

How did Cold War geopolitical alignment affect the economic growth trajectories of non-aligned countries?

Aarav Goyal

Bangalore International School

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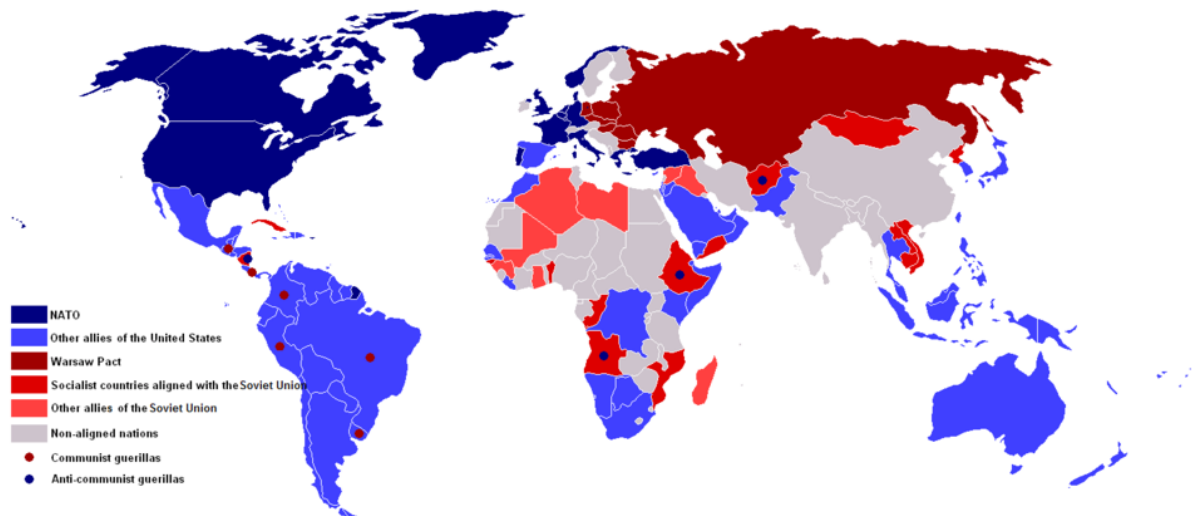
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ABSTRACT

The present paper examines the mechanisms by which economic development patterns of non aligned nations were influenced by Cold war geopolitical alignment. The Cold War had shaped economic relations between nations in the world by two opposing blocs and orientation affected access to trade, interest flows, technology and development support. As much as there is an extensive literature on the analysis of growth outcomes in aligned economies, little is known about the long-run economic implications of the non-alignment. Based upon previous empirical studies and historical data, the non-aligned countries in average have failed to experience the high costs of welfare and growth that can be witnessed during economic isolation, in the East bloc, but have not necessarily attained the same rate of growth which is seen in the countries with significant integration to the Western markets. Rather, performance of non-aligned economies in terms of economic performance was extremely heterogeneous with the critical mediating variables of trade openness and institutional strength. The paper also demonstrates the need to consider contemporary geopolitical frictions and increasing multipolarity as strategic non-alignment and multilateralism may remain relevant in developing economies in a rapidly multipolar world.

1. Introduction

The cold war was an element of the international political economy and it not only defined the relationships in the sphere of international security but also the structure of trade, investment and development of the economies. The late 1940s through the late 1980s was the period when the world economy was split into two opposing geopolitical forces spearheaded by the United States and Soviet Union.



Source: Wikimedia Commons. (2006).

https://commons.wikimedia.org/wiki/File:Cold_War_Map_1980.png

The map represents the world Cold war alignments in 1980, with countries that were aligned with the United States or Soviet Union and the countries that had not declared their side in the Cold war as formally non aligned.

This bipolar system placed major restrictions on the international economic relations which resulted in one of the most drastic instances of world fragmentation ever in the history of modern economy. The quantitative evidence shows that the trade between the Western and Eastern blocs reduced about 67 percent compared to intra bloc trade and the cross-bloc trade decreased to lower than 5 percent compared to times of high economic growth when there were the cold war years (CEPR, n.d.). These trends contribute to the vast degree to which geopolitical alignment shaped economic results.

The impacts of alignment on economics in this fragmented system have been widely recorded through the existing research. Research on the Iron Curtain shows that the political divide became significantly economic restrictions with the trade restrictions amounting to estimated 48 per cent of ad valorem tariff with its peak before reducing slowly to about 25 per cent in the years 1970s and 1980s (CEPR, n.d.). These walls led to the slowing down of East-West trade by half and created incurable welfare and productivity losses in Eastern bloc economies. Conversely, nations that joined the western bloc enjoyed favourable treatment in terms of having easier access to international markets, capital movements, and technology and are relatively enjoying stronger growth trends. Nevertheless, this dualistic view of capitalist and non-capitalist

economies clouds the situation of a vast number of nations that were determined never to become explicitly linked to either superpower.

The conception of the Non-Aligned Movement (NAM) was a policy initiative by new independent and developing states to maintain political autonomy and economic independence in a polarized international system. Non-aligned countries were aimed at shunning military commitments and ideological dependency without interfering with their independent development policies, by not aligning. Non-alignment however did not mean economic neutrality. The relative trade with the non-aligned economies decreased by about 40-percent throughout the Cold War, which is not as significant as the breakdown between the opposing sides but still substantial, indicating that the neutrality failed to help the countries to escape the burden of global fragmentation (CEPR, n.d.). In addition, the non-aligned countries could have benefited less than the aligned countries in terms of being connected to the market, technology and foreign investment due to the increased cost of trade between the two blocs.

The emerging quantitative studies put emphasis on the extent of geopolitical determinants to the long-run economic performance. It has been demonstrated that there were changes in GDP per capita between -30 and +30 between the nations of the Cold War geopolitical alignment (Fan, 2025). Bettering geopolitical relations by one standard deviation will contribute to 10 percentage points of the rise in GDP per capita over a period of 20 years, whereas the transition to friendly relations instead of enmity will increase long-run GDP by up to 70 log points (Fan, 2025). In the distribution, geopolitically intermediate countries like India, Brazil, and Mexico had results of growth that were worse than fully integrated Western partners, but significantly better than those of highly isolated or hostile states.

Existing evidence suggests that non-aligned nations were middle ground - not absorbing the costs of extreme isolation but not gaining the full benefits of western integration - leading to the question of how geopolitical neutrality affected the way these countries developed.

