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CMEA's Monetary Institutions between the West and the Global South

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Abstract

CMEA's Monetary Institutions between the West and the Global South

The Council for Mutual Economic Assistance (CMEA), founded in 1949, provided an institutional space for the economic exchange between socialist member countries as well as between them and the West and the Global South. Its goal was to establish a socialist alternative to the economic globalization project offered by the capitalist West. Analysing the monetary institutions established by CMEA – the Transferable Rubel, the International Bank for Economic Cooperation, and the International Investment Bank – the paper argues that these ultimately failed to create an independent socialist economic system and were conducive to de-facto dependencies on the West and the Global South.

1. Introduction

When the Council for Mutual Economic Assistance (CMEA) was founded in 1949, there was no strategy or long-term vision in place on how the organization was to evolve in the future.[1] After a slow start CMEA provided the space not only for the exchange of experiences, technical assistance or goods and materials, but also for the construction of an institutional framework that allowed a tighter economic integration and a modernization of CMEA's economies and monetary system.[2] From the perspective of

1 Founding member countries of CMEA included Bulgaria, Poland, Romania, USSR, Czechoslovakia, and Hungary. The following countries joined CMEA later: GDR (1950), Albania (1961), Mongolia (1962), Cuba (1972), Vietnam (1978).

2 David R. Stone, CMEA's International Investment Bank and the Crisis of Developed Socialism, in: *Journal of Cold War Studies* 10 (2008), no. 3, pp. 48–77, here p. 54. Incentives for tighter economic integration were accompanied by

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the latter, a significant step was taken in 1964 with the foundation of the International Bank for Economic Co-operation (IBEC), and the creation of a non-convertible clearing currency, the Transferable Ruble (TR).[3] In 1971, the establishment of the International Investment Bank (IIB) followed. The institutions,[4] which were partially grounded in Soviet-style economic ideology and partially influenced by Western capitalist mechanisms,[5] did not live up to their expectations and largely failed to invigorate economic advancement. This paper follows the question of how these institutions shaped CMEA's economic relationships with the West and the Global South. Examining trade and capital flows in the 1970s and early 1980s, a transformative time of the global economy, it will be argued that the economic framework provided by CMEA's institutions was insufficient to establish an independent socialist economic system. Rather, structural incompatibilities suggest that they not only failed to facilitate the modernization of CMEA's economies, but on the contrary, of having been conducive to a de facto economic dependency on the West and the Global South.

The paper is located within the field of Cold War international political economy, with a particular focus on economic and financial relations and interdependencies between East, West, and Global South. The field has received quite a bit of scientific attention in recent years. Max Trecker analyzes the financial entanglements between West, East, and Global South and argues that the debts of the Global South were putting a strain on the economies in the East.[6] Similarly, he conducts an extensive survey of CMEA and the various projects it facilitated between member countries and the Global South.[7] Sara Lorenzini focuses on the diverging economic policies CMEA member states wanted to pursue in the 1960s and 1970s.[8] David Stone's study on the IIB shows how its practices introduced capitalist mechanisms, like interest rates, into the socialist bloc's political economy.[9] The following paper refers to original agreements[10] and a World Bank report from 1990 as primary sources.[11]

political ones. Poland, for example, feared that without stronger economic ties, East Germany could move closer to the Federal Republic of Germany.

3 CMEA, Agreement Concerning Multilateral Settlements in Transferable Rubles and Organization of the International Bank for Economic Cooperation, in: *The American Review of Soviet and Eastern European Foreign Trade* 2 (1966), no. 1, pp. 9–36, here p. 9.

4 For reading purposes, the word "institutions" will refer to organizations like the IIB or IBEC, as well as to economic institutions like the TR.

5 Stone, CMEA's, p. 48.

6 Max Trecker, Circle of Debt: How the Crisis of the Global South in the 1980s Affected the Socialist East, in: *Cold War History* 20 (2020), no. 1, pp. 1–19.

7 Max Trecker, Red Money for the Global South. East-South Economic Relations in the Cold War (Routledge Studies in Modern History), New York 2020.

8 Sara Lorenzini, Comecon and the South in the Years of Détente: A Study on East–South Economic Relations, in: *European Review of History: Revue européenne d'histoire* 21 (2014), no. 2, pp. 183–199.

