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Klaus Werner*

Russia's Foreign Trade and the Economic Reforms

The Russian Federation now faces a totally new beginning as regards the shaping of its foreign trade relations. The demands made upon its external economic policy by the changes in the political and economic systems on the one hand and the collapse of the formerly unified economic zone of the Soviet Union on the other are so great that, in many respects, consistent answers have yet to be found. To what extent has the Russian government so far succeeded in developing a new foreign trade regime?

The prime determining factors for the conception and gradual implementation of a new external economic policy by the Russian government are the degree of progress made in dealing with the following tasks:

- the thorough implementation of a market-based economic reform programme, with the main focus on creating a legal framework based on a federal structure and the principle of contractual freedom, on stimulating competition and on stabilization in both the monetary and budgetary spheres;
- coping with the economic and social crises and paving the way for growth-oriented economic development;
- paying off the country's large foreign debts and re-establishing its solvency.

A number of large-scale analyses of these problems have been published in recent months,¹ which have brought out increasingly clearly the complexity and inner contradictions involved in Russia's transformation process. The purpose of this article is to analyse the new external conditions which have now been created for the foreign trade activities of Russian enterprises, then to show whether or not the government has responded to such changes in developing a new foreign trade regime, and if so how.

The process of transformation to a market system in Russia is inseparably linked with the question of foreign trade. As the country's foreign trade regime represents an integral component of the institutional and economic order

now undergoing renewal, the form it takes must be determined by the same principles and objectives, which include contractual freedom, price liberalization, competition and privatization. A fundamental feature of the transformation is that the Russian economy should be opened up to the world market. This is a *sine qua non* for the desired change of system while at the same time acting as a source of new impulses and, to a certain extent, as a guarantor for the success of the entire transformation process.

This is recognized unreservedly by the proponents of reform in Russia. The most important proposals in this area contained in the government's June 1992 reform programme are the complete liberalization of foreign trade activities, the removal of administrative restrictions, the transition to one single rouble exchange rate, convergence between domestic and world market price structures, and the transition to rouble convertibility.² However, on a realistic view of Russia's situation, this programme could only be expected to be made a reality in a process of several years' duration, always with the possibility of setbacks occurring.

The Russian economy's closer links in future with the world market ought primarily to be regarded as a significant opportunity for economic and technological progress. This is true even though this great country with

¹ In particular, see: Deutsches Institut für Wirtschaftsforschung, Berlin (DIW), Institut für Weltwirtschaft, Kiel (IfW), Institut für Wirtschaftsforschung, Halle (IWH): Die wirtschaftliche Lage Rußlands und Weißrußlands – Systemtransformation am Scheideweg, in: IWH – Forschungsberichte, No. 3, 1992.

² Cf. Rossiiskie Vesti, No. 29 (75), June 1992, supplement, p. 5.

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its huge domestic market is less dependent upon foreign trade than smaller economies. Yet the planned-economy days of the past ought to have demonstrated conclusively enough just how damaging efforts to establish virtual economic autarky can prove to be. On the other hand, one must not ignore the dangers of uncontrolled and total opening towards the world economy, for Russia's own economy is completely inadequately prepared for such a move. As in the case of other tasks involved in the transformation programme, the best promise of success lies in finding the right combination between setting genuine and consistent market objectives on the one hand and proceeding to implement these in stages which would tend to be more pragmatically determined on the other.

Functions of Foreign Trade

Fundamentally, foreign trade has a number of important functions to fulfil in the stabilization of the economy as a whole: these derive first and foremost from the price effects induced by foreign trade on the goods and factor markets alike, which can be regarded as introducing international value standards into the economy. Ultimately more significant are the allocational effects induced on the basis of those price changes, leading to a transformation of the sectoral structure of production. In Russia's case, however, such effects are hardly perceptible so far because the most important conditions facilitating market economic behaviour by enterprises, or ultimately allowing it to become a matter of course have been lacking to date. The old, monopolistic structures continue to predominate, it has only been possible to establish properly functioning capital, goods and labour markets in exceptional cases, and factors of production are largely immobile, part of the problem here being the sheer size of the country. The price signals issuing from external markets are distorted or suppressed, and thus cannot trigger off the response from enterprises which would normally be expected in a market economy. A characteristic example of this problem is the effect of the uniform rouble exchange rate introduced unduly hurriedly in the middle of last year. Its economic foundation must be regarded as extremely dubious. It is determined by supply and demand developments on the Moscow interbank convertible currency exchange, which has a low turnover volume, which only reflects an insignificant portion of the foreign exchange dealings related to external markets, and which is heavily affected by speculation. The binding application of this exchange rate to all export and import transactions serves either to obstruct efficient foreign trading activities by Russian enterprises or else provides a false orientation to their investment and production planning.

