Foreign Trade Reform and Privatisation in the USSR*

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1. Introduction

Privatisation is with good reason seen as the core of economic transformation in Eastern Europe and the USSR. Among other systemic changes, privatisation will reshape the mode of interaction between the national economy and the outside world. The Soviet-type system was traditionally characterised as a "state-trading" economy. Therefore, a transition from this situation to a foreign trade regime based on liberalised foreign-trade activity of economic agents constitutes one of the key elements and indicators of systemic change as a whole. At the same time, there is a strong feedback between trade liberalisation and the marketisation of the domestic economy, in particular its demonopolisation, promotion of competition, price liberalisation, and restructuring.

2. Institutional setup: privatisation or decentralisation

The institutional setup of Soviet foreign trade has changed considerably since 1986. According to the present legislation, every economic agent (enterprise, association, cooperative firm, research institution, etc.) can obtain a licence for autonomous foreign trade operations after registration with the Ministry for Foreign Economic Relations. The number of such agents has been growing fast: by April 1, 1991, over 30,000 agents had obtained the foreign trade permit. (VT 1991). Of this number, only 28 are traditional foreign trade organisations (FTOs) of the Ministry for Foreign Economic Relations. Several dozens of foreign trade companies belong to branch ministries and bodies. Republican and regional authorities have been setting up their foreign trade divisions. Most of the big industrial associations also prefer to establish foreign trade firms of their own. The remainder corresponds to micro-level agents, including state- and non-state-owned domestic firms as well as joint ventures with foreign capital participation.

Despite these developments, no dramatic shift has taken place yet in the structure of turnover by type of agent (see Table 1). Formerly, state-owned FTOs controlled nearly 100 percent of the turnover; now their share is no longer all-encompassing. However, it would be wrong to describe the process of diversification of foreign trade agents in terms of "privatisation". "Decentralisation" is probably a more appropriate term for it. Among all foreign trade agents, only a proportion of micro-level agents are private or quasi-private firms. This refers to several thousands of cooperative firms and to 3,400 joint ventures. There is hardly any reason to identify as "privatisation" the granting of foreign trade rights to enterprises, organisations and entities which remain state-owned in open or disguised forms. It is also to be mentioned that individuals cannot obtain foreign trade rights, unlike in other countries.

Table 1

Structure of Soviet foreign trade turnover, by type of agent

		1986	1990
State-owned FTOs,	total	99	54
	exports	99	67
	imports	99	43
Foreign trade associations of branch ministries		1	30
Joint ventures,	total	-	1.0
	exports	-	0.3
	imports	-	1.6
Cooperative (private) firms		-	0.4*
Other participants (state-owned enterprises and organisations)		-	5.5**

* 1989; ** estimate

Source: Seltsovsky (1991); VES (1990); Romanyuk (1990); own calculations

The degree of micro-level agents' autonomy in foreign trade of the USSR must not be overestimated. First of all, several areas remain within the monopoly of the state either absolutely or through various tools of regulation. Thus, the state controls the bulk of raw materials exports. Individual agents cannot, normally, engage in intermediation or distribution, since their foreign trade licence enables them to export own products and to import products for their own consumption only. Therefore, most decentralised foreign trade activity relates to manufactured goods and services, the share of which in the Soviet exports to the West is insignificant. Secondly, a very considerable proportion of export deliveries is carried out according to state procurement ("goszakazy"), thereby leaving little scope for truly voluntary export-allocating decisions.

In the background of the organisational changes that have increased the number of foreign trade agents, there were some typical expectations shared at the initial stage of reform by most Soviet reform economists and policy-makers, namely that:
(a) direct participation in export and import will put economic agents closer to the world market, thus opening the national economy and breaking the gap caused by several decades of autarky;
(b) domestic agents will take care of their own balance of trade and payments, so that the problem of external indebtedness on the macro-level will be alleviated;
(c) producers will restructure output, modernise and innovate, adopt higher technical standards, increase exports of processed goods instead of raw materials;
(d) domestic agents will rationalise their import structure and improve considerably the utilisation of imported inputs.

