Introduction

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This volume explores economic relations between socialist planned economies of Central and East European countries and capitalist market economies of neutral states in Europe during the Cold War. It focuses on the significant role of neutral countries as path-breakers in building East–West contacts.

Economic historians have mainly studied relations between the leading Western states and the Soviet Union during the Cold War era, but have so far paid scarce attention to the significance of neutrality in the European context during the second half of the twentieth century. For instance, although affected by the 'Iron Curtain', economic relations continued between socialist countries and neutral Austria, the only state in East Central Europe with a functioning market economy during the Cold War. This is of special significance for Austria since three of the socialist planned economies had been successor states of the same Habsburg Monarchy from which the Republic of Austria had also emerged. Thus Austrian neutrality, nourished by geographical closeness and the long common history of Central and South-East European countries, was of considerable importance in making the 'Iron Curtain' more permeable than is generally assumed. In a similar way neutral Finland's proximity to the Soviet Union and the socialist countries of Eastern Europe engendered trade and financial relations between its market economy and the planned economic systems in spite of restrictions imposed by the Cold War. For comparison, we have also included in our studies the economic relations of neutral Sweden, Switzerland and Ireland with socialist planned economies under Cold War conditions, thus encompassing all European countries with neutrality status.

These considerations led the editors to ascertain the accessibility of archive material and other sources with a view to making a contribution to filling this gap in our knowledge. Discussions were encouraged among colleagues which gave the impulse to the first international conference in Vienna on 'Delicate Relationships: Austria and Europe's Planned Economies' in June 2004.[1] Further research led to Session 101 on 'Cold War and Neutrality' at the International Economic History Congress in Helsinki 2006. This volume contains the revised versions of the papers presented at this Session.

The starting point of our quest was Austria because of its specific role at the interface of East and West. This distinctive place emanates not only from the country's historical bonds and its geographical position, but also from its post-war polity. Oliver Rathkolb's overview demonstrates that Austria became part of the East–West conflict after the end of the Second World War. As a result of four-power occupation (by Britain, France, the

USA and the Soviet Union) Austria experienced concurrently a market system in the west and a Soviet system in the east of its territory before gaining independence and neutrality status in 1955. Moreover, the existence of state ownership of big industrial enterprises and banks in Austria based on the post-war takeover of German property enhanced the possibi--lity of business ties with the neighbouring states' centralized socialist planned economies. Andreas Resch's statistical survey shows that 30 per cent of the exports of the nationalized sector of Austrian industry went to states which were members of the CMEA (Council for Mutual Economic Assistance, otherwise known as COMECON). Although after 1945 the direction of Austrian foreign trade turned westwards and trade with Eastern European neighbours did not rise to its pre-war level, Austria's trade volume with Central and South--East Europe was the highest among all the neutral European states.

A further specific feature of the Austrian case is – as far as we could establish – unique. In the course of the historical scenario from Allied occupation to neutrality, unconventional methods of trade, business and entrepreneurship developed of which very little is generally known. Thus favourable conditions for East–West trade links, on the one hand, and the enhanced post-war role of the Communist Party of Austria (CPA), on the other, facilitated the rise of 'cloaked companies' – Austrian enterprises run by members of the Communist Party. While this led to remarkable earnings from profitable East–West trade for the CPA Party, it was accompanied by the decline of the Party to insignificance in Austrian politics. These findings presented by Gertrude Enderle-Burcel show that, in order to circumvent the barriers of the Cold War, trade found a West–East route from Austria with the assistance of these cloaked companies. Nevertheless, the bulk of relations with the country's Eastern neighbours went through official financial, trading and business channels, because representatives of Austrian trading enterprises, banks and state-owned industries were in general interested in developing business links with these neighbours. In the end, by throwing open its borders to Hungary, Austria was the mediator in the final rupture of the Iron Curtain. Against this historical background Austria's fast economic expansion after 1989 into the economies of its Eastern neighbours is of interest, especially with regard to the growing influence of Austrian banks in this area. Doubtlessly, this is to a large extent derived from the influential role and political past of Austria in Eastern Europe.