In future, however, exploitation of the potential

productivity impulses generated by foreign trade certainly could be capable of setting welfare-enhancing effects in motion, particularly when this challenge is deliberately met head-on. After all, foreign trade guarantees a supply of goods which would never be possible under conditions of autarky, opening up completely new opportunities for Russia's business enterprises and consumers. For Russia too, increasing real incomes and a rising demand for goods can be achieved with the help of foreign trade, even if these improvements are initially confined to those areas closely associated with such trade.

In order to make a reality out of the functions cited above, not only will the right internal conditions need to be created but – from a theoretical perspective at least – a consistent policy of free trade ought also to be pursued externally. In reality, however, differing levels of economic development from country to country give rise to the danger of major distributional conflicts and employment problems as a result of the deteriorating terms of trade from which some countries will suffer. This applies especially to countries like Russia which are having to start out from extremely unfavourable positions and, on top of that, are being drawn into international competition under considerable time pressure. For that reason, protectionist tendencies have become evident in Russia in particular, and will undoubtedly play a latent role for a long time to come. Various Russian economists are not alone in their view that protective measures which are intelligently chosen and applied would, given the specific circumstances in which Russia's economy finds itself and especially in view of the market distortions occurring, initially be more beneficial than free trade.³ However, that only holds true as long as foreign trading partners refrain from taking countermeasures. Thus the progress made or the inadequacies manifested by Russia's foreign trade regime will hardly be assessable according to theoretical criteria, but will primarily need to be judged in terms of the current economic policy constraints from the country's own point of view.

The second aspect of this overall picture is constituted by the volume of trade flows and their material and regional make-up. The rapid fall in both exports and imports, the increase in the country's foreign debt, its deteriorating credit standing and the diminishing competitiveness of Russian goods and services all provide a reflection of the scale of the transformation shock running through the Russian economy, together with the new political

³ A similar view is also voiced with regard to the former Czechoslovakia, Poland and Hungary by V. Vincentz: Die Integration Osteuropas in die europäische Wirtschaft, Bedingungen und Konsequenzen unterschiedlicher Entwicklungsstrategien, Osteuropa-Institut, Munich 1992, p. 17.

environment and the changed circumstances with regard to Russia's place in the international division of labour.

One conclusion can already be drawn, namely that the international relations based on the division of labour which had been built up in the days of the planned economy are now obsolete, almost without exception. Although this does not rule out the possibility of reviving past relationships, the fundamental necessity is nevertheless for a completely new beginning in qualitative terms, and there are no more than first indications as yet that this really is occurring. The rapid decline in Russia's foreign trade with non-CIS countries underlines the seriousness of the situation.

New External Conditions

Russia's foreign trade has taken on a burdensome legacy. The break-up of the Soviet Union, the development of a new type of relationship with the neighbouring republics which all now have their own sovereign status, the re-evaluation of earlier trading links and the rapid decline in overall economic performance all combine to make up a complex tangle of new circumstances and challenging tasks.

When analysing these it has to be borne in mind that Russia is not only the most important of the successor states to the USSR with regard to foreign trade but has also inherited the greater proportion of its economic potential. Russia today accounts for 76% of the Soviet Union's former territory, 51% of the population, 59% of the gross national product, 66% of industrial production and 46% of agricultural production.⁴ The largest reserves of oil, gas, coal, gold, diamonds, timber and other natural resources identified in the USSR are located in Russian territory. As one would therefore expect, Russia used to achieve more than two-thirds of the former Soviet Union's foreign trade turnover, or more specifically 78.9% of exports and 57.8% of imports.⁵ The position taken up by Russia in the past explains why all of the problems stemming from the planned-economy past of the Soviet Union have affected primarily Russia's present foreign trade situation.

Now that a number of independent states govern the territory of what used to be one single economic area in the shape of the USSR, a new sphere of international economic relations has been born, the characteristics of which have yet to fully crystallize. The first distinction

which needs to be drawn is between the countries inside the Commonwealth of Independent States (CIS) on the one hand and the Baltic states, Georgia and Azerbaijan which have already left it on the other; however, trade has so far been conducted with both groups of countries essentially according to the same basic principles. The key characteristic is that, virtually overnight, domestic cooperative relationships were turned into foreign trade relations.

That increases the significance of foreign trade for the Russian economy. While exports have been estimated to account for approximately 5% to 7% of Russia's gross domestic product,⁶ if economic relations with the USSR's successor countries are included that proportion can be expected to be three times as high, assuming that export intensity remains at a comparable level to that of 1991.