3. Export performance of micro-level agents

Foreign trade indicators of the USSR have deteriorated visibly over the past several years. Since 1984, the value of exports and turnover has decreased (see Table 2), due to adverse trends in the terms of trade as well as a recent reduction of the physical volume of exports. This coincided in time with decentralisation of foreign trade operations, but individual agents' exports failed to offset the overall drop in volumes. In a Soviet-type economy, one may conclude, granting foreign trade rights to a bigger number of economic agents does not suffice to produce an increase in exports.

Table 2

Foreign trade indicators of the USSR, in billions of roubles

	1985	1989	1990
turnover	142.1	140.9	131.6
exports	72.7	68.8	60.9
imports	69.4	72.1	70.7
balance	+3.3	-3.3	-9.8

Source: Ekonomika SSSR (1991); Seltsovsky (1991).

As far as the commodity pattern of exports is concerned, its evolution after the mid-1980s does not indicate any improvement associated with the entry of new agents (see Table 3). Data for 1985-90 in constant 1985 prices support the finding that, contrary to previous expectations, there was no substantial increase in the physical volume or value of exports of manufactured products where most of the new foreign trade agents operate.

Table 3

Commodity structure of Soviet exports, in percent

	current prices			1985 prices		
	1985	1989	1990	1985	1989	1990
Total	100	100	100	100	100	100
machinery, equipment and means of transport	13.9	16.4	18.3	13.9	12.0	13.0
fuels and electricity	52.7	39.9	40.6	52.7	54.2	53.1
ferrous and non-ferrous metals, ores, articles thereof	7.5	10.5	11.2	7.5	7.8	9.2
chemical products, fertilisers, rubber	3.9	4.0	4.6	3.9	4.1	4.8
wood, paper, pulp, articles thereof	3.0	3.5	3.7	3.0	2.6	2.7
textile raw and intermediate materials	1.3	1.6	1.2	1.3	1.4	1.0
food processed and unprocessed	1.5	1.6	2.0	1.5	1.4	1.9
industrial consumer articles	2.0	2.6	3.6	2.0	2.0	2.8

Source: Seltsovsky (1991)

A Soviet-type economy is usually characterised by "export aversion," which means that agents have no incentive to produce for export and must be compelled to do so by planners through administrative tools. Apparently, a post-planned economy might provide evidence in the converse sense, since all kinds of agents seek foreign trade rights and prefer to engage in export operations directly. "Export aversion" enters into a peculiar combination with "export hunger"; the latter is in turn induced by "import hunger", as will be explained in Section 4. This phenomenon is inherent in a transition period when uncoordinated attempts are being made in order to "open up" and liberalise an unreformed socialist economy, namely through providing export stimuli to agents.

With regard to motivation, firms in developed market economies resort to exporting in order to overcome the limits of the home market. In the case of the USSR this consideration is not valid. The USSR remains a shortage economy where supply chronically lags behind demand, which is partly a monetary and partly a structural problem (the structure of output is distorted in favour of non-civilian sectors). The dimensions of monetary overhang keep on increasing. The allocation of goods for export instead of the domestic market has usually little to do with the demand/supply situation at home: goods are exported despite their acute shortage inside the country (e.g. passenger cars or other consumer articles). The domestic market of the USSR remains "soft" (undemanding) with regard to product quality and technical standards, so a producer can sell domestically any product at nearly any price. This is no longer the case with other East European economies which find certain external markets (e.g. the Soviet one) to be even "softer" than their own markets.

One may conclude then that for a Soviet firm export is more profitable than domestic deliveries. This situation is relatively new and originates from the exporters' right to appropriate a part of the foreign exchange which they earn (the retention quota). Strictly speaking, the motivation is two-fold: to obtain foreign exchange and/or to obtain a greater amount of domestic currency.

In an economy of shortage, foreign exchange has a very high shadow price because it provides access to goods and services otherwise unavailable at any price. This refers not only to consumer goods, but also to producer inputs, since centralised sources of allocation have been drying up in the USSR due to foreign exchange scarcity at the macro-level.