Examining the characteristic features of relations of the other neutral European market economies with the Eastern European socialist states the authors could not find similar forms of trade relationships to the Austrian case, that is, involving the communist parties. Although, throughout the Cold War, all the European neutral countries were economically, politically and ideologically heavily dependent on the capitalist West, they manoeuvred between US demands for boycott and their own economic interests in trading with the socialist East. Andrea Komlosy analyses these complex relationships by assessing the impact of international organizations on East–West relations. Restrictions imposed by US pressure eased somewhat after the oil crisis of the 1970s, when the West searched for new markets. Also the socialist European countries that had joined the General Agreement on Tariffs and Trade (GATT) pursued a policy of acceleration of modernization of production by using trade contacts with the West. Yet, the USA insisted on reimposing prohibitions by the 1980s, trying to enforce the rules of COCOM (Co-ordinating Committee for Multilateral Export Control).

The exception was the case of Yugoslavia, shown by Žarko Lazarević as being between East and West – a neutral country with a socialist system, boycotted by the Soviet bloc after its political break with the Soviet Union in 1948. As a consequence Yugoslavia became the recipient of Western aid, especially from the United States. From the late 1950s trade with CMEA countries gained in importance for Yugoslavia. Thus a double trade system was established: the balance of Yugoslavia's trade with the East European communist countries was positive, but trade with Western countries remained habitually negative. However, as trade with communist countries was conducted on a clearing basis, the surplus did not improve the overall Yugoslav balance of payments.

In one respect Yugoslavia shared the economic decline of the other communist East European economies because of excessive indebtedness to Western countries during the 1980s.

In a certain sense also Finland had an exceptional relationship with both the East and the West. Finland's close economic ties with the Soviet Union throughout the Cold War led to economic growth and profitable development of the Finnish economy. Here Pekka Sutela's discovery of documents in archives provides a glimpse into Finnish–Soviet trade negotiations, which allows the author to assess the professionalism and political character of Soviet delegates. He concludes that the Soviet market contributed to Finland's technological development and economic growth. Also in trade relations with the East European socialist countries Finland held second place among the European neutral states. Overall in comparison with other European neutral countries, Finland substantially expanded CMEA trade. Czechoslovakia played a key role in this development by means of trilateral agreements between Finland, Czechoslovakia and the USSR. In this respect Finland is a special case, as in contra-distinction to the other neutral market economies no strong pressure from the USA seems to have been exerted on the Finnish government to reduce or cease trading with the Soviet Union and the European socialist countries.

Neutrality had survived in Switzerland during the Second World War and it also was maintained during the Cold War. Eastern trade gained in importance for the Swiss economy during the first few years after 1945. East Central and South-East European countries, especially Czechoslovakia, became valuable substitutes for former export and import partners, especially Germany – as confirmed by Eduard Kubů and Bohumír Brom. Christina Lohm and Bruno Fritzsche establish that, owing to the intensified integration of Eastern European countries into CMEA and the growing pressure from the USA on Switzerland, the trade volume with the socialist countries decreased, while the political significance of trade with Eastern Europe rose. This became particularly evident with regard to the interest of the Swiss machine industry in trading with Eastern Europe. It was not only of interest to Switzerland from an economic point of view, but it also served as a demonstration of Swiss neutrality.

In general, Switzerland was firmly integrated into the Western bloc: 94 per cent of its trade was transacted with capitalist Western countries. Public opinion and to a large extent the political attitude of official Switzerland were in fact not neutral, but quite openly anti-communist. Yet, in the case of Eastern Europe, the neutrality policy of Switzerland supported its commercial interests. Also, trade relations with socialist countries helped to lend credit to that policy.

Quite different was the position of Ireland as a neutral state, as Geiger relates. On balance Ireland largely complied with the American strategic embargo policy, as by adopting this policy Irish foreign trade, which was minimal with the socialist countries, did not suffer any severe losses. On the contrary, the Irish government could be seen as having sound anti-communist credentials which quietened the strong Catholic voices advocating a total cessation of trade with Eastern European countries in 1954. Such intervention by the Catholic hierarchy and organizations strengthened the Irish government's resolve to keep trade with socialist countries to a minimum. As a consequence, Irish governments continued to reject the periodic approaches by Eastern European governments to conclude bilateral trade agreements.

