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Falling Behind and Catching Up

Southeast Europe and East Central Europe in Comparison

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Economic integration within COMECON and with the Western economies

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Turning away from the West

- New geopolitical realities after WW II.
- Increasing role of trade with the Soviet Union.
- Searching ways of economic cooperation in small CESEE countries.
- Early 1948: the period of free exploration of ways for cooperation by small CESEE countries is over.
- 1949: Council for Mutual Economic Assistance (COMECON/CMEA) established, partly to block uncontrolled cooperation across small CESEE countries, partly as a reaction to the Marshall Plan and beginnings of West-European economic cooperation.
- Initial COMECON members: Bulgaria, Czechoslovakia, Hungary, Poland, Romania and the Soviet Union. +Albania and GDR, 1961 Albania susp.

Rationale of COMECON: ideology vs. practice

- Soviet Union was practically cut off from external trade after its birth, autarchy became an important part of communist ideology, even after the initial isolation was broken.
- The mere size of the Soviet Union, the availability of natural resources made this attitude feasible even if with non-negligible difficulties.
- Autarchy as aim was taken over by the CESEE communist regimes, despite their small size, significant foreign trade and less diversified output structure compared to the Soviet Union.
- Preparation for a possible war with the capitalist world >>> maximum independence from trade with the West. Efforts to achieve dual (national and regional) autarchy.

External economic relations in centrally planned economies (1): The institutional system

- Nationalization across the board // price and wage regulation, decisions on investment and lending strictly centralized // development policy implemented in the framework of five- and one-year-plans.
- State monopoly of foreign trade, completely decoupled from production activities. ‘Profile monopoly’: foreign trade companies were strictly specialized by traded commodity group.
- Foreign trade enterprises: trade with the ‘RoW’ similar to usual trade; trade with COMECON firms: administrative accomplishment of decisions made above their heads concerning quantity, quality and price.
- Bilateral plan coordination in several steps involving the Planning Offices and Ministries of FT following the rhythm of the 5 and 1 year plans.

External economic relations in centrally planned economies (2): the importance of bilateral equilibrium

- Intra-COMECON trade was a bilateral barter trade where money flows did not play a role.
- A surplus in trade with another COMECON country, denominated in transferable rouble, typically could not be used to buy anything in the bilateral partner country and even less in a third COMECON country. Commodities had already been allocated by the plan, thus there were no freely available goods to buy.

External economic relations in centrally planned economies (3): The ‘Bucharest price principle’ and its consequences

- Capitalist world market (CWM) vs. socialist world market (SWM); volatility vs. stability.
- SWM prices should follow CWM prices, but without their volatility.
- Running 5 year plan with the average prices of the previous 5 year period.
- Easier for commodities, less for manufactured products.
- 1974 oil price explosion > growing price divergence CWM/SWM.
- Sliding price basis > 5 preceeding years‘ moving average of prices.

External economic relations in centrally planned economies (4): The quota system

- Negotiations on bilateral trade were highly centralized.
- Prices became increasingly insignificant > hard goods vs. soft goods.
- Hard goods: fuels and raw materials, certain agricultural products.
- Soft goods: mostly machinery, consumer durables.
- Decisive question: can a certain product be sold in the West or not.
- Quotas: carefully balanced packages of hard and soft goods, where the the whole deal had to be advantageous, not the export or import of indvidual components.

External economic relations in centrally planned economies (5): Transferable rouble – the accounting unit for barter trade

- The value of the transactions had to be accounted for > Tr. Rouble.
- You could not buy anything for Tr. Rouble, neither from the bilateral partner beyond the quota, nor from another COMECON country, or from the CWM.
- Everything was already allocated by the plan > quota system bilaterally balanced.
- All attempts to reform the system failed, the Tr. Rouble remained a non-convertible, non-transferable accounting unit for the bilateral quotas.

External economic relations in centrally planned economies (6): Hard currency trade in the COMECON

- Huge price differences between SWM/CWM, exporters of ‚hard' goods needed a solution.
- Trade in hard currency: half secretive deals, accounted for in dollars, at actual CWM prices. Deliveries in traditional bilateral quotas capped, or even reduced, ‚hard' goods above the quota were available only for dollar.
- Trade (‚hard' goods only) through western mediators, also for dollar.
- In the 1980s 10-15% of total Hungarian-Soviet bilateral trade was accounted for in dollar, at actual CWM prices.

Other aspects of economic integration (1): Movement of capital

- Within COMECON: trade yes, FDI: no, state-to-state cooperation: to some extent (joint investment projects in the energy sector of the SU).
- Indebtedness towards the West, due to :
  - chronic trade deficits due to insufficient export supply,
  - financing needs of modernization (PL) or preserving the standard of living (HU) or securing the food supply of the population (SU).

Other aspects of economic integration (2): Movement of labour

- Full implyment (but with indoor unemployment, except YU).
- Travel to the West prohibited or tolerated in strict limits.
- Mass migration to Western Europe only from Yugoslavia (1973 peak year with 860 000 workers).
- Limited scope of workers' exchange between GDR and other countries, Bulgaria and the Soviet Union.

COMECON: the longer run consequences in the area of trade

Table 3

Indicators of selected COMECON countries' competitiveness in international comparison, 1970-1987

	1970	1980	1987
COMECON 6*			
Share in world exports, in %	6.8	4.5	4.7
Share in world exports of engineering products, in %	0.8	0.7	0.4
Share in world exports of high & advanced technology engineering products, %	0.3	0.1	0.1
Share of high & advanced technology products in engineering exports, %	31.3	26.8	25.9
Asian 'Tigers'**			
Share in world exports of engineering products, in %	1.0	3.9	6.3
Share in world exports of high & advanced technology engineering products, %	0.5	1.7	3.2

Notes: * COMECON 6: Bulgaria, Czechoslovakia, GDR, Hungary, Poland, Romania.

** South-Korea, Taiwan, Singapore, Hong Kong.

Source: ECE Economic Survey of Europe in 1989-1990. New York (1989)

The end of COMECON: collapse and repercussions

- 1990-1991: change over to convertible currency accounted trade, MFN treatment, tariffs introduced.
- Opening up to foreign competition from the West > shock for domestic producers and exporters to COMECON markets.
- Intra-COMECON trade collapsed.
- Radical rearrangement of trade patters: share of machinery falls.
- Producers of former soft goods in hopeless situation: Trabant vs Skoda.

Communist countries outside the COMECON: Yugoslavia and Albania

- Yugoslavia: deviation towards a more liberal model.
- Albania: deviation towards extreme autarchy.

Thank you for your attention!