9 Stone, CMEA's.

10 CMEA, Agreement.

11 Paul Marer/Janos Arvay et al., Historically Planned eEconomies. A Guide to the Data, Washington D.C. 1992, p. 19.

2. Transformations in the 1970s and early 1980s. The East between South and West

2.1 Financial Systems and Monetary Flows

In 1971, US president Richard Nixon announced the end of the Bretton Woods system, which was set in place in 1944, pegging the Dollar to gold and the rest of the world's currencies to the Dollar. In 1973, the peg was finally dissolved; transatlantic exchange rates were freed and currencies started floating. A general turn towards deregulation – intensified in the 1980s by neoliberal ideology – led to the abolishment of capital transaction controls and capital flows experienced a massive surge.[12] In the same year, Saudi-Arabia and other members of the Organization of the Petroleum Exporting Countries (OPEC) imposed an oil export embargo, quadrupling the price of crude oil on world markets.[13]

Albeit not directly affecting member countries of CMEA, there existed at least two channels, that intertwined their financial relationships with the West to a degree that structural changes in capitalist markets would also be of concern to those with a socialist economy. First, CMEA countries borrowed Dollars from money markets in Europe, the so-called Eurodollar markets. When the OPEC crisis hit the world economy, excess profits from higher oil export prices, the "Petrodollars", flooded these offshore markets in London and other parts of Europe. The quasi-non-existent regulations and liberal lending restrictions in Eurodollar markets made them attractive creditors for hard currencies. Developing countries – including those in Central and Eastern Europe – seized the opportunity and started to borrow in the form of syndicated loans.[14] A feature of those was the revision of interest rates every six months, essentially passing on the risk onto the borrower. As long as interest rates remained stable, costs of servicing the debt were low. When inflation rose to uncomfortable heights in the US in 1979, the FED's chairman Paul Volcker reacted by pushing interest rates up to 16 percent. The Central Bank's actions were felt in Europe – and consequently in CMEA countries with foreign debt – since Eurodollar markets based their interest rates on a set of reference banks in America.[15] Borrowing decreased until the mid-1980s, but the "Kiss of Debt" – as one scholar dubbed it[16] – resulted in countries like Romania having to undergo severe austerity measures.[17]

12 André Steiner, The Globalisation Process and the Eastern Bloc Countries in the 1970s and 1980s, in: *European Review of History: Revue européenne d'histoire* 21 (2014), no. 2, pp. 165–181, here pp. 166–167.

13 Ayesha Jalal, An Uncertain Trajectory. Islam's Contemporary Globalization, 1971–1979, in: Niall Ferguson/Charles S. Maier et al. (ed.), The Shock of the Global. The 1970s in perspective, Cambridge (MA) 2011, pp. 319–336, here p. 326.

14 The money borrowed was used to import technologies, hoping that this would modernize the ailing economies. As will be elaborated, the strategy was unsuccessful and resulted in an increased debt burden in the East: Steiner, Globalisation, p. 169.

15 Besnik Pula, Globalization Under and After Socialism. The Evolution of Transnational Capital in Central and Eastern Europe, Stanford (CA) 2018, pp. 77–80. This practice would later be formalized as the London Interbank Offered Rate (LIBOR).

16 Stephen Kotin, The Kiss of Debt. The East Bloc Goes Borrowing, in: Niall Ferguson/Charles S. Maier et al. (ed.), The Shock of the Global. The 1970s in Perspective, Cambridge (MA) 2011, pp. 80–93, here p. 80.

17 Pula, Globalization, pp. 77–80.

Second, while CMEA countries imported capital from the West, they appeared as lenders to the Global South. For the resource-rich Global South, high commodity prices – not only of crude oil –, inflationary tendencies, and low interest rates constituted an attractive environment for cheap borrowing. On the one hand, they – like countries of CMEA – borrowed from Western commercial banks, which were eager to find new investment opportunities in a world without restrictions on capital flows. On the other hand, as already pointed out, economic interactions between the Global South and CMEA intensified during the 1970s and the latter recycled profits to balance their imports from the West. Characteristically, trade between CMEA countries and the Global South was financed primarily on credit and only secondarily via cashflows, making creditors very vulnerable to liquidity crises. This reliance became most apparent when the "Volcker shock" revealed the other side of the coin of highly mobile capital. Rising interest rates in the US reversed the flow of money to the Global South, which suddenly found itself without funds to service its costs of debt to the East. For CMEA countries, the crisis that was hitting the South thus became a liability on its own terms. They could either write of debt – that is lose valuable credits they needed to pay back the West – or hope for postponed renumeration.[18] Trecker asserts that, although trading volumes with the South were not the largest, because of these dynamics "[t]he East was [. . .] in a certain sense 'dependent' on the South."[19]