Learning the influences of the Cold war geopolitical alignment on the economic growth paths of the non-aligned countries is, in fact, not just merely a historical thing. The modern discourse of global fragmentation, strategic decoupling, and friend-shoring is coming to be bearing more and more likeness to Cold War dynamics. Although in the modern world, the global economy has become much more tied due to the intricate supply chains, such advantages might not display such imbalance, where developing economies which rely on open markets might have exorbitantly heavier costs on a renewal of geopolitical conflicts. It has been historically shown that the post-cold war era has witnessed a high convergence rate, as the global median of geopolitical relations increased in the range of 0.20 to over 0.30 in 2010 where many previously

non-aligned countries were thus able to gain a high globalization dividend (Fan, 2025). This possible loss of this dividend sparks urgent policy issues.

It is on this background that this paper poses the following question: How did Cold war geopolitical alignment influence the economic development pathways of the non-aligned countries? To answer this question, the paper will compare developments achieved by U.S.-aligned, Soviet-aligned and non-aligned nations in the 50-90 years span. The analysis employs panel data techniques and relies on the findings of recent quantitative estimates of geopolitical relations discussing the channels in which alignment moderated the growth using the concept trade fragmentation, institutional quality, and external integration. Throughout devices of historical evidence combined with empirical analysis, the paper adds to the body of research in development economics and international political economy and provides a historically informed perspective on how to face an increasingly multipolar and fragmented international system.

2. Literature Review: Cold War Alignment, Economic Fragmentation, and Non-Alignment

The correlation between the orientation with geopolitics and the economic performance during the cold war has been analyzed in various strands of literature such as international trade, development economics and political economy strand. Available literature is dominated by the consideration of the economic implications of membership to either Western or Soviet bloc and in many cases it has focused on the cost of fragmentation and isolation. But the experiences of non-aligned countries in growth are somewhere in the grey part of this literature which is often recognized but seldom well managed in a systematic manner. This part will discuss the principal theoretical and empirical contributions to the issues of how cold war alignment impacted on economic growth, and specifically focusing on trade fragmentation, welfare loss and economic positioning of non-aligned economies.

2.1 Geopolitical Alignment and Economic Growth During the Cold War

One of the key ideas in the literature of the Cold War political economy is that geopolitical alignment had a strong influence on the economic outcome by defining the market, access to capital, technology, and institutional advantages of the countries. The economies that made the western orientation enjoyed a comparatively open system of trade rules, membership in U.S.-led institutions like the General Agreement on Tariffs and Trade (GATT), and was able to receive reconstruction and development assistance, above all, the Marshall Plan (Eichengreen, 2007). These factors led to a growth in the Western Europe and other allies economies in a sustained growth in the postwar period.

Conversely, Soviet aligned nations were incorporated into an alternative economic model, which is known as the Council of mutual Economic Assistance (CMEA), which is marked by scanty

external trade, centralization of economic planning and restricted technology transfer. The empirical evidence continuously observes the effects of this model to be less productive growth and reduction in its competitiveness over the time (Campos & Coricelli, 2002). The variation in the economic performances between Western and Eastern Europe is usually explained by the variance in the institutional set up, transparency, and participation in the international market.

The recent quantitative studies have supported the value of geopolitics as a factor of economic performance of a country in the long run. According to Fan (2025), the geopolitical factor alone could explain between -30 and +30 percent of the difference in the GDP per capita across countries during the cold war. The positive effects of geopolitical relations are found to have long-run growth opportunities, and the one-standard-deviation difference in geopolitical alignment is correlated with a 10 per cent increase in GDP per capita after 20 years (Fan, 2025). This conclusion underlines the fact that alignment was not a symbol far but had real economic implications.

2.2 Trade Fragmentation and the Economic Costs of the Iron Curtain

The economic impacts of cold war disintegration of trade are also analyzed in a significant amount of literature, especially how the Iron Curtain was a hindrance to the exchange of goods and services. One of the most powerful analyses is the one by Redding and Sturm (2008), who show that the fragmentation of Europe had a major impact on the slowing down of the trade flows, market accessibilities and urban development in the border areas. Later studies have measured them more accurately with biggest changes in trade between the Western and Eastern block reducing by an average of 67 percent compared to an intra-block trade during the Cold War (CEPR, n.d.).

It has been estimated that cross-bloc trade had dropped as low as 10-15% of total trade to under 5% in the strongest period of the Cold War thus showing the extent of economic isolation by the geopolitical competition (CEPR, n.d.). One estimate suggests that the Iron Curtain had ultimately imposed a trade tariff equivalent to a 48 per cent ad valorem rate, reducing to approximately 25 per cent by the 1970s and the 1980s as some degree of détente overcame it. These obstacles led to continued welfare losses especially in Eastern block states, where low competition and lack of technological penetration were limiting the productivity.

The social consequences of this disintegration are also relatively provisioned. The estimates put forward by CEPR show that welfare losses in the economies of Eastern bloc shoulder rose by a means of less than 1 percent of per capita consumption that they had started at the onset of the cold war to about 2 percent at the end of the cold war. These losses do not solely indicate the diminished volumes of trade, but also lost benefits of specialization, innovation and scale

economies. The literature provides a clear standard on which the economical cost of the geopolitical isolation can be assessed.