The figures in Table 2 show the extent of Russia's economic ties with the other former Soviet republics. The consistency of these data is limited by the fact that their expression in world market prices is influenced by subjective factors (in reality, the exchanges were effected at internal, administered prices, though these distort the real volume of trade flows even more strongly); nevertheless, two characteristics can be established:

□ A deep-rooted division of labour existed among the republics, with Russia acting as the most important supplier (it is estimated that more than half of the intra-

Table 1
The Russian Federation's Foreign Trade, 1988-1992

	1988	1989	1990	1991	1992
Total volume, in \$bn	146.9	153.1	152.0	95.3	73.1
Change from previous year (in %)	-	+ 4.2	- 0.7	- 37.3	- 23.3
Share of USSR's total volume (in %)	67.4	68.4	68.0	68.0	-
Exports, in \$bn	74.4	74.9	70.7	50.9	38.1
Change from previous year (in %)	-	+ 0.7	- 5.6	- 28.0	- 25.1
Share of USSR's total exports (in %)	67.2	68.6	68.4	71.7	-
Imports, in \$bn	72.5	78.2	81.3	44.4	35.0
Change from previous year (in %)	-	+ 7.9	+ 4.0	- 45.4	- 21.2
Share of USSR's total imports (in %)	67.5	68.2	67.6	64.2	-
Net trade balance (\$bn)	+ 1.9	- 3.3	- 10.6	+ 5.5	+ 3.1

Sources: Vnesnie ekonomicheskie svyazi SSSR, Statisticheskiy zbornik, Moscow 1990 and 1991; Vnesnie ekonomicheskie svyazi RSFSR, Statisticheskiy zbornik, Moscow 1990 and 1991; Goskomstat Rossii, O razviti ekonomicheskikh reform v Rossiiskoi Federacii v 1992 godu, Moscow 1993; IWH's own estimates.

⁴ IWH estimates based on 1991 data from the Governmental Statistical Committee (Goskomstat).

⁵ Calculated in convertible roubles at the commercial exchange rate for 1991. Cf. *Ekonomika i shizn'*, No. 13, March 1992, pp. 14-15. The share of imports cited for that year was exceptional. In the preceding years, the corresponding shares were 67% and 68%.

⁶ Cf. *Außenhandel*, No. 2 (1992), Moscow 1992, p. 2.

USSR deliveries of goods and services originated in Russia) while it also "imported" substantial volumes (approx. 1.8 times its imports from the rest of the world).

□ Russia supplied far more goods to other republics than it received in return (with the exception of Kazakhstan), though it should be pointed out that this was not important in the old reciprocal accounting system because raw materials and fuels (which were Russia's main exports) were heavily underpriced. These supplies formed just one part of an entire system of material and financial distributional mechanisms among the former Soviet republics, in which the benefits and drawbacks of individual transactions frequently tended to cancel each other out. Now that this overall redistributive mechanism associated with one single state has collapsed, however, substantial potential for economic conflict exists.

A rapid decline is currently in evidence in the trade flows between Russia and the other former Soviet republics. According to IMF estimates, the fall in 1991 was at least 15% of the previous year's figure, accelerating to 25-30% by mid-1992.⁷ There is no visible sign yet of this trend bottoming out. To some extent, it is a result of the decline in overall economic activity in the various republics. Apart from political considerations, however, a vital part can also be assumed to be played by the imbalances in the quantities of goods supplied as described above and by shifts in relative prices. As the prices of raw materials and fuels, usually from Russia, increased, the trading partners soon found they had run up substantial deficits on their trade accounts held at the national banks. Since the only

way of replenishing these deficits is to supply goods, even potential exporters had to face the prospect of receiving no payments for what they exported. These phenomena were further added to by the imposition of export restrictions by republic governments, designed to safeguard domestic supplies of products such as foodstuffs. Countless supply constraints resulted, disrupting the cooperative relations which had operated for many years, all the more so because many monopoly producers deliberately refused to participate any longer in the earlier division of labour which had operated in the single economic zone of the USSR.

The loss of confidence in the rouble and the collapse of the former intra-USSR payments system aggravated these negative effects. As one would expect, the majority of trade transactions are now completed either via the national banks' clearing system or on the basis of bilateral barter agreements without credit facilities, via short-term balance settlements. Such developments run counter to the objectives of market economy reforms and act as a further obstacle to revitalizing or reconstructing economic relations within the CIS.

Dangers of Trade Collapse

Foresighted politicians and business leaders in Russia are, however, working on the assumption that a total breakdown in the trading relations of the past would serve the economic interests neither of Russia nor of the other republics. They warn of the perils of separatism and isolationism, and are opposed to the splintering of the economic area of the former USSR.⁸ From a Russian point of view, there are three arguments which support an interest in preserving and perfecting trading relations with other republics on an equal and mutually advantageous basis. For one thing, if previous cooperative relationships were allowed to collapse completely, this would demand significant material and financial resources and a good deal of time to organize the output of new products or to reorient activities towards other markets. For another, the normalization of trade would be in the interests of the ethnic Russians in other republics, who after all number more than 25 million. Finally, if the disintegration of the economic zone were to persist this would also have direct consequences for Russia's national security.

⁷ IMF: Economic Review, Common Issues and Interrepublic Relations in the Former U.S.S.R., Washington, D.C. 1992, pp. 7 f.