Assessing the case of Sweden Gerard Aalders questions the legal value of the concept of 'neutrality' during an 'undeclared war'. He asks: how neutral has Sweden been since the end of the Second World War? It is obvious that Sweden could not go too far in imposing export restrictions. If it had done so, it might have jeopardized essential imports from the Eastern bloc. For example, coal from Poland was vital for Swedish industry, after imports from Great Britain had stopped. In Washington, Swedish co-operation with American demands for trade restrictions was considered to be insufficient and the US government sought to improve it through pressure on private Swedish companies and individuals. Summarizing the Swedish attitude towards this US pressure, the following can be stated: while Sweden refused to be officially associated with the US embargo policy against socialist countries, the administration went along as far as possible within the frame of its policy of neutrality. For instance, selling war materials to the communist bloc would be considered as undermining its own national security. Stockholm tried also to be on its guard against the Soviet Union which, through Polish coal, could exert pressure on the country. In defence of its relations with socialist planned economies, Sweden constantly tried to uphold the illusion that economics and politics could be kept separate in foreign trade. Generally, as Aalders concludes, Stockholm has defined its foreign policy as 'neutral'.

In their approach from the view of the socialist planned economies of Eastern Europe, authors turn in their contributions to the nature of the economic relationships between the individual socialist countries and the capitalist market economies of neutral states in Europe. These have generally, and mostly mistakenly, been seen as a single monolithic bloc. However, historic reality shows a rather diversified picture. From an East European perspective the neutral states were regarded as mediators between East and West, yet the policies of each socialist state differed.

Thus Poland, as evidence put forward by Piotr Franaszek confirms, was mainly interested in Sweden and Finland, its neighbours in the Baltic Sea area. Of great importance also was trade with Austria which was furthered not only because of historic ties but mainly because of the existence of a strong state sector in Austrian industry. Poland's advantage was the nature and the lower prices of its exports, such as coal, raw materials and agricultural products. In trade relations of neutral European countries with Poland, but also with Czechoslovakia and the German Democratic Republic, the iron and steel industry played a major role, as Dagmara Jajeśniak's research results show. Poland's trade relations declined and ultimately broke down mainly as a result of its economic and political crisis in the 1980s and its enormous indebtedness, rather than because of Cold War obstacles.

Eduard Kubů and Bohumír Brom, examining the case of Czechoslovakia, show that this state's contacts with Switzerland and Sweden were successfully re-established after economic ties had broken down during the Second World War. Thus, for instance, imports from Switzerland to the Czechoslovak Republic rose ten-fold between 1945 and 1948. In relations with Austria, however, difficulties of a political and bureaucratic nature prevented the full restoration of traditional economic ties. Altogether the mounting tensions of the Cold War put an end to this development in the 1950s.

There existed also other problems which stymied East–West economic relations, such as the integration of Czechoslovakia into CMEA and its role as producer of war materials and engineering equipment for the Soviet bloc – it had to change its five-year plans fundamentally to meet these demands. This led to failures in fulfilling deliveries according to bilateral trade agreements with Western partners. In addition, there were complaints from Switzerland and Sweden, discussed by Dagmara Jajeśniak, about inferior quality, excessive prices and belated deliveries from Czechoslovakia. Sources cited by Valentina Fava contain frequent complaints, mostly from Austria, Finland and Sweden, addressed to the Czechoslovak automobile industry, concerning defects of Škoda cars. In general, these production problems remained unresolved as Czechoslovakia's industry and international trade were falling behind as a result of thwarted economic reforms after 1968. On the other hand, L'udovít Hallon and Miroslav Londák's research on Slovakia's economy after that state gained greater independence as part of the establishment of the Federal Republic of Czechoslovakia in 1969, provides proof of rising developments in co-operation with neutral European states, not only in trade but also on the level of enterprises, especially from the early 1970s onwards.

Greater insight into relations between Czechoslovakia and Sweden is provided by the case of iron ore: since the Austro-Hungarian monarchy Czech industry had relied on high-quality Swedish iron ore and had built up its production lines accordingly. Sweden, therefore, was in a strong position and Czechoslovak officials complained that the Swedes 'take advantage of it by systematically stepping up their demands year by year'. But Czechoslovakia had to comply, in order to secure vital imports. As a result of this weak position, Czechoslovakia paid more indemnification for nationalized property to Sweden and to Switzerland than to any other country – a clear indication of the importance of the neutrals in commercial relations with the capitalist world.

Explaining the position of East Germany (the Soviet zone of occupation of Germany) as a socialist planned economy, Christoph Boyer points out its distinct situation with regards to West Germany. He argues that this case has to be examined under special international relations which he reviews in his chapter. Many of the neutral European states officially recognized the existence of an East German state, that is the German Democratic Republic (GDR), only in the 1970s. From this point in time trade with West European neutral states increased, particularly in heavy industry, such as iron and steel. The GDR was eager to import advanced technology, in the form of either investment goods, joint ventures or scientific collaboration. This collaboration reached its highest point at the time of the fall of the Berlin Wall.

