4 East European Economic Relations under Communism

4.1 Introduction

The foreign economic relations of the CEE-10 economies in the period between the end of the second world war and the collapse of communism were determined by the incorporation of the east European economies into the Soviet bloc and the adoption of the Soviet model of development. Following the communist takeover of power in eastern Europe in 1948 and the slide into cold war, the east European economies were forced to implement the Stalinist model of heavy industrialisation within their domestic economies. They were also required to redirect their external economic relations towards other socialist states and to the Soviet Union, in particular, and to minimise their contacts with, and dependence on, western market economies. This was accompanied by the adoption of the Soviet system of planning and its associated institutions which included a centralised state monopoly for the administration of foreign trade. This Chapter will examine the impact of these factors on East European trade relations in the communist era and the problems this has created for the redirection of trade flows to the industrialised market economies and the EU after the collapse of communism.

4.2 The Soviet growth strategy and industrial and trade priorities

4.2.1 The Soviet strategy of rapid industrialisation

The strategy of rapid industrialisation had been implemented by Stalin in the Soviet Union in the 1930s, by the creation of a centralised system of planning which subjugated market forces to central controls. The system was developed to cope with the problems created by the relative
economic backwardness of the Soviet Union and to preserve Soviet power against actual and perceived internal and external threats to the security of the Soviet state. The Stalinist system generated a rapid growth of inputs of capital, labour and raw materials into industrial production by restraining private consumption and by devoting a relatively high proportion of GDP to investment. Priority was given to investment in the metallurgical, power and electrical engineering and machine tool industries and to the extraction and transportation of energy and raw materials for industrial consumption. Investment in light industrial goods and consumer goods received low priority. Investment priority was extended to include the chemicals, armaments and nuclear industries in the period following the second world war. The growth of the industrial labour force was achieved by a major expansion of female participation in industrial employment in the 1930s and by the forced collectivisation of agriculture which accelerated the exodus of labour from the countryside to the towns and newly-constructed factories. A high rate of investment was maintained throughout the Soviet period by means of forced savings. This was achieved by state controls over prices and wages and the supply of consumer goods. Forced collectivisation and compulsory deliveries of agricultural produce to the state also enabled the state to depress the prices of agricultural products below the levels that would have prevailed under market conditions.

The Soviet industrialisation strategy also made extensive use of the acquisition and diffusion of foreign technology (technical progress extended). Foreign technology was acquired both through the purchase of machinery and equipment which was used in newly-constructed enterprises (embodied technology) and through the acquisition and replication of existing world technology. The latter was achieved by both legal and illegal methods, including the employment of engineers and managers who possessed technical ‘know-how’, the study of technical journals and ‘reverse engineering’ (the acquisition of single items of machinery for the specific purpose of imitation).

This pattern of industrialisation had a number of implications for the organisation and structure of Soviet trade. Firstly, it increased the demand for physical capital and skilled labour, which were scarce factors of production in the Soviet Union in the 1930s, and consequently increased the demand for imports of goods embodying these factors. Secondly rapid industrialisation increased the demand for unskilled labour and natural resources in which the Soviet Union was relatively abundant. Unskilled labour was directed towards labour-intensive projects specified in the central plan (for example, the use of manual labour