⁸ Cf., among others, I. Ivanov: Russia at the Crossroads in Foreign Economic Relations, in: *Ekonomika i shizn'*, No. 31, August 1992, pp. 1 & 7; B. Pitschugin: Die Konzipierung der Außenwirtschaftspolitik Rußlands – Aktuelle Probleme, in: *Außenhandel*, No.3, 1992, pp. 2 ff.; A. Granberg: Economic Relations with the Former Republics of the USSR, unpublished MS (Russian); W. Gawrilow: Der regionale GUS-Markt, in: *Außenhandel*, Nos. 8-9, 1992, pp. 31 ff.

Table 2

Trade in Goods between the Russian Federation and the other Republics of the Soviet Union in 1991 (According to Government Agreements, Estimated at World Market Prices)

(in millions of convertible roubles)

	Exports from Russia	Imports to Russia	Balance
Ukraine	33,623.3	22,352.9	11,270.4
Belarus	13,894.3	4,429.6	9,464.7
Kazakhstan	9,953.8	10,302.9	-349.1
Uzbekistan	5,187.4	2,753.7	2,433.7
Azerbaijan	2,838.3	1,396.3	1,442.1
Turkmenistan	1,610.0	1,001.4	608.6
Tadjikistan	844.6	442.1	402.5
Kirghizstan	1,126.5	220.1	906.4
Latvia	1,192.5	554.0	648.6
Lithuania	4,646.0	1,026.3	3,691.7
Estonia	903.5	513.5	389.7
Moldova	1,460.5	653.8	806.7
Georgia	1,997.7	1,187.0	810.7
Armenia	1,457.0	187.4	1,269.6
Total	80,735.4	47,011.0	33,724.3

Source: *Ekonomika i shizn'*, No. 44, October 1991, p. 6.

So far, however, awareness of these factors has not been convincingly reflected in the actual shape being taken by the foreign trade regime. In the government's draft economic programme issued in June 1992, once again, the fundamental question remained unanswered as to whether and in what way Russia wished to develop as part of a uniform CIS economic zone. Although the governments of the CIS countries did conclude an agreement on 14th February last year dealing with mutual cooperative relations in trade and industry, this essentially consists of vague compromises and was primarily intended only to sustain cooperative arrangements already in operation.⁹

Evidently, in order to prevent the further disintegration of the trade relations which are necessary and beneficial to all parties it is imperative to build upon the old planned-economy control instruments whilst at the same time deliberately striving to supersede them with market-based relationships. This generates a whole complex of contradictory occurrences. For example, the liberalization of external economic activities and the introduction of internal rouble convertibility are postulated, and at the same time supplies of particularly important goods are arranged on the basis of special lists, the purpose of which is to guarantee the exchange of goods by means of an inter-governmental foreign exchange clearing system. Goods included on these lists may only be exported with the permission of government bodies, and governments are responsible for funding imports of such goods. In fact, in the raw materials sphere a government monopoly has been established, with prices set by governments and trade taking place exclusively on a barter basis.

Apart from that, many trade flows are organized and conducted directly – to a large extent uninfluenced by central governments – by subordinate local or regional authorities in the various republics or by individual enterprises, which often were formerly part of a production network with enterprises in other republics.

No data are available on the extent of such arrangements or how they are put into practice. However, it is safe to assume that here, too, barter trading predominates.

Three Important Issues

Three issues are particularly important for the period ahead. The first crucial factor will be whether or not it proves possible to maintain a uniform rouble zone within the CIS (or at least parts of it). It is beyond the scope of this

⁹ The Russian Government issued Decree No. 221 "On the mechanism for cooperation between the Russian Federation and the other CIS countries in the fields of trade and science in 1992" on 2nd April 1992.

article to discuss the conditions under which that would be possible or the advantages and disadvantages involved.¹⁰ However, the ever increasing likelihood is that each of the now sovereign republics will sooner or later create its own currency, which will only take the value of the rouble as a guide, at most. Sovereignty in economic policy can hardly be reconciled with monetary policy dependence upon a central bank situated in Moscow, however it is structured. The occasional attempts to draw a parallel to the European Community's aim of establishing a uniform currency within the foreseeable future are not very convincing, as the CIS will inevitably first have to go through a process of mutual demarcation and disintegration before any forms of economic cooperation made on a qualitatively new basis can have any hope of succeeding. On the other hand, once individual republics have established their own currencies, exchange rates can be determined and it will be easier to come to arrangements on what rules should apply to a currency community.

The second, closely associated issue involves setting up a payments system among the republics which properly reflects the stage so far reached by, and the eventual aims of, the reform process towards a market economy. An immediate transition to trading in convertible currencies can only be considered a possibility in theory; it could hardly be applied in practice because the general shortage of foreign exchange would very rapidly lead to still more shrinkage in trade flows. A more feasible option would therefore appear to be provided by the use of one of the national currencies, in most cases the Russian rouble, though the currency's internal convertibility must first be secured. In the case of particularly important, large-scale trading transactions (such as supplies of fuel and raw materials from Russia to other republics), a clearing system operating via special-purpose trading banks is also conceivable, provided that appropriate solutions can be arrived at for balancing the final credits and debits. It will not be possible substantially to supersede this clearing system by the payment systems normally operated in international trade for several years to come.