2.2 Trade and Aid

Politically, the 1970s can be characterized as a period of easing tensions between the East and the West. Policy of détente culminated in 1975 with the USSR, the United States and their allies in Europe ratifying the Helsinki Final Act, thus establishing the Council for Security and Cooperation in Europe. Furthermore, Coordinating Committee on Multilateral Export Controls (CoCom) restrictions were scaled back, allowing capitalist countries in the West to reexport key technologies from the US to trading partners in the East.[20] One factor constituting the convergence between East and West was an intensification of trade, which accounted for roughly one third of the total foreign trade volume of CMEA by the end of the 1970s.[21] CMEA countries premised their strategy to expand trade with the West on the conviction that the import of licenses, technology, and machinery in exchange for primary products would modernize their industries and increase economic power.[22] This strategy of import-led growth, however, did not yield success. Recent research shows, that debt financing could not overcome macroeconomic inefficiencies inherent to planned, inflexible economies[23] and trade with the West decreased substantially after 1978.[24]

18 Trecker, Circle, pp. 14–15.
19 Ibid., p. 15.
20 Pula, Globalization, pp. 76–77.
21 A little more than fifty percent was made up of intra-CMEA exports and imports, while the rest of the trade was conducted with the Global South.
22 Ruben Berrios, The Political Economy of East-South Relations, in: *Journal of Peace Research* 20 (1983), no. 3, pp. 239–252, here pp. 239–241.
23 Pula, Globalization, pp. 106–107.
24 Berrios, Political Economy, p. 240.

During the 1970s, trade with the South expanded even faster with an annual average rate of 23 percent between 1973 and 1977. Although this trend too slowed down after 1978, it did not experience the same slump as trade between East and West. Trading structure in the 1970s was called "International Division of Labour" and was generally grounded in economic considerations, rather than ideological convictions. When, in 1971, the Soviet Union declared that it could not meet oil demands from its partners, the extraction of raw materials – especially oil – became the driving factor behind many political and economic decisions. In this sense, economic relations were established even with non-socialist, but resource-rich countries like Nigeria.[25] Trade between East and South was often conducted on long-term, bilateral bases. Joint ventures in trade were seen as a promising feature of East-South integration. With the economic objectives agreed upon beforehand, these kinds of arrangements offered stability and protection against inflation, and they were often combined with compensation and barter arrangements. Beginning with the 1970s though, hard currency agreements became more common.[26]

CMEA countries imported mostly foodstuff and raw materials from the South, while 65 percent of the exports were comprised of manufacturing and equipment. This confirms that trade between East and South was, contrary to official positions, not mutual. As shown above, profits from economic exchange with the South were in fact used to finance deficits with the West.[27] Broadly speaking, the data for trade confirms that, for example in 1980 after trade with the West decreased, the $3,536 billion surplus from East European[28] exports to the South easily made up for the $2,936 billion deficit vis-à-vis the West.[29]

Closely related to trade was socialist aid. Although development assistance was theoretically promised without ulterior or geopolitical motives, it was – as trade – in fact based on economic and political considerations. Ideological beliefs aside, even anti-communist but geostrategically important states like Iran or Turkey were granted some form of assistance if it was opportune.[30] Aid was directed towards whole sectors, rather than single industries and organized by setting up joint committees, involving experts from CMEA, as well as from the South.[31] Relatively speaking, the Eastern bloc as a whole still granted less economic assistance than the West (0.03 percent of GNP in contrast to 0.33 percent) and aid was primarily transferred via credits tied to projects or the purchase of goods and equipment. Since financial resources were limited, assistance was often delivered by either sending technicians to the Global South, by