The importance of obtaining bigger amounts of domestic currency as a motivation for Soviet exporting firms can be disputed. Probably it would be wrong both to overestimate and to underestimate it. On the one hand, if the return from export operations, expressed in domestic currency, is significantly higher than from other operations, it creates an incentive. On the other hand, firms usually cannot dispose entirely of either their foreign exchange or rouble earnings. Another consideration is that exporting industries usually have a high hard-currency component in their costs; most such industries use Western technology and inputs, so a large proportion of foreign exchange is not converted into domestic currency but goes to finance the purchase of inputs.

One can analyze decision-making by a firm that produces for both the domestic market and export, and allocates the foreign exchange it earns to either imports or other purposes. According to legal provisions of 1991, exporters must surrender 40 percent of gross export earnings to the state budget against a compensation in roubles at the "commercial" rate of exchange (1.8 roubles/dollar). Then foreign exchange retention quotas are set, varying across sectors from 20 percent (fuels) to 70 percent (engineering goods). (O formirovanii 1991). The rest is again surrendered to the budget at the "commercial" exchange rate. According to this scheme, a USD 100 earned from export of machinery yields the exporter an amount of USD 42 and SUR 97. By June/July 1991, the current dollar rate on the foreign exchange market surpassed the mark of 42 roubles/dollar. By selling the entire hard-currency component on that market, exporter would earn nearly SUR 1764, less a recently introduced 30-percent tax, i.e. SUR 1235, thus bringing the total domestic currency equivalent up to SUR 1332. Given that exporters at the same time import inputs, one can assume that instead of USD 42, the firm can afford to convert into domestic currency only USD 12. Still, the total rouble earnings would constitute SUR 450. On the average, domestic rouble costs of 1 unit of dollar export value of manufactured products can be assessed as 1:1 or 2:1. Hence, exports are more profitable in rouble terms than domestic deliveries, by an order of magnitude, plus they give access to hard currency and thereby to imports. This itself puts exporters into an advantageous position and discourages domestic deliveries of "hard" goods.

Potential exportables include three main categories of products: (a) R&D-intensive manufactures; (b) labour- and resource-intensive manufactures; and (c) raw materials.

For the first category, quality and technical standards matter most on Western markets. As a rule, Soviet producers do not care about world standards. (Often, they are simply unacquainted with such standards). It results in uncompetitiveness of the bulk of Soviet engineering goods. When relatively sophisticated Soviet products (e.g. "Lada" cars) are demanded in the West, it is due basically to their low price. Besides that, the output of R&D-intensive exportables is limited, and can hardly be increased rapidly because that would require costly technological investment from imported sources.

As regards labour- and resource-intensive standard manufactures, e.g. articles made of ferrous and non-ferrous metals, wood products, textiles, these are subject mainly to price competition, but potential Western markets have erected a complex system of import regulation and restrictions.

Raw materials and fuels thus appear as the most promising category of exportables, due to standard quality and huge differences between prices within and outside the USSR. All domestic agents face the temptation to play on these price differences, i.e. to resell abroad the inputs allocated to them at state-controlled prices. Since the profit margin in such transactions is high, agents can easily afford to offer "hard" goods at unjustifiably low prices. Western European authorities have in the most recent period started some twelve anti-dumping procedures against Soviet firms, concerning products such as electric motors, urea, squids, coal, etc. On many occasions, new Soviet agents have quoted astonishingly low prices for petroleum products and other fuels and raw materials, competing among each other and with the specialised FTOs and thereby disrupting well-established import markets. (For some more detail, see Vernikov 1991 a).

Foreign trade liberalisation was presumably going to push producers towards modernisation, innovation and optimisation of output structure. In practice that was not accomplished, nor can it be accomplished in today's Soviet economy. New export-oriented projects are too risky, costly and effort-consuming to be worth taking. Basically, export decisions allow two options: (a) to export own goods currently produced for the home market, at any price; (b) to export competitive goods available from other domestic sources, i.e. to intermediate.