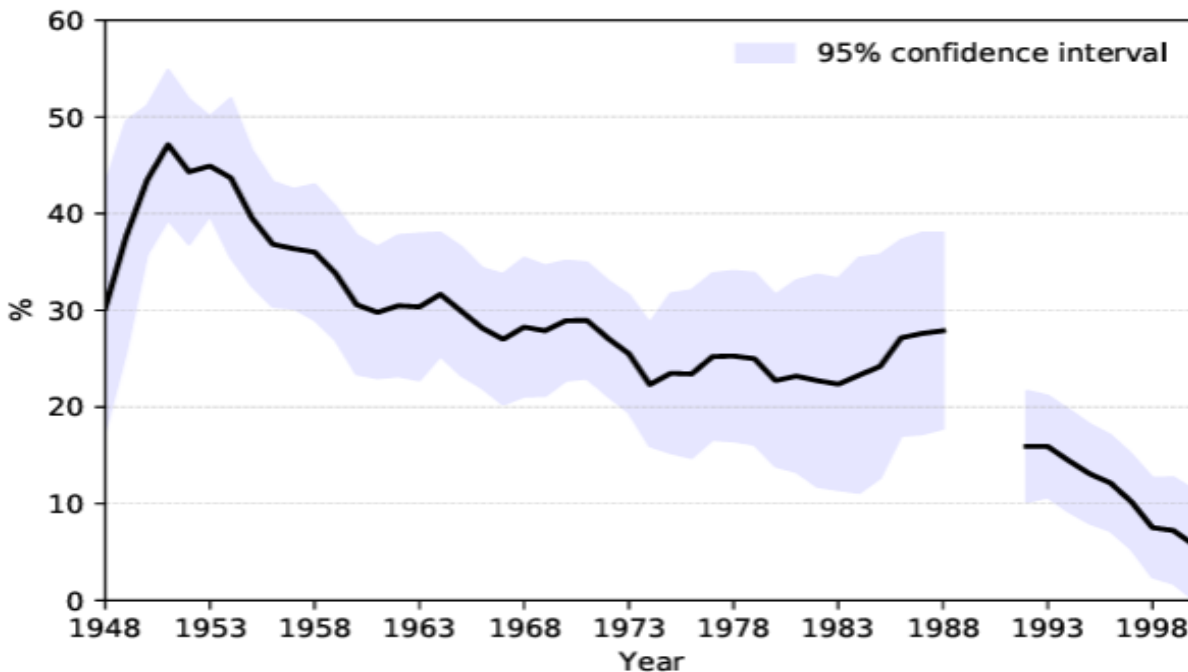


Figure 1: Estimated tariff equivalent of the Iron Curtain

Campos, R. G., Coricelli, F., & Reggio, L. (2024). *The economic consequences of geopolitical fragmentation: Evidence from the Cold War* (SSRN Working Paper No. 4797271). Centre for Economic Policy Research. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4797271

The figure coordinates the estimated percentage point ratio of the boundaries of the Iron Curtain tariff equivalent, based on the structural specifications of gravity (equation 1). Calculations are made by tariff equivalents as $100 \times [\exp(-\hat{\theta}_t/5.03) - 1]$, with 95% confidence intervals via the delta method. This is due to the maximum fragmentation at 48% in 1951 and is softening during the times of detente.

The graph illustrates the time varying tariff equivalent of Iron Curtain borders and shows that the equivalent is highest during 1951 to 1989 with the peak ranging at about 48 percent during the early fifties and finally indicated at an average of about 25 percent in the eighties, according to the structural gravity model estimations. This graph shows how the division by the Cold War geopolitical axis was present with and continued to impose pressure on trade but this pressure

has steadily diminished, which measures the ad valorem effect on the trade between the East and the West.

2.3 Non-Aligned Countries in a Fragmented Global Economy

Though the economic impact of alignment and isolation has been highly researched, the experience of non-aligned countries is still not so clear. Non-Aligned Movement was a reaction to the inflexible bipolarity of the Cold War, and member states were keen on upholding political independence, without engaging in the politics of the superpowers (Prashad, 2007). Economically, non-alignment was aimed at providing a room to go it alone in the development policies, and to mitigate the exposure to outside pressure.

Nonaligned countries were however not immune to the effect of global fragmentation according to empirical evidence. During the Cold War, the trade between the non-aligned economies decreased by about 40 percent, which was not so much compared to the breaking open of cross-bloc trade but still considerable (CEPR, n.d.). Additionally, non-aligned countries had abandoned costs of trade with either of the blocs than its aligned individuals because a preferential access was not available and the indirect consequences of geopolitical suspicion.

According to Fan (2025), the non-aligned countries are described as being in the middle of the geopolitical distribution in the world. Other countries like India, Brazil and Mexico had moderate ties with both the super powers but were not able to gain the high principles of integration as their counterparts in the west. Several empirical works show that nations defined as non-aligned were placed in an intermediate position in the geopolitical structure of the Cold War order, with economic results being not aligned with either highly isolated states and fully western integrated economies.

2.4 Heterogeneity Within the Non-Aligned Group

One of the notable conclusions of the literature is that non-aligned countries were not even homogenous. The effects of growth were quite heterogeneous at both the regional and institutional levels, which means that non-alignment significantly mixed with the field of home. Nations whose institutions were relatively more powerful, had higher openness to trade, or that possessed better geographical location managed to go around the Cold War fragmentation better (Rodrik, 2011).

The variation is also being manifested by case studies. The way the Cold War affected India has been called the experience of stagnant development, where GDP grew by just around 3.5 per cent per year, in the period between 1950 and 1980, which was much lower by comparison with the growth rate of western economies (Fan, 2025). Yugoslavia on the contrary, is a remarkable

exception in the non-aligned group. It had a unique form of market socialism and access to both an eastern and a Western market, which enabled its economy to expand by close to 400 percent during the period 1952 to 1979, a feat that most congruent states in Eastern Europe failed to do (London School of Economics [LSE], n.d.). Nonetheless, the collapse of Yugoslavia later shows the weaknesses of the dependence on foreign funding and political unity.

The experiences were opposite indicating that non-alignment was not a consistent policy of the development strategy, but rather a conditional pattern the success of which was pegged on complementary domestic policies and institutions.

2.5 From Cold War Fragmentation to Contemporary Parallels

The combinations between Cold War-style economic fragmentation and the modern geopolitical tensions are in fact getting more and more echoed in the literature. According to the International Monetary Fund (2023), new trade barriers, friend-shoring and strategic decoupling may create damage in terms of loss of growth in the same way as it was during the Cold War in terms of fragmentation especially to third world economies that depend on the open markets. As opposed to the middle of the twentieth century, the contemporary global value chains are highly entrenched and fragmentation may become more expensive.