25 Lorenzini, Comecon, pp. 188–189.
26 Berrios, Political Economy, pp. 240–243.
27 Ibid., pp. 239–241.
28 Bulgaria, Czechoslovakia, GDR, Hungary, Poland, and Romania. The Soviet Union is not included in the data.
29 Laure Després, Eastern Europe and the Third World. Interactions and Policies, in: Roger E. Kanet (ed.), The Soviet Union, Eastern Europe and the Third World, Cambridge (MA) 1987, pp. 141–162, here p. 142. Though surplus was achieved in sum, for certain countries, like Hungary, trade deficits with the West were much higher than trade surpluses with the Global South.
30 Berrios, Political Economy, p. 44.
31 Lorenzini, Comecon, p. 189.

providing training and formation for personnel coming from "developing countries" or, most importantly in the case of the Soviet Union, via military aid.[32]

3. The Institutional Framework of the Socialist Bloc

CMEA's institution building was carried out to various degrees of success. The following sections elaborate on the IBEC, the TR and the IIB and how they affected and interacted with the trading and capital flow developments outlined above.

3.1 The International Bank for Economic Cooperation and the Transferable Ruble

The IBEC was the first common bank inside the CMEA.[33] In its founding agreement, its purpose was defined as "promoting economic cooperation and the development of the economies of the Contracting Parties, as well as the expansion of cooperation between these Parties and other countries."[34] It was part of a wave of reforms, taking place under Nikita Khrushchev at the end of the 1950s and beginning of the 1960s, with the goal of promoting economic cooperation – also among smaller bloc members – enabling multilateral economic interactions and supranational planning.[35] While the first two objectives were achieved to various extents, supranational planning, as will be elaborated below, was not accepted.[36] The main purpose of the Bank, which was built "on the basis of complete equality and respect for the sovereignty of the Bank's member countries", was to facilitate multilateral trade between CMEA member countries, which is why it was granted the exclusive right for the emission of a non-convertible currency, the Transferable Ruble.[37]

The TR was a clearing currency, introduced to serve as a vehicle of measurement or unit of account. When CMEA countries engaged in economic interactions with one another, trade imbalances had to be cleared bilaterally with re-exports of goods or via long-term adjustments of trade.[38] The idea of the TR was that it would allow for multilateral economic interactions with the IBEC at the center, using the TR to clear imbalances between the various participating parties. The initial capital was set at 300 million TR, with member countries paying in relation to the value of their respective intra-CMEA trade volume. Officially, it was tied to gold, but since it could not be converted and prices in Soviet-style central planning economies were set arbitrarily, the

32 Berrios, Political Economy, pp. 240–246.

33 It was founded by Bulgaria, Czechoslovakia, Hungary, Poland, Rumania, and the USSR. Other socialist countries, like the GDR or Mongolia, joined later.

34 CMEA, Agreement, p. 10.

35 Trecker, Red Money, p. 24. These included the "Socialist Economic Integration" guidelines, for example, that formalized further promotion of economic cooperation and interactions in the socialist bloc, or the "Basic Principles of the Internationalist Socialist Division of Labor" that were incorporated into the preamble of the Charta of CMEA to support the formation of stable markets based on socialist ideals. Those reforms were only successful to various degrees: CMEA, Agreement, pp. 24–25.

36 Ibid., p. 30.

37 CMEA, Agreement, p. 12.

38 Henryk Francuz, The International Bank for Economic Cooperation, in: Roger V. Anderson/Norman K. Humphreys (ed.), International Monetary Fund. Staff Papers (Staff Papers XVI), Washington, D.C. 1969, pp. 489–503, here p. 489.

TR lacked what most currencies are designed for – purchasing power. Furthermore, it could only be used for exports and imports already selected in national economic plans, rendering it useless for spontaneous economic interactions or in fact loans. Consequently, selling companies and exporting countries had no desire to exchange their goods and products for a useless number of TR.[39]

A document published by the World Bank in 1992 attempted to assess the economic performance of planned economies over the decades and the authors struggled to find an adequate value for TR:

> "[T]he real (purchasing power) dollar value of the TR is impossible to establish because TR prices in intra-CMEA deals were negotiated bilaterally and vary according to the traded good. So, relative values deviate substantially (by, say, trading partner, commodity and year) from relative prices in the world market."[40]

The arbitrariness of the TR in terms of actual value becomes evident in the example of Hungarian exports to the Soviet Union which, depending on how to interpret and converse the TR, could for the same year have been $2.5 billion or $7.6 billion.[41] In sum, the establishment of the TR and the IBEC was a serious disappointment. Its main goal, enabling multilateral economic interactions, was not achieved and one estimation places the multilateral settlement payments conducted via IBEC and TR at only 1.5 percent.[42]