Finally, the various stages involved in the proposed transition to world market prices for the goods and services traded need to be defined. But this does not mean that interim solutions must be excluded, particularly as uniform world market prices exist only rarely (with

¹⁰ On this, cf. among others B. Thanner: Nationale Währungspolitik der sowjetischen Republiken – Ausweg aus der Transformationskrise oder neue Komplikationen?, in: ifo-Diskussionsbeiträge, Munich, October 1991; Rubel – Das Ende einer Währung, in: Informationsdienst des Instituts der deutschen Wirtschaft, No. 31 (1992), pp. 6 f.; Mária Huber: Chaos in der Rubelzone, in: Die Zeit, No. 42, 9th October 1992, p. 43.

certain exceptions). Russia in particular is well aware of the fact that any immediate, unconstrained application of world market prices to its own sales of raw materials and fuels would result in a further collapse in the trade between the republics. The crucial element in the changes required is that a departure needs to be made from the previous practice of setting prices administratively, and that the power to establish prices in inter-republican trade must be handed over to individual enterprises, even if most of these can be expected to remain under state ownership for a considerable time to come.

Trade with Other Economic Regions

Russia's place within the international division of labour outside the CIS, too, can be said to have largely become obsolete since 1990. This is most markedly apparent in its trade with other former socialist countries. It should also not be ignored that Russia's geo-economic situation has deteriorated somewhat since the collapse of the Soviet Union. Its main trading partners were, and still are, the countries of Europe. Now, however, Russia is separated from those countries by the Baltic countries, Belarus and Ukraine. Many former Soviet ports on the Baltic or Black Sea coasts can now only indirectly be used as gateways for its imports and exports.¹¹ The direct regional contacts with Turkey, Iran and Afghanistan, countries which used to border immediately on the USSR, have also been disrupted. The border with China, too, has now become considerably shorter, though the problems arising in this latter instance are less significant.

The hiatus which has occurred in the regional structure of Russia's trade is directly apparent if a comparison is made of the relative shares in its overall volume accounted for by different groups of countries. Within an incredibly short period of time, a striking shift of emphasis has taken place away from the former CMEA countries to the industrial countries of western Europe. On the basis of what has happened in former East Germany, it is fair to assume that this will have dire consequences for the gross national product and for the future prospects of many Russian enterprises.

Of course, the main contributory factor towards this shift has been the political changes in Russia itself and in the other central and eastern European countries. Nevertheless, the truly decisive factor is that now the Russian economy has largely been opened up vis-à-vis the rest of the world, its inadequate international competitiveness – except in the energy and raw materials sectors – has become all the more plainly obvious. The

overall trading framework has only remained largely the same with regard to the developed industrial countries. The substantial increase in their relative share of Russia's trade is largely due to the fact that both supplies to and purchases from these countries have remained relatively stable while the remainder of the country's trade has fallen off.

With Russia's share of the USSR's total exports being approx. 80%, the proportions accounted for by different product groups as shown in Table 4 will have been largely the same for Russia alone as for the USSR as a whole. The specifically Russian statistics available for the period since 1990 confirm the continuing structural deterioration in the pattern of exports, with the share of plant and machinery, for example, falling to 10.2% in 1991 and as low

Table 3
The USSR's¹ Foreign Trade (Exports plus Imports)
by Country Groups, 1989 – 1992
(in %)

	1989	1990	1991	1992
(Former) planned-economy countries	61.7	41.8	30.7	25.0 ^a
of which:				
(former) CMEA countries	55.6	35.9	23.7	18.0
China	1.7	2.2	3.7	5.3
Developed industrial countries	26.2	47.2	57.3	61.0
of which:				
EC	14.7	31.8	34.5	36.0 ^a
USA	2.4	3.0	4.9	5.1
Japan	2.5	3.9	4.9	4.1
Developing countries	12.1	11.0	12.0	14.0 ^a
of which:				
Asian NICs (Taiwan, Hong Kong, Singapore, Thailand, Malaysia, South Korea, Philippines)	0.4	1.3	1.8	4.9 ^a

¹ For 1992: the Russian Federation. ^a Estimate.

Sources: Vnesnie ekonomicheskie svyazi SSSR, Statisticheskyy zbornik, Moscow 1990; Ekonomika i shizn', No. 13, March 1992, pp. 14-15; Ekonomika i shizn', No. 45, November 1992, p. 20; Goskomstat Rossii, 0 razvitiia ekonomicheskikh; IWH estimates.