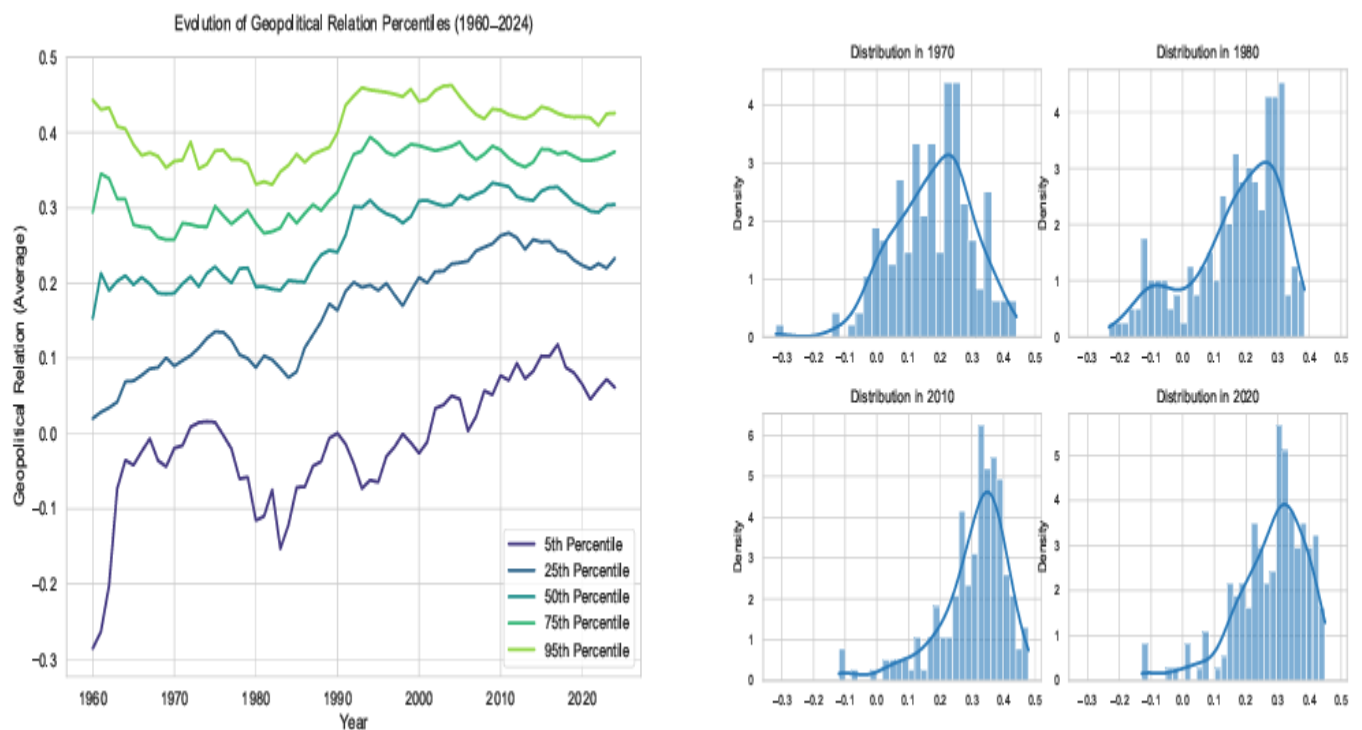
The historical experience during the cold war, such as the intermediary results witnessed in the non-aligned nations is very insightful in understanding the tendencies of economies in response to the geopolitical boundaries. Post-Cold War dynamics also confirm these dynamics: The world median of geopolitics is rising not only to the range of around 0.30 but several times higher between 1990 and 2010, and geopolitics is capturing a “globalization dividend, enabling many previously non-aligned nations to reap the gains (Fan, 2025). This coincidence highlights the essence of openness and multilateral interaction towards the long-term growth.

3. Conceptual Framework: Geopolitical Alignment and Economic Growth

3.1 Geopolitical Alignment as an Economic Constraint

In the Cold War, geopolitical alignment acted as a kind of structural limitation of the economic interaction. Both the allegiance to the Western or the Soviet course determined whether a country was available to the global trade, inflow of capital, technology transfer, and aid. Numerical data indicate that only geopolitics relations after all explained significant cross-country variance of long-run economic performance, with effects of the estimated GDP of up to -30% and +30% in long-run economic performance being observed between the Cold War statuses (Fan, 2025). These results help emphasize the fact that the results of growth were not solely predetermined by domestic economic policies but were a strong part of international political relations.

The most immediate medium where alignment affected growth was by trade. According to research by CEPR, in-between trade in the Western and Eastern blocs had fallen by about 67 percent compared to intra-bloc trade and cross-bloc trade less than 5 percent of the global trade was recorded during the peak Cold War years (CEPR, n.d.). Iron Curtain resulted in a 48 percent tariff advantage equivalent in trade and had major impact in increasing cost of trade and consequently decreasing welfare (CEPR, n.d.). These estimates offer a standard to conceptualize the economic impact of economic geopolitical fragmentation.



Source: Fan, T. (2025). *The geopolitical determinants of economic growth, 1960-2024*. https://www.tianyu-fan.com/files/FAN_Tianyu_Geopolitical_Growth.pdf

Figure above captures the dynamics of geopolitical relations in the course of time and changes in the distribution of cross-country in different decades. The left hand panel plots the 5 th, 25 th, 50 th, 75 th, 95th percentile of a geopolitical relations index between 1960 and 2024, with an overall trend of increasing and convergence towards more cooperative relations after the Cold War. The four right panels show histograms and density curves of the index in 1970, 1980, 2010 and 2020 that show a change in a more dispersed, occasionally bimodal distribution towards that concentrated at higher (more cooperative) values, particularly in 2010 and 2020.

3.2 Intermediate Mode of Non-Aligned Countries.

The Non-aligned countries had a special position in this disintegrated system. Although they did not sign any commitments of alliances, they did not act beyond the geopolitical reasoning of the Cold War. During the cold war, trade with non-aligned economies had decreased by about 40 percent, which in turn was not much as the rival block experienced but it was still economically worthwhile (CEPR, n.d.). This indicates that neutrality lessened though did not abolish the fragmentation costs.

Fan (25) describes these countries, like India, Brazil and Mexico, that are not aligned, but they hold an intermediate geopolitical location between the two superpowers, and their relationship with each of them is not aggressive participation in cooperation with one of the superpowers. In a quantitative sense, these nations were concentrated in the extremes between the distribution of geopolitical relations of fully aligned and highly isolated state in these countries. This place showed itself in their performance in terms of growth, as it was higher than in adversarial or isolated economies, and always lower than in the countries that are highly integrated into the Western markets (Fan, 2025).

This middle position brought about what can be termed as non-alignment penalty. Countries that were not aligned had to bear a higher cost of trade with each of the blocks, had fewer access to preferential trade agreements and had poorer technology spillovers. Simultaneously, they were not receiving as much foreign aid and strategic investment as geopolitically important countries were in one of the superpowers. Nevertheless, they did not experience the losses of extreme welfare caused by enforced isolation, like opposing-block nations.

3.3 Channels Linking Non-Alignment to Growth Outcomes

The literature highlights a number of channels through which non-alignment had an impact on economic growth:

Trade openness: Limited access to key markets limited the growth strategy of export led growth. While in some non-aligned countries the trade relationship was diversified, its level of openness was less than that of Western-aligned economies (CEPR, n.d.).