3.2 The International Investment Bank

The IIB was created in 1971. It was designed to promote tighter economic integration, facilitate multilateral economic interactions and enable limited market-based mechanisms to be integrated into CMEA's economy. The bank, described by Stone as a "hybrid of state socialism and capitalist finance", handed out loans in TR and hard currencies to support international competitive investment projects in Eastern Europe and the Soviet Union.[43] The launch was promising with 181 million TR and $50 million being invested in sixteen projects in five states at the end of the first year. The "capitalist finance" part of the institution was constituted by the selection process of potential investments, which was based on competitive vetting, as well as strict control over the use of credits. Allowing for tighter economic integration through such market mechanisms, as countries like Hungary or Czechoslovakia had demanded, was not uncontested. Some economists – mostly from the USSR – argued that the satellite states' dependency on the Soviet Union when it came to raw materials or supply of oil would ask for supranational planning, rather than the implementation of market mechanisms, since the latter could leave weaker economies in Eastern Europe worse off. However,

39 Stone, CMEA's, pp. 57–58.
40 Marer/Arvay, Historically, p. 19.
41 Ibid., pp. 86–87.
42 Janusz Kaliński/Łukasz Dwilewicz, The Transferable Rouble and 'Socialist Integration' – What Kind of Relationship?, in: Wilfried Loth/Nicolae Paun (ed.), Disintegration and Integration in East-Central Europe. 1919 – post-1989 (OAPEN Library), Baden-Baden 2014, pp. 169–185, here p. 179.
43 Stone, CMEA's, p. 48.

in the end, the Soviet Union had to give in: supranational planning was rejected and the IIB was created.[44]

The IIB's structure was designed to create a self-supporting, profitable and independent institution. Like the IBEC, it was built on the conviction of complete equality. The charter gave the Soviets no more power than the Mongolians, although the former provided nearly forty percent of the bank's initial capital.[45] The evaluation process of projects, proposed by either states or enterprises, should "create" economic discipline in an economy without a competitive market. Although projects were not exclusively selected on the maxim of highest return – considerations about the value of a project for tighter, multilateral economic integration also played an important role, at least officially, and CMEA's less developed countries benefitted from discounts – the IIB committed to being financially successful. Since it offered hard currency loans, which were either financed with founding capital or, more commonly, via loans the IIB itself took on in Western money markets, the role of interest rates in those capital markets were transferred into CMEA's economic system. If projects did not yield sufficient returns, the Bank could not service its own interest rates costs and would go bankrupt. The bulk of the hard currency loans went to poorer CMEA members, like Bulgaria or Poland, underscoring one purpose of the bank – of which the West thought it would be backed by Soviet funds – as an intermediary between poorly rated socialist economies and Western markets.[46] The role of the IIB as an intermediary is also symptomatic for the paradoxical ideological convictions underpinning CMEA's institutional structure. Western capital markets were something to be overcome and direct foreign investment to be avoided, while in reality, the CMEA's bank was highly dependent on foreign capital injections.[47]

4. Chasing Oil and Hard Currency

An illustrative example of some of the priorities that formed CMEA's economic relationships with the Global South and what role the TR could play in them, is the trade structure it maintained with the oil exporting members of OPEC. Eastern European countries, except for Romania, received the bulk of their oil supply from the Soviet Union. Nevertheless, they imported oil from OPEC countries to reexport it in crude or refined form. Payment was carried out via the export of machinery, technical services, and arms.[48] For CMEA member countries (except the USSR), the advantage of this arrangement was that Soviet oil supplies could be exchanged for the non-convertible currency TR, while imports from OPEC, which were compensated for in materials, goods or

44 Stone, CMEA's, pp. 50–54.

45 In practice, of course, things looked different with the Soviets exerting a dominating influence over the IIB's decision making: Ibid., p. 62.

46 Even loans in TR were charged with up to five percent interests in order to generate some small profits: Ibid., pp. 60–63.

47 Steiner, Globalisation, p. 170.

48 Després, Eastern, pp. 150–151.

services, could be sold in exchange for hard currency.[49] This practice reveals one of the weaknesses of the TR. In essence, it allowed CMEA member countries to buy Soviet oil with Soviet money, while not having to commit to future purchases of Soviet goods.