4. Import performance of micro-level agents

Import hunger is another feature inherent in a Soviet-type economy. Since none of the systemic causes that produce this phenomenon has been eliminated, import hunger persists and determines the behaviour of all economic agents. The proportion of import transactions carried out by micro-level agents themselves has been growing successively over the last years. It is characteristic that these agents are responsible for a much bigger share of the country's imports than exports, which signifies an invariably negative balance of trade of most firms, though decentralisation was meant to introduce self-recoupment with hard currency on the micro-level.

Retention quotas of Soviet enterprises and organisations made for SUR 900 million in 1987, and SUR 1.2 billion in 1988. (Burov 1990). This figure grew in 1990 to SUR 2 billion embodied in hard currency, i.e. approximately USD 3.3 billion. Despite this impressive dynamism, decentralised foreign exchange funds correspond to as little as 3 percent of the USSR's yearly import value.

There are several regulations and restrictions regarding the spending of the firms' foreign exchange funds. In principle, the share of consumer goods assigned to the workers of a given company may not exceed 30 percent. In practice, however, it reaches higher levels if other items of "social spending" are included. Imports of consumer goods for the firm's workers create a strong labour incentive under conditions of shortage.

At the same time, this is one of the channels that fuel the "black market". Social tension increases between workers of exporting companies and the rest of the employed. Non-exporting firms, including those of the non-tradeable sector, extort hard-currency payments or payments-in-kind from those firms who have foreign exchange funds. This latter practice was recently forbidden by the new Law on Foreign Exchange Regulation (see Zakon 1991); nevertheless it remains widespread.

The import of investment goods by micro-level agents follows contradictory trends. On the one hand, imports should have become more rational since they are paid for out of the firm's own pocket. On the other hand, there is still insatiable hunger for inputs, particularly those of imported origins, while the economic environment generates weak incentives for their efficient utilisation. Since the micro-level agents have been involved in decision-making on imports, the quantity of non-installed equipment of imported origin has not decreased but kept on growing and now constitutes around SUR 5 billion.

When spending foreign exchange on imports, new entrants often fail to make optimal decisions. Their purchasing prices happen to be higher than those at which specialised FTOs used to buy the same products. In 1990, individual firms were buying consumer goods from Eastern Europe at prices 30 to 40 percent higher than the FTO V/O "Raznoexport" had normally paid to the same suppliers.(PV 1990). One could also quote numerous examples of misuse of foreign exchange funds, when luxury goods are purchased for firms' managers. During 1990 the import of foreign cars grew to 40 (forty) times that of 1989.(Argumenty 1991). All companies claim that they do not possess enough hard currency for modernisation, but in 1990 micro-level agents spent on acquisition of foreign technology nearly as much as they did on foreign travel.

It is a highly profitable business to import industrial consumer goods and to distribute them domestically. Computers, video and sound equipment, second-hand cars, household electric appliances, clothing, perfumery and cigarettes represent items with the highest "multiplier" (ratio between domestic and world market prices). State authorities ban such transactions, but they reappear in disguised forms.

5. Impact of foreign trade decentralisation on the national economy

As was pointed out earlier in this paper, decentralisation of foreign trade did not bring about any positive change either in the volume and commodity pattern of export, or in the rationality and utilisation of import.

There has been evident in the USSR a diversion from the domestic to the external market of "hard" goods, namely fuels, raw and intermediate materials, and high-quality manufactures. Agents at the micro-level share responsibility for this with higher-level authorities. As a result, Soviet manufacturing industries and agriculture face a worsening shortage of inputs.

E.g.,metallurgical works do not receive enough scrap metal for processing. Farms do not get sufficient motor fuel for tractors and trucks during the harvest. Textile factories have to cut output because of the shortage of cotton.

Not uncommonly, agents export scarce inputs abroad at prices lower than average or through barter transactions; simultaneously, state authorities are forced to import the same products from the hard-currency area at higher prices, because of inevitable disruptions in the domestic industry due to shortages. In 1989 the USSR exported textile raw materials and semi-manufactures to the value of SUR 1.1 billion and imported to a similar value of SUR 1.14 billion, with an export price of 46 kopeks per 1 square meter of unprocessed cloth and an import price of 74 kopeks. (Pravda 1990; VES 1990). Similar problems arose with regard to pulp and paper, metals,timber, agricultural products, construction materials.