Capital and technology flows: The Western-aligned countries benefited disproportionately from foreign direct investment and technology transfer, while Soviet-aligned countries relied on intra-bloc transfers. Non-aligned countries in particular often did not have access to either source and industrial upgrading was slowed down (Fan, 2025).

Institutional and policy choices Recommended case study Domestic institutions mediated the effects of word non-alignment. Yugoslavia's market socialistic reforms helped it make use of its geopolitical flexibility, and it achieved steady growth rates of 5 - 6% between the 1950s and 1970s (LSE, n.d.). As opposed, the inward-looking policies of India contributed to the long stagnant growth rates in spite of the political autonomy (Fan, 2025).

Welfare effects: Welfare losses due to geopolitical isolation were largest for the Eastern bloc but still considered non-negligible among non-aligned countries as forgone gains from trade, innovation and scale economies (CEPR, n.d.).

3.4 Implications for Growth Heterogeneity

The conceptual framework shows the importance of why the growth outcomes in non-aligned countries were highly heterogeneous. Non-alignment was not a uniform economic strategy and depended on political stance, whose economic consequences relied on complementary policies, institutional quality and geographical location. Outcomes were based on the interaction between non-alignment and domestic institutions.

On the whole, this framework makes non-alignment neither obvious advantage nor inherent disadvantage. Instead, it plugged into a conditional development strategy in a geopolitically fragmented global economy with intermediate - but uneven - growth outcomes.

4. Data Sources and Methodological Approach

This paper is a qualitative-quantitative synthesis of available secondary research information to determine the potential impact of Cold War geopolitical alignment on economic growth trajectories of non-aligned countries. Rather than making original econometric estimations, the paper is a systematic integration of findings using peer-reviewed journal articles, working papers, and reports that were produced by established research institutions. This approach is suitable given the historical scope of the analysis and the existence of good and solid empirical studies with voluminous documentation of the Cold War period.

4.1 Data Sources

Three main sets of secondary sources are used in this paper. First, it draws on historical estimates of the trade and welfare impacts of trade policies from research done by the Centre for Economic Policy Research (CEPR), and in particular, work that quantifies the trade-reducing consequences of the Iron Curtain and more general Cold War fragmentation. These studies provide estimates of the cross-bloc trade declines, tariff-equivalent trade barriers and associated welfare losses and

provide a benchmark against which to assess the costs of geopolitical isolation (CEPR, n.d.; Redding & Sturm, 2008).

Second, the analysis takes into account recent quantitative research linking the geopolitical relations to long run economic outcomes. In particular, Fan (2025) builds a geopolitical relations index based on degrees of cooperation and hostility between countries and major powers over time. This work estimates the contribution that geopolitical positioning had on the variation in GDP per capita, showing that geopolitical factors accounted for changes from -30% to +30% between countries for the period of the Cold War. These findings are at the core of understanding an intermediate position taken by the non-aligned countries.

Third, country-level historical studies and institutional analyses is used to put aggregate findings in perspective. Case studies of India and Yugoslavia use growth statistics, reform histories and comparative performance measurements found in academic research and policy studies (Fan, 2025; LSE, n.d.). These cases demonstrate what a range of outcomes can be found in the non-aligned group and the role played by domestic policy choices.

To support macroeconomic indicators, including measures of growth rates and open trade concepts, reference has been made to some of the established data sets such as the Maddison Project Database and World Bank historical data series (Maddison, 2001; World Bank, 2024).

4.2 Analytical Strategy

A methodological approach is also comparative and interpretive rather than econometric. The paper synthesizes available quantitative estimates in order to compare three broad estimates; these are the Western aligned countries, the Soviet estimates and the non-aligned countries. Within such a structure, especially relative magnitudes are emphasized but not the actual point values, because it is recognized that different studies use different methodologies and different samples.

The analysis goes in three steps. First, it highlights the descriptive evidence on trade fragmentation and welfare losses in order to establish the economic costs of geopolitical division. Second, there is an integration of findings of growth in GDP and in long-run income due to geopolitical relations to have pointed out the intermediate outcomes to be seen in non-aligned countries. Third, it explores within-group variation using the examples of case studies relating aggregate patterns to domestic institutional and policy considerations.

This way the paper can discern solid patterns that arise in multiple sources without exasperating on any one data set or estimation strategy. By triangulating data from trade studies, growth

regressions and country-level analyses, the paper makes its conclusions on the economic consequences of non-alignment credible.

4.3 Limitations

Relying on secondary sources has some limitations. Differences in data constructions, sample coverage and estimation techniques across studies may cause inconsistencies. Moreover, interpretational causal interpretations are necessarily limited by the original methodologies used in the cited research. However, in view of the coincidence of results in independent studies, the synthesis method is quite suitable for the identification of general relationships between geopolitical alignment and economic growth.

Overall, the methodology places importance on historical depth, analytical coherence and empirical credibility, and allows a global assessment of the economic performance of the non-aligned countries during the Cold War without having to do original data construction or estimation.

5. Empirical Evidence from the Cold War Period

5.1 Trade Fragmentation Impact

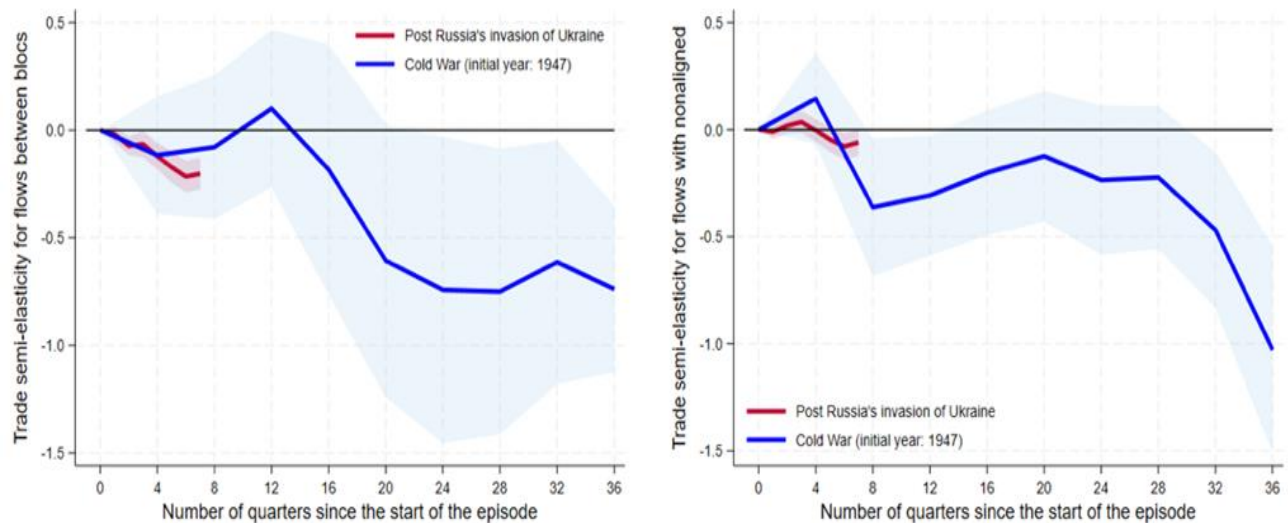
Empirical Evidence from the Cold War Period