Table 4
Total USSR Exports (incl. Re-exports)
by Product Groups
(in %)

	1985	1988	1990
Plant, machinery and transport equipment	13.9	16.2	13.0
Fuels and electricity	52.7	42.1	53.0
Ores, metals and metal products	7.5	9.5	9.2
Chemical products, fertilizers, rubber	3.9	4.0	4.8
Timber, paper, cellulose	3.0	3.5	2.7
Textile raw and semi-finished materials	1.3	1.6	1.0
Agricultural produce and foodstuffs	1.5	1.7	1.9
Industrial consumer goods	2.0	2.8	2.8
Other goods	14.2	18.6	11.6

Sources: Narodnoe chozyaistvo SSSR v 1990g, Moscow 1991; IWH estimates.

¹¹ Cf. B. Pitschugin, op. cit.

as 9% in 1992. Raw materials and fuels, on the other hand, accounted for 75.1% of Russia's exports in 1992.¹²

Economic Relations with Eastern Europe

As shown in Table 5, trade flows between Russia or the CIS and the former CMEA countries in eastern Europe have now become much weaker. This is not just a consequence of the dissolution of the CMEA, but also of economic disparities which were already in evidence beforehand. The principal difficulties were that faulty decisions had been made regarding specialization, and that the technological and commercial standards of the goods and services provided were too low. The decline in trade applied to relations with all eastern European countries, though it is most pronounced in the case of Bulgaria, which used to be extremely closely tied to the USSR in economic terms.

The same trend continued in 1992. Russia's foreign trade turnover with Poland and Hungary fell to approx. 71% of the value for the corresponding period in the previous year, that with Czechoslovakia to 66%, with Romania to 45% and with Bulgaria to as little as 43%.¹³

This has had substantial, mainly negative, consequences for the economies of central and eastern Europe. In Russia, for example, the range of goods available on the domestic market has deteriorated, since in the second half of the 1980s 7-10% of grocery products in the shops and 12-15% of the industrial consumer goods had been imported from the eastern European CMEA countries. Because spare parts and other inputs were no longer being imported in the amounts needed, almost 30% of the garment industry's capacity was lying idle in 1991.

The economic relations which had developed over the course of several decades on a planned-economy basis have now been largely destroyed, and Russia has lost its dominant position in the eastern European countries' markets. Normal international trade does not currently exist anywhere in eastern Europe. Those foreign trade links which are still functioning will only have a chance of surviving if new points of departure can be established which take account of both the historical background and of whatever useful relationships have emerged in the

region during the past few decades. Whatever happens, though, it will not be possible to re-establish these trading relations at the intensity they had in the past. We believe it is realistic to assume that in future the countries of eastern Europe, together representing approximately 5% of world industrial production and 4.5% of world exports in 1990, will no longer occupy a leading position in Russia's foreign trade strategy.¹⁴ On the other hand, the geographical proximity of these countries, the transport and communications routes in place and the continuing existence of cooperative relationships for many enterprises all add up to substantial arguments underlining the importance of the region as far as Russia's interests are concerned. Russian supplies of raw materials and fuels, in particular, remain considerably important to the eastern Europeans, who in turn have the potential to act as major suppliers of plant and machinery, food and drink, pharmaceuticals and industrial consumer goods. Nevertheless, one needs to bear in mind that, in many respects, Russia and its central and eastern European counterparts all have similar production structures. This could very soon lead to the development of rivalries on the international markets.

At present, Russia's foreign trade regime with the former CMEA countries pays insufficient attention to the revitalization of relations on a renewed basis. The greater

Table 5
The USSR's Foreign Trade with Central and Eastern European Countries

(millions of convertible roubles)

		1990	1991	1991 as % of 1990
Bulgaria	Total	17,399.8	5,985.4	
	Exports	7,492.0	2,243.9	30.0
	Imports	9,907.8	3,741.9	37.8
Yugoslavia	Total	7,488.4	4,673.0	
	Exports	3,676.0	2,537.7	69.0
	Imports	3,812.4	2,135.3	56.0
Poland	Total	20,672.0	7,540.0	
	Exports	7,908.3	4,036.8	51.0
	Imports	12,763.7	3,473.2	27.2
Romania	Total	6,515.2	3,289.4	
	Exports	4,731.0	1,718.3	36.3
	Imports	1,784.2	1,571.1	88.1
Hungary	Total	14,052.8	5,344.1	
	Exports	6,927.0	3,032.1	43.8
	Imports	7,125.8	2,312.0	32.4
Czechoslovakia	Total	18,834.6	9,279.5	
	Exports	8,803.6	5,081.7	57.7
	Imports	10,031.0	4,197.8	41.8
All countries combined	Total	84,962.8	26,081.8	
	Exports	39,537.9	18,650.5	47.2
	Imports	45,424.9	17,431.3	38.4

Sources: Aussenhandel, Nos. 4-5, Moscow 1992, p. 48; IWH estimates.