The excessive foreign exchange depositories of oil exporting countries were also one of the driving factors behind the military assistance CMEA delivered to countries in the Global South (e.g. Iraq or Angola). Soviet arms were often offered on discount, but the profits from military aid in the Global South drove certain countries, like Peru, into serious financial problems.[50] The GDR too hoped to import raw materials from African countries, such as Ethiopia, Mozambique or Angola, in return for military assistance or development projects.[51] Trade structures between the GDR and Mexico or Tanzania, where e.g. bicycles and medical equipment were exchanged for coffee or tobacco, show that compensation deals and barter agreements, sometimes including third parties, were quite common and used to save the expenditure of convertible currencies. The examples showcase the complexity of trading settlements between East and South – and how the IBEC and TR were not useful in this area. Clearing agreements – instead of the use of hard currencies – started to decrease beginning in the 1970s, but were still in use in the 1980s, when it was in mutual interest. One estimate places the value of those economic interactions at $700 million for 1983.[52]

The IIB's Soyuz Pipeline project serves as another symptomatic example for the CMEA's economic organization and the priorities it set, as well as the consequences that arose from its structure and decisions. The IIB was created to promote high-level and sophisticated investment projects to member countries, industrial modernization, however, was demoted a second order priority, when the energy crisis hit in 1973. In 1974, the IIB decided to build the enormous Soyuz pipeline, reaching 2.750 km from Orenburg to Uzhhorod. It took on financing for the project, which in effect meant providing the necessary funding in hard currency.[53]

The project transformed the Bank's mission. While fuel and energy were not even part of the Bank's portfolio in the first years, by the end of 1979, 78.4 percent of all bank lending – over 2.3 billion TR – went into the pipeline project and the Orenburg gas field operation. Similarly, during the first years, hard currency was secured primarily by tapping CMEA member reserves, but the pipeline project rendered this approach insufficient. The IIB had to recur to a common operation: take on loans from Western capital markets at commercial interest rates and pass them onto the borrowers at the same costs. In 1975, it secured $390 million in syndicated loans from various Western Banks, in 1976 $600 million from the Dresdner Bank, and in 1977 at first $500 million syndicated loans from European participants and another $600 million from American banks. All in all, the outstanding debt in hard currency was $2.3595 billion, and part of the loans had to be paid backed at 1.5 percent over LIBOR, reflecting the risk

49 Després, Eastern, p. 158.
50 Berrios, Political Economy, p. 246.
51 Lorenzini, Comecon, p. 191.
52 Després, Eastern, pp. 148–155.
53 Stone, CMEA's, pp. 66–68.

Western banks saw in handing out credits in this amount to the socialist institution. The huge sum was of considerable concern to the IIB, which was not officially backed by any country and creditworthiness was entirely up to Western estimations about the healthiness of the financial institution and partially hinged on their belief, that the Soviet Union would step in, if it came to the worst. The situation aggravated when the pipeline project was completed and the IIB struggled to find new investment projects, which resulted in a sharp drop in lending – even in TRs. This was taken up as a sign of the weak credit system and a questionable currency designed by CMEA. At last solvency was secured at the end of 1979 with loans from British and Japanese Banks at much more favorable conditions.[54]

The IIB had also planned to set up a special fund for countries in the Global South, though it never came into existence, since the Soviet Union set it up without consultation with other CMEA members. Some smaller countries showed resistance and simply did not pay their share. The fund never grew to a size big enough to promote East-South relations.[55]

5. Discussion and Conclusion

In the 1970s, it was argued that CMEA's propositions and economic ideals, inside and outside the Bloc, were a refutational approach to the New International Economic Order offered by the West. As Oleg Bogomolov, director of the Institute of the Socialist World Economic System in Moscow, put it: "A world economic system based on the principles of equality, justice, non-discrimination and mutual benefit would fully meet their [the socialists countries] collective and national-state interests."[56] He found equally clear words about CMEA's relations to the Global South: "The socialist countries have never plundered the developing countries; nor do they derive today any unilateral advantages from their relations with them."[57] While being theoretically in line with common Soviet-ideology, real circumstances contradicted those words.