5.1 Trade Fragmentation Impact

The Cold War imposed major trade obstacles between the countries, leading to stark contrasts in degree of economic integration between countries that were on either side of the lines. Trade within Western and Eastern blocs went down by about 67% compared to trade within both Western and Eastern blocs with cross-bloc trade dropping from 10-15% to less than 5% of global trade during the Cold War peak years (CEPR, n.d.). The Iron Curtain effectively imposed trade barriers of the equivalent of 48% ad valorem tariff at its height, which had eased off to about 25% in the 70s and 80s. Non-aligned countries had intermediate trade disruption with a decline of trade volume of about 40% in the same period and that shows low but not complete exposure to geopolitical isolation (CEPR, n.d.).

This evidence shows that while non-alignment insulated the Eastern bloc countries to some extent from the extreme trade restrictions experienced by other nations, it was not enough to shield non-aligned countries from the economic fragmentation of the world economy caused by bipolar competition. The heightened costs of trade interactions with either superpower blocs limited market accessibility, technologies, and investments which affected long-term trends in growth paths.

Figure: Trade Fragmentation During the Cold War and Contemporary Geopolitical Tensions



(a) Trade between blocs, now

(b) Trade with nonaligned, Cold War

Source: Gopinath, G., Gourinchas, P.-O., Presbitero, A. F., & Topalova, P. (2024). Figure 3: Trade fragmentation — The Cold War and now [Graph]. In *Changing global linkages: A new Cold War?* (IMF Working Paper No. 2024/076). International Monetary Fund.

<https://doi.org/10.5089/9798400272745.001>

The figure compares changes in trade flows between geopolitical blocs in the early Cold War and after Russia-Ukraine invasion. Panel (a) is trade between blocs in the contemporary period and panel (b) is trade between blocs and non-aligned countries during the period of the Cold War, which highlights the effects of geopolitical fragmentation of trade integration (IMF, 2024).

5.2 GDP Growth Differences Having Alignment

Empirical studies indicate that variations of geopolitical alignment have been responsible for the range of -30% to +30% on GDP per capita across countries during the Cold War period (Fan, 2025). A one standard deviation improvement in geopolitical relations could boost GDP per capita by 10% over a 20-year horizon and going from relatively hostile relations to strong cooperation could boost long-run GDP by as much as 70 log points.

Non-aligned countries such as India, Brazil and Mexico tended to fall in the middle with moderate relations with both superpowers. Their rates of growth were limited in comparison to

the fully integrated Western allies and better than countries isolated from both blocs. For example, there was average annual GDP growth in India of about 3.5% in the decades up to 1980, a rate that has been termed the 'Hindu rate of growth', that was less than the 5-7% growth level that was realized in many western economies in the same period (Fan, 2025).

5.3 Distribution of Economic Outputs

During the 1970s and 80s, the distribution of geopolitical relations throughout the world took on a very distinguishing pattern (a sort of bimodal distribution). Countries with Western bloc tend to cluster around positive geopolitical scores, and heavily isolated or Soviet allied countries move towards a secondary area in negative territory. Non-aligned countries were mostly in the middle ground, which shows their medium economical and political position (Fan, 2025). Regional effects further illustrate these trends where western Europe and the United States were influenced in hypocretic positive growth impacts and where country states allied with the Soviet Union showed decreases of GDP between 10-12% and isolated countries like apartheid-era South Africa suffered approximately -28% of GDP reduction due to the impacts of extreme isolation (Fan, 2025).

5.4 Case Studies of Non-Aligned Countries

India

India's non-alignment policy limited Western technology as well as Soviet resources. With partial liberalization, its GDP growth stagnated at around 3.5% a year from 1950-1980 and grew gradually to 4.5% in the 1980s. While non-alignment freed India from extreme geopolitical entanglements, this strategy constrained opportunities for the rapid development of the Indian economy (Fan, 2025).

Yugoslavia

The case of Yugoslavia is a contrary example in the non-aligned group. Between 1952 and 1979 the country's economy grew by almost 400% with an average of 5-6% growth per year. In the 1970s, there was an annual growth of GDP between 3.6% and 8.5% which was higher than that experienced in both the countries which were in the camp of Eastern Europe and some other nations who were also not in that camp. However, after 1980 growth came to a halt, exposing weaknesses inherent in finding a neutral stand between competing superpowers (LSE, n.d.).

5.5 Geopolitical Isolation Welfare Losses

Welfare losses among Eastern bloc countries rose from less than 1% of per capita consumption in the beginning of the Cold War to approximately 2% at the end of the Cold War due to constant

constraints on trade and technology transfer (CEPR, n.d.). Non-aligned countries suffered in their welfare position, obtaining some of the benefits of neutrality but losing on the opportunities of investment, technological transfers and preferential trades received by aligned countries. These consequences highlight the conditional nature of non-alignment: growth was not just a matter of geopolitical position, but also a matter of domestic institutional capacity and access to world markets.

These historical patterns serve as a loophole that gives a good reference point for understanding how geopolitical fragmentation may affect development strategies in the modern multipolar economy.

6. Contemporary Implications: Lessons of Cold War Non-Alignment

The historical experience of the non-aligned countries during the Cold War is of great value for developing economies of the contemporary world when confronting new geopolitical fragmentation. Just as mid-twentieth century neutrality contributed to trade patterns, to GDP growth, and to individual welfare outcomes, the modern nations face a complex multipolar landscape of emerging tensions between the United States and China, as well as between the major powers and their clients and allies. This section considers the similarities between Cold War non-alignment and policy challenges today in the areas of trade, supply chains and economic sovereignty.

