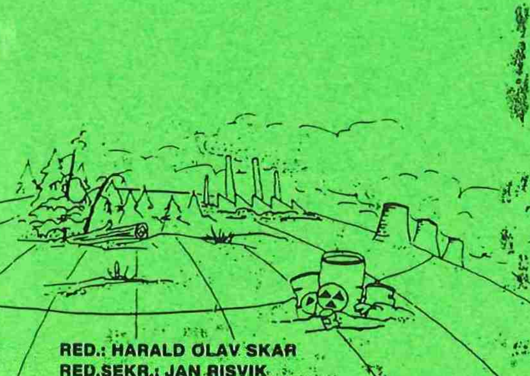

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RED.SEKR.: JAN RISVIK
NORSK UTENRIKSPOLITISK INSTITUTT

Forum for utviklingsstudier

Nr. 1 1989 tar bl.a. opp følgende temaer:

- Bærekraftig utvikling i Sahel-området
- Perspektiv på den økologiske krisen i Rødehavsregionen
- Politikk og vitenskap i en miljøtid: ørkenspredning, ozonhull, sur nedbør, drivhuseffekt, regnskoger
- Lærdommen fra 20 års bistandssamarbeid med Tanzania
- Kinas bistandspolitikk i historisk perspektiv

Nr. 2 1989 (vil foreligge i desember)

Temahefte om statens rolle i utviklingsprosessen, med bidrag fra flere disipliner (sosialantropologi, historie, offentlig administrasjon, sosiologi, statsvitenskap og økonomi).

Nr. 1 1990 (vil foreligge i april 1990)

Temahefte om bærekraftig utvikling.