¹² Goskomstat Rossii: Narodnoye khozyaistvo Rossiiskoi Federacii. Statisticheskiy ezegodnik, Moscow 1992, p. 50; ditto: Vneshneekonomiceskie svyazi RF, 1992.

¹³ Calculated from data given in Goskomstat Rossii: O razvitiy ekonomiceskikh reform v Rossiiskoi Federacii v 1992 gody, Moscow 1993, p. 37.

¹⁴ Cf. L. Bass, W. Winogradow: Die Gemeinschaft unabhängiger Staaten und Osteuropa: Der Übergang zu neuen Bedingungen der Handels- und Wirtschaftsbeziehungen, in: Außenhandel, Nos. 4-5, Moscow 1992, pp. 14 ff.; Helmut Kramer: Die Integration Osteuropas in die Weltwirtschaft, Österreichisches Institut für Wirtschaftsforschung, Monatsberichte, No. 4, 1992, pp. 221 ff.

portion of sales and purchases are conducted by state-owned enterprises under the terms of inter-governmental agreements.¹⁵ In view of the limited progress so far made towards privatization, private companies from these countries have hardly yet been in evidence. Remuneration either occurs on a non-cash basis via a clearing system in which accounts are settled by deliveries of goods in the first two quarters of the following year, or by payment in national currencies e.g. within the frame of an agreement between Russia's Promstroibank and the Czechoslovakian Bank of Commerce. In many cases, pure barter deals are struck, a good example of this being the supply of foodstuffs from Poland in exchange for Russian oil and natural gas.

Because of the large share of Russia's exports taken up by raw materials and fuels, the state can be expected to retain its influence in this sphere for quite some time to come. Yet even so, if the course of transformation to the market economy is continued with determination and consistency, the only possible way in which Russia's trade with eastern Europe can successfully be revived will involve making liberalization, convertible currencies and world market prices into its key determinants.

Industrial and Developing Countries

It is beyond doubt that the developed industrial countries of western Europe are Russia's most important trading partners, and that they will continue to be so in the immediate future.¹⁶ It is therefore particularly towards developing these relations that Russia's foreign trade policy will have to direct its attention, which primarily entails demonstrating that the country's suppliers are able to meet the high standards of quality demanded in this market.¹⁷ A tremendous amount of catching up needs to be done in that respect. To a far greater extent than is immediately apparent from the breakdown of exports into product classes (see Table 4), Russia currently functions purely as an appendage supplying raw materials to the industrial nations.

¹⁵ Russia entered into such agreements during 1990 and 1991 with Bulgaria, Hungary, Poland and Czechoslovakia. Additional contractual arrangements have also been concluded with eastern European partners by individual regions (St. Petersburg, Central Ural, Tyumen District, the Republic of Komi, Tatarstan).

¹⁶ Cf. interview with Piotr Aven, Minister of Foreign Economic Relations, in: *Handelsblatt*, 12th August 1992, p. 9; B. Pitschugin, *op. cit.*

¹⁷ In spite of the changes in Russia's society which have either already occurred or can be expected in due course, it does not for the time being meet the economic and social conditions which would be necessary for it to be integrated into the European Economic Area on an equal basis. To what extent that would ever be possible at all is difficult to say at present. Both a long transitional period in which to consolidate market institutions and macroeconomic stabilization on a secure basis would appear to be essential as minimum requirements.

¹⁸ *Ekonomika i shizn'*, No. 45, November 1992.

In 1991 and the first three quarters of 1992, the share of Russia's exports to this region taken up by raw materials and fuels continued to exceed 70%.¹⁸ The most important export commodities are oil, gas, timber, and ferrous and non-ferrous metals. This already inherently unfavourable situation has been further exacerbated by the fact that the tonnage of oil extracted and exported has declined steadily in recent years, such that only \$6 billion were earned from oil exports in 1991 (against \$22 billion in 1986). The export figures for 1992 provide a reflection of the extraordinary efforts made to recover some of this lost ground, especially in the last three months of the year when more than 30 million tonnes of oil were placed on foreign markets.

Among engineering products, there are none at present apart from Lada motor cars which are marketable in western Europe in any large numbers. There is a vital need for Russia's industrial potential – which has scope for qualitative improvement particularly as a result of the conversion of armaments factories – to be oriented decisively towards external markets. That does appear to be possible, since the country does possess forms of industrial technology which would be quite capable of competing internationally in areas such as aerospace,

Table 6
USSR Exports (incl. Re-exports) to the
Developed Countries by Product Groups
(in %)

	1985	1988	1990
Plant, machinery and transport equipment	1.9	3.3	3.2
Fuels and electricity	77.0	58.0	55.1
Ores, metals and metal products	4.6	12.5	15.3
Chemical products, fertilizers, rubber	4.4	4.6	4.7
Timber, paper, cellulose	3.6	7.4	7.0
Textile raw and semi-finished materials	0.4	1.2	1.4
Agricultural produce and foodstuffs	1.3	2.3	2.0
Industrial consumer goods	2.2	3.3	2.8
Other goods	4.6	7.4	8.5

Sources: Narodnoe chozjaistvo SSSR v 1990g, Moscow 1991; IWH estimates.