Implications for Contemporary Geopolitical Fragmentation

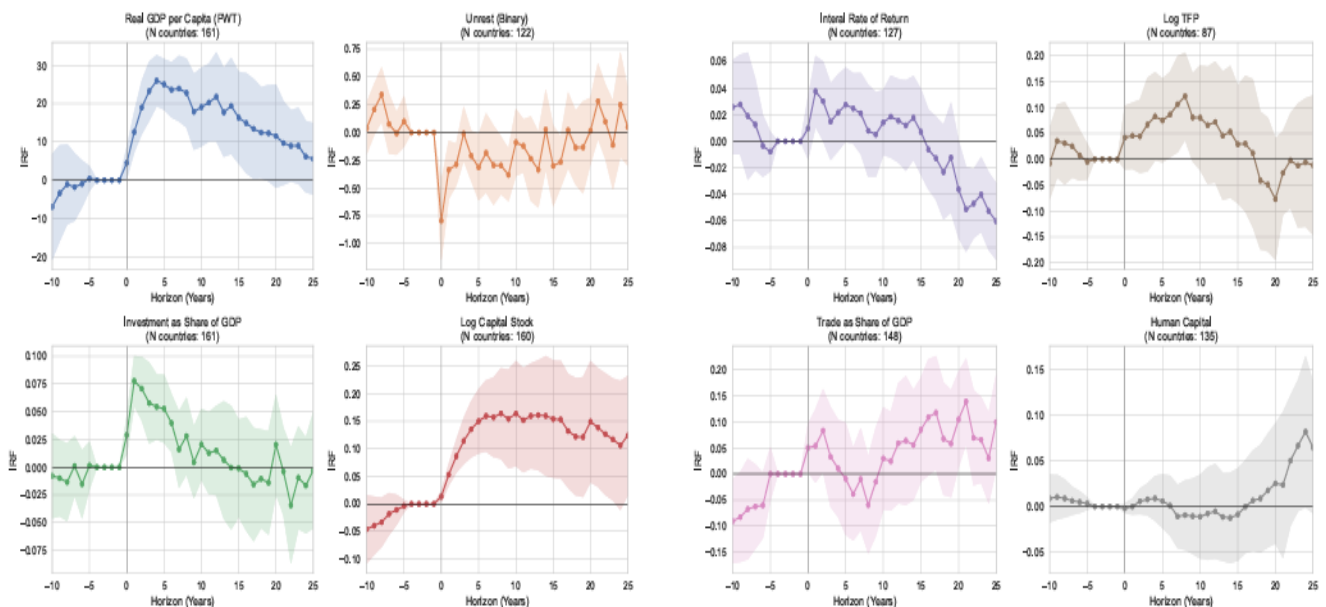
The discussion of Cold War non-alignment has some lessons applicable to current debates of "Cold War II" dynamics, friend-shoring, and supply chain decoupling (IMF, 2023). Just as non-aligned countries suffered from trade barriers and restricted access to capital, it may today happen that developing countries bear an outsized cost from global fragmentation. The existing empirical evidence shows the market potential of strategic neutrality with robust institutions and discriminating engagement, to buffer economies against external shocks with the greatest returns from global integration.

6.1 Contemporary Geopolitical Instability and "Cold War II"

Recent studies point to the realization of a so-called "Cold War II", based on trade restrictions, separation of technology and "friend-shoring" strategies, most notably between the United States and China (IMF, 2023). These dynamics hit developing economies even harder who depend on open markets and global value chains. Similar to the Cold War trade fragmentation, where developing countries that were non-aligned with the two world powers incurred intermediate trade losses of about 40%, the contemporary developing countries could face higher costs and

declining market access as global supply chains are realigned along geopolitical lines (Fan, 2025; CEPR, n.d.).

The experience of the Cold War shows that partial insulation from the pressures of individual blocks, whilst not being totally isolated, has its opportunity costs. For the modern economies, excessive reliance on one geopolitical bloc can be similar to historical costs of being on one side or the other, while being outright neutral, not involving oneself in activities between both superpowers, might reduce risks but potentially reduce access to trade, technology, and investment.



A. Output and Stability

B. Growth Fundamentals

Source: Fan, T. (2025). *The geopolitical determinants of economic growth, 1960-2024*.

https://www.tianyu-fan.com/files/FAN_Tianyu_Geopolitical_Growth.pdf

Above graph shows the effect on the key growth-related variables over time as a result of an improvement in geopolitical relations. Each line charts the dynamic response of an outcome (such as GDP growth, trade openness, investment, or TFP) to a one-standard-deviation positive shock to the geopolitical relations index, typically effects build up on the medium run and then gradually die away. The figure emphasises the fact that improved geopolitical relations are linked to sustained higher economic performance and integration, emphasising the long-run growth costs of renewed fragmentation;

6.2 Openness of Trade and Resilience of Supply Chains

Empirical evidence from the Cold War highlights the fact that trade openness was critical in terms of results in terms of growth. The non-aligned countries which preserved to allow access to a variety of countries, like Yugoslavia, had an increase in the development compared to other countries which were crippled by the rigorous isolation (LSE, n.d.; Fan, 2025). Today's developing economies are experiencing the same kinds of problems for balancing the engagement with different geopolitical blocs without compromising its national economic stability.

Modern approaches, innovation in supply chains diversification and regional trade agreements are similar to the past examples of non-alignment. Countries that are able to integrate selectively into more than one global network may be in a position to better manage resilience, and take up opportunities for growth together with minimum exposure to geopolitical shocks. This approach appears to be particularly important in light of the fact that today's global supply chains are highly integrated and that therefore, they are not easily decoupled at a low cost and with a low degree of disruption.

6.3 Institutional Capacity & Policy Flexibility

Patterns of its past are that the success of non-alignment was dependent on the quality of domestic institutions. Countries such as Yugoslavia made effective use of strategic neutrality because of market-oriented reforms and capable governance but at the beginning in India due to rigid policies and less-engagement into international, it did not.

In relation to the present times, this makes institutional capacity and policy flexibility all the more significant. Developing nations rushing to deal with the geopolitical volatilities of the modern world can reduce the risks by bolstering governance, facilitating trade and developing regulatory frameworks that allow for adaptation. Strong institutions give states greater latitude to exploit neutral or semi-aligned positions, not unlike non-aligned countries in their Cold War effort to maximize their intermediary positioning.