There were two factors that seemed to have been driving decisions in CMEA about institution building and its economic relationships to the Global South. First, the Socialist Bloc needed hard currencies. While borrowing from the West, the East lent money to the South via trade credits. When the debt crisis emerged in the 1980s after Volcker went on an interest rate hike, the in-between position of CMEA destabilized its economies. Trade and aid structures underscore this view, with CMEA countries generally benefiting from the supposedly "mutual relations" during the 1970s and often offering non-monetary renumeration like technical assistance or development projects in important sectors as to not deliver foreign exchange.

54 Stone, CMEA's, pp. 65–72.
55 Trecker, Red Money, p. 107.
56 Oleg Bogomolov, The CMEA Countries and the New International Economic Order, in: Christopher T. Saunders (ed.), East-West-South. Economic Interactions between Three Worlds (Vienna Institute for Comparative Economic Studies), London 1981, p. 246–256, here p. 249.
57 Ibid., p. 251–252.

Second, CMEA members needed energy supply in the form of oil. As the Soviet Union declared in the early 1970s, it was unable to meet fuel demands from its satellite states. After the oil-shock, prices surged and the Soviet Union supplied countries of CMEA with oil below the world market level prices.[58] Economic relationships with the Global South were shaped by the need to extract primary goods and oil. Ideological differences were often less important than economic needs and CMEA reached out to countries with an explicit anti-communist stance. The IIB's own transformation and the Soyuz Pipeline project are good examples on how considerations about energy supply determined the path taken by CMEA.

Despite the promising start, the IIB failed to give CMEA's economies the necessary push for modernization. This can partially be explained by the structural incompatibility between the capitalist mechanisms built into the IIB, such as interest rates, and socialist economic organization, that relied upon central planning and price setting.[59] Furthermore, while some hoped the IIB could tighten East-South relations, the example of the failed special fund shows, that such hopes remained unfulfilled. The weakness of the IIB and CMEA's institutional framework in general became a bigger concern after the "Volcker shock" triggered the debt crisis in the Global South. These countries were indebted to Western Banks as well as to CMEA. The West, however, had strong institutions, most notably the IMF, whereas neither the IIB nor the IBER or the TR exerted enough power for CMEA countries to claim their debts. Thus, the South could, in case, simply refrain from paying their debts.[60]

These examples show that CMEA's monetary institutions never managed to offer an alternative strategy or to cushion external events, such as an oil shock or a rise in interest rates in capitalist markets. The issues of the monetary institutional framework were also internal. They ran counter to the inner workings of the economies of CMEA. The way the TR was constructed required for the IIB to be carefully integrated into the national economic plans and Stone points out, that real purchasing power and economic efficiency would have been achievable "only by adopting supranational planning or by permitting real markets along with truly convertible currencies".[61] However, the IIB was created as an alternative to supranational planning, rendering the non-convertible TR useless. Hard currency reserves were ultimately more important as positive numbers on TR accounts, since the latter lacked any real purchasing power.

One of the reasons that the East got in indebted to the West in the first place was their strategy to import technology and equipment from capitalist countries in the hope of modernizing their own economies. There were of course various reasons why this strategy did not yield success, and a deficient monetary institutional framework cannot be solely held accountable for such a failure. CMEA was not a homogenous organization, but comprised of different states with different economic strategies and

58 Stone, CMEA's, p. 65.

59 Ibid., p. 49.

60 Trecker, Red Money, pp. 194–195.

61 Stone, CMEA's, pp. 73–74.

expectations.[62] The historian Lorenz Lüthi has argued that conflicting state interests within CMEA, such as the discussions on supranational planning, hampered the implementation of necessary reforms. This in turn pushed CMEA members to move into Western financial markets and closer to its institutions.[63] Romania is often cited as the prime example, having joined the IMF as early as 1972 in part because of reservations about tighter socialist integration[64], but also Hungary and Poland were approaching the IMF and eventually became members in 1982 and 1986, respectively. Poland even adopted the LIBOR, a genuine global-capitalist market instrument, and used it to pass on the interest-rate risk to Nigeria, to which it had granted a loan.[65] It can therefore be reasoned, that CMEA's institutions were not empowering the socialist bloc's economies sufficiently to start a separate and independent globalizing economic project. Rather, their structural deficiencies seemed to have been conducive to a de facto dependency on the West, as well as on the Global South.

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