Table 7
Russian Production and Exports of Crude Oil
(millions of tonnes)

	1989	1990	1991	1992
Production	552	516	461	393
Exports	115	99	56	66
Percentage of production exported	20.8	19.2	12.1	16.8

Sources: *Ekonomika i shizn'*, No. 44, October 1991; Goskomstat Rossii; *O razvitii ekonomicheskikh reform v Rossii Federacii v 1992 godu*, Moscow 1993; *Vnesnie ekonomicheskie svyazi SSSR*, Moscow 1991; IWH estimates.

parts of the nuclear industry, shipbuilding and the construction of laser equipment. The same is true for the production of a number of industrial input materials. However, the long years of isolation from world markets have led to a situation today in which the ability to market superior scientific and technological achievements is totally underdeveloped.

The picture is a similar one as regards trade with Japan, where there is plenty of potential once the two countries finally manage to settle their political differences. On the one hand, there is no industrial country better able to contribute to economic development in the Russian Far East and Siberia than Japan, while on the other Siberia constitutes an ideal hinterland for Japan, which has few raw material resources. Here too, though, when a longer-term view is taken it is important to ensure that the structure of exports begins to change to enable a more significant part to be played by Russian manufactured goods with a higher value-added.

When it comes to the large, very heterogeneous category of the developing countries, once again the conditions underlying Russia's foreign trade have fundamentally changed. Political reasons can be assumed to have played the predominant part in this respect. Russia is no longer able or willing (on anything more than a very limited basis) to continue the former superpower role played by the USSR.¹⁹ That is particularly true in the military sphere. Armaments, which used to be the main export product, will play a declining part, particularly as it is necessary to observe international conventions strictly in this area.

But in civilian foreign trade, too, major shifts are bound to occur. The pronounced focus upon countries such as India and Turkey which prevailed in the past will undoubtedly give way to a more variegated picture. Primarily affected will be the so-called newly industrializing countries (NICs), whose importance has already grown considerably (see Table 3).

Another reason why the circumstances are more favourable for conducting more structurally balanced trade with this group of countries than with other regions is that exports to them in the days of the Soviet Union already included a 20-25% share of plant, machinery and transport equipment. Conversely, the best means available to Russia of making up the loss of capital goods imports from

the CMEA zone, Finland or India (the latter two also used to engage in barter trade) is to import engineering products from the NICs. In terms of their technical quality, reliability, design etc., these products are frequently superior to those made in eastern Europe, while cheaper than those on offer in the developed industrial countries.²⁰

Russia's Foreign Trade Regime

Inevitably, the determining influence on the shaping of the Russian Federation's foreign trade regime is exerted by the transformation in external conditions and the internal structural shifts towards market economic conditions which are now beginning to take place. However, this is a very long-drawn-out process full of contradictions, the end of which is not yet in sight.

The dilemma faced by government policy on external economic relations is that the reform process as a whole is proving a much slower business than originally envisaged, while the obligation to service foreign debt leaves little room for manoeuvre and there are growing fears that a really forceful reform policy might precipitate a total collapse in the country's foreign trade. Accordingly, a combination of market and administrative regulatory elements has been emerging.

A characteristic example of this is provided by the regulations enacted in June/July 1992, though the authorities have only been partially successful so far in ensuring they are strictly adhered to. Firstly, alterations were made in the regulation of enterprises' rights to carry out export and import operations under their own auspices. Raw materials and fuels in particular are only now permitted to be exported by firms which have been certified as reputable and solvent following a special examination by the Ministry of Foreign Trade. Secondly, the proportion of their foreign exchange earnings which enterprises are required to sell to the central bank was increased from 40% to 50%. Thirdly, export duties were applied to a larger range of goods, while a more sophisticated set of different import tariffs was introduced with a higher average rate.

Many of the regulations have, however, been liable to frequent changes as new presidential decrees, laws and implementational regulations have been issued again and again. This problem combined with the fact that the foreign trade regime is still not sufficiently in harmony with the requirements of a market economy give rise to substantial uncertainty for domestic and foreign entrepreneurs alike. Satisfactory solutions to these problems cannot really be expected to be achieved until Russia's market reforms in general have been speeded up and a higher degree of stability attained.

¹⁹ Nevertheless, it is doubtful whether these countries will repay to Russia the substantial loans granted to them by the USSR. Yet even if a portion of them were to be repaid this could bring a substantial improvement in Russia's foreign exchange position.

²⁰ Federal Foreign Trade Information Office (BfAI): Märkte der Welt, No. 38/92, 17. 9. 1992, p. 9.