6.4 Technology, Investment, and Innovation

Cold War non-aligned countries experienced barriers to technology transfer and foreign capital investment and thus had limited room for growth in the long run (CEPR, n.d.; Fan, 2025). Today, tech decoupling among the major powers is carrying similar risks for the developing nations reliant on foreign know-how. Strategic participation in multilateral research collaborations, regional innovations initiatives and targeted foreign investments can help fill some of the gaps

learning from the experiences of Non-alignment in the past on external balancing which gave better economic results.

6.5 Policy Implications for Developing Economies

Synthesizing the historical and current evidence, there are a number of policy implications which are revealed for the modern non-aligned market or semi-aligned economy:

1. Strategic Neutrality with Engagement: Just as in the past, non-alignment enabled countries to avoid being too extreme with their isolation, so in the modern era, one can still engage with multiple blocs in a selective manner and maintain neutrality.

2. Diversified Trade and Investment Links: Countries being in a dependent on a single geopolitical partner has an added risk of being at the mercy of trade restriction or decoupling of the supply channel.

3. Institutional Development : domestic level governance, economic flexibility and regulatory capacity - continues to be decisive in terms of turning neutral positioning into tangible growth outcomes.

4. Technology and Innovation Policy: Strategic exploration of technological cooperation and foreign investment and retention of strategic independence has the potential to improve the long-term competitiveness.

Collectively these lessons point to the potential of historical experiences of the non-aligned countries to provide practical lessons to deal with the challenges of the multipolar global economy where geopolitical tensions are becoming intertwined with economic growth strategies.

6.6 Strategic Autonomy, Energy Security, and Macroeconomic Stability

Another lesson from the non-alignment experience during the Cold War period regards the value of autonomy in energy and macroeconomic strategies. During the Cold War period, some non-aligned countries were highly susceptible to external disturbances based on their reliance upon few energy sources, foreign currencies, and external funds. The experience with the oil price rises in the 1970s made this apparent, as non-alignment countries relying on imported energy faced challenges with both domestic inflation and their balance-of-payment position, and increased their external debts as well. In the modern world, such challenges are coming back, quite strongly, due to geopolitical instabilities affecting the energy markets, capital movements, and prices of commodities. Economies that are still evolving, being highly dependent on foreign sources of energy or foreign currency borrowing, are still prone to sudden shocks. The experience of the Cold War era clearly indicates that non-alignment strategies would work best in

conjunction with strategies designed to improve the resilience of the economy. Such strategies would involve diversification of energy sources, development of indigenous and renewable energy, prudent borrowing strategies, and maintaining sufficient foreign exchange reserves.

7. Conclusion: Lessons from Cold War Non-Alignment for Today

This paper has focused on the impact of geopolitical alignment in the Cold War structure on the economic growth path of non-aligned countries, synthesizing the evidence in secondary sources such as the CEPR, Fan (2025) and LSE studies. The analysis highlights how non-aligned countries took a special position in the world economy: they managed to avoid the disaster in terms of welfare losses and trade isolation that the Eastern bloc countries went through, but did not always demonstrate the high growth rates of the fully integrated Western allies. This "non-alignment penalty" represents the trade-offs that are inherent in keeping to a policy of strategic neutrality in a bipolar world.

Quantitative results suggest that these channels of growth to geopolitical alignment were trade fragmentation and limited access to global markets. Cross-bloc trade reduced drastically during the cold war, and the non-aligned countries experienced moderate reductions of around 40% in trade volumes (CEPR, n.d.). GDP variations associated with geopolitical alignment varied from -30% to +30% per country, a one standard deviation improvement in geopolitical relations was yielding a 10% increase in GDP per capita over 20 years (Fan, 2025). This is further exemplified by case studies on India and Yugoslavia: while India's growth stagnated as it had limited access to foreign technology and capital, Yugoslavia was able to use institutional capacity and market reforms to produce strong economic outcomes vis-a-vis many of its close aligned and non-aligned rivals (LSE, n.d.; Fan, 2025).

The findings also underpin that it was domestic institutions, governance and flexibility in policy that was decisive in mediating the benefits of non-alignment. Countries with better institutional frameworks were able to take advantage of their neutral position better, integrating selectively with global markets and having maximal growth opportunity. Conversely, countries with political instability or resource dependence were faced with some extra limitations, thus showing that non-alignment could only go so far to ensure economic success (Rodrik, 2011).

From welfare perspective, non-aligned countries suffered intermediate damages in comparison to fully aligned or isolated countries. While they were protected against the strict restrictions that the Iron Curtain imposed on Eastern Europe, they did not have access to technology, investment, and preferential trade as was. Post-Cold War convergence, globalization, enabled a good number of the non aligned nations to benefit from new opportunities for growth, showing the long term

dividends of the strategic neutrality they had pursued coupled with the strengthening of their institutions (Fan, 2025).

The lessons of non-alignment have great relevance for today's economies operating in a multipolar world, one where geopolitical tensions keep rising, and is sometimes referred to as a "Cold War II" (IMF, 2023). Modern developing countries are subject to threats of trade restrictions, friend-shoring and technological decoupling, which recur the issues of Cold War fragmentation. Historical evidence indicates that strategic neutrality, diversified trade linkages, institutional strength and selective engagement remain important tools for reducing geopolitical risks in favor of economic growth.

The policy implications drawn from the analysis are all follows- First, staying out of strategic relationships with the different geopolitical blocs is a way of reducing the potential for external shocks. Second, trade and investment links provide more resilience in the increasingly fragmented global economy. Third is the institutional capacity and flexibility articulate policy - deciding whether the neutral positioning is a translation or a tangible change in terms of growth outcomes. Finally, investment in technology and innovation is vital to prevent the loss of global economic competition, which was seen reinforced by the barriers experienced by non-aligning countries during the Cold War (CEPR, n.d.; Fan, 2025).

In conclusion this paper shows that the economic paths of non-aligned nations occurred due to a combination of external geopolitical forces with internal institutional capacity. While neutrality never assured high growth, it offered a model for dealing with world competition and extreme isolation. These insights have direct relevance for the development of policies by contemporary politicians in developing nations for balancing foreign economic sovereignty, integration, and resilience in a more multipolar world. By learning from the past, present-day countries should be better able to sustain the trade-offs between alignment, autonomy, and participation in the world economy in ways that make lessons from the Cold War continue to serve them in the new challenges of the twenty-first century.

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