Similar aims were pursued also by the other socialist countries from the 1970s onwards. Their goal was to gain independence from the West by modernizing their economies and to achieve autarky within the CMEA system. This resulted in growing indebtedness and, eventually, in financial crises. Ágnes Pogány covers the most important stages of this process by examining Hungary's political and economic relations with Austria. Also trade balances of the other East European countries with the Western world were, with only a few exceptions, invariably negative. Only Czechoslovakia was more careful in its trading relations and did not have a serious debt problem when the socialist system collapsed.

Last but not least, there were 'systemic conflicts' between centrally planned and market economies which led to irritations on both sides.

These circumstances enhanced the economic crisis of the socialist planned economies at the end of the 1980s. Concurrently, the political upheaval in the Soviet Union during *perestroika* led to weakening of the links between the Soviet Union and the East European socialist states, above all, with Poland and Hungary, and finally led to the collapse of the GDR and the whole socialist system in Europe.

Certain tentative conclusions can be drawn from the research results presented in this volume about the interplay of international politics and economics during the Cold War, which enable us to identify different periods in terms of the methods of trading and business between neutral capitalist market economies and socialist planned economies.

The first stage is from the end of the 1940s to the beginning of the 1970s. With the enforcement of the Marshall Plan in the West and the rapid rearmament drive imposed by the five-year plans in the socialist states, East–West trade relations sank to their lowest level. They were conducted mainly on the basis of bilateral trade and clearing procedures. During the political détente in the 1960s, the volume of trade rose. An important aspect towards the end of this stage was the increase in corporate co-operation. Here, for instance, Austria played a leading role – its most important partners were Hungary and Romania.

The second stage is from the beginning of the 1970s to the early 1980s. Growth in the world economy was slowing down with the end of post-war reconstruction. For Western countries trade with Eastern Europe became more desirable, particularly for the neutral countries' market economies. These variations can be followed in the statistical tables on trade in the chapters of this volume. Neutral market economies, especially Finland and Austria, conducted the greatest amount of trade with the planned economies of Eastern Europe. Also the oil crisis at the beginning of the 1970s weakened the Marshall Plan policy. At the same time industrial mass production shifted to knowledge-based industries controlled largely by multinational companies. East–West bilateral trade relations began to be replaced by loan financing from the West, by multilateral solutions and by the transition to currency convertibility, facilitated by the entry of the East European socialist states into GATT. Most Eastern European states began to accept foreign investments in the form of joint ventures from which they hoped to gain advanced technology and know-how in their drive for modernization. For their Western partners made-to-order production in socialist countries' factories was interesting owing to the prevailing low level of wages in the East.

The third and last stage falls in the 1980s – until 1989. The permeability of the Iron Curtain had increased substantially which led to a forceful insistence by the USA that Western states, including the neutral states, should abide by the restrictions agreed in COCOM. As a result greater controls were imposed on goods and capital movement from West to East. On the one hand, the embargo provisions prevented high-tech products, which the Eastern European states had expected to receive as part of their modernization policies, from reaching the East, and on the other hand, trade restrictions confined Eastern European exports to the West largely to foodstuffs, semi-finished and cheap-wage products. In turn this led to soaring indebtedness to Western neutral countries in the East. Thus, Western loans, particularly when interest rates rose steeply in the 1980s, obstructed the East's policy to catch up with the West. Concurrently, the intermediate role of neutral Western states had shifted to international organizations in politics (UN, CSCE/OSCE) and in economics (IMF, GATT/WTO). These developments contributed to the systemic change which ended in the demise of both the political and the economic systems of the socialist countries.

From the study of economic relationships between market economies of neutral states and planned economies of socialist states in post-1945 Europe, it can be concluded that neutral European countries assisted in opening the way to economic and technological contacts with the planned economies of Eastern Europe and thus contributed to making the Iron Curtain more permeable. This aspect of twentieth-century economic history has been unjustly neglected and it is hoped that it will be more extensively empirically examined against the background of political and social change. If such research is encouraged by this volume the hopes of the editors and contributors will be fulfilled.

Notes

[1] See Gertrude Enderle-Burcel, Dieter Stiefel and Alice Teichova (eds.), *'Zarte Bande' Österreich und die europäischen planwirtschaftlichen Länder* [*'Delicate Relationships': Austria and Europe's Planned Economies*], *Mitteilungen des Österreichischen Staatsarchiv*, Sonderband 9 (2006).