The main problem is that information flows (price signals) do not work properly in the Soviet economy. When certain goods are allocated for export, there is no generated additional supply of these goods to the domestic market. That is to say, domestic supply price elasticity on is very low. It can be even negative, because the producer may maintain his financial position with a lower level of output allocated at home. Exports do not lead to an increase in output, nor redeployment of factors, nor restructuring. A growing shortage of the exportable product in most cases represents the main effect, with all the consequences in terms of repressed and open inflation. This factor is often ignored by those who call for immediate removal of all export restrictions ("let all exportables be exported").

Decentralisation of foreign exchange allocation has proved to be counterproductive too. The emerging elements of the foreign exchange market are weak and distorted. In fact, there is a fragmentation of this market among enterprises, associations, sectors, regions, republics, etc. Voluntary supply of foreign exchange to the market has not attained any visible dimensions. (Yershov 1990). Some of the reasons why firms are uninterested in converting hard currency funds into domestic currency have been described above. In addition, there are taxes, exemptions and other mechanisms aimed at redistribution of rouble excess-profits which also inhibit conversion. Average quantities of foreign currencies traded weekly at the Moscow exchange market do not exceed a few millions of dollars. At the same time, firms and sectors still operating under "soft" budget constraints present an enormous demand for hard currency. Under these circumstances the price of 1 unit of foreign exchange has reached unrealistically high levels, which is, per se, a pro-inflationary factor.

So far, a partial liberalisation of imports has contributed little to elimination of shortages in the Soviet economy. It has become relatively easy to purchase luxury goods with the highest multiplier, but the supply of basic consumer goods and foodstuffs has not increased to any considerable extent. The degree of monopolisation on these markets has remained unchanged. It is true that if foreign import remains in the hands of monopolised distribution networks, then trade liberalisation will be seriously compromised. (Newbery 1991).

6. Behaviour patterns of state-owned and private firms: is there a difference?

Common knowledge suggests that agents have to conform to the existing regime, whatever their individual intentions and inclinations. Not surprisingly, new agents in Soviet foreign trade sector cannot change substantially the regime and the rules of the game. Quite the opposite: they adjust in a way that copies the worst features of the behaviour of state-owned organisations. Yet the advantage of private firms within a distorted economy stems from their relative flexibility and profit-orientation that enables them to explore the defects of the economy more aggressively and successfully than state-owned firms do.

In fact, one can hardly suggest reliable criteria for differentiation between the foreign trade behaviour of private and state-owned firms. Both appear to be guided by the same considerations deriving from existence of price differences inside and outside the country. Mostly, tactical reasons are taken into account, while there is a lack of any consistent strategy with regard to export. (The few exceptions among Soviet private firms only prove the general rule so far).

Joint ventures were expected by some experts in the West and East to introduce large changes in the economic environment, to impose Western standards of doing business. These expectations were unfulfilled. Out of 3,400 registered joint ventures, only 28 percent have started operation. Many joint ventures prefer to engage in distribution instead of production. The balance of exports and imports carried out by joint ventures is chronically and significantly negative. In addition, their export structure does not differ from that of the whole country and relies heavily on raw materials, fuels, metals and food (58 percent in 1990). (Chirkunov, Shadrovsky 1991). Joint ventures producing for the domestic market face an absence of competition, so their incentive to modernise and to maintain high quality standards is supported only by the part of the output that goes to the parent firm in the West.

New agents are often blamed for increasing commercial indebtedness toward Western firms. It is true that domestic agents are accustomed to the "softness" of the credit system and of the budget constraint, and they transfer this pattern into foreign trade. Besides, in the USSR the intention to import independently does not necessarily means the intention to pay independently for those imports. However, private firms are responsible for this situation only to a minor extent; the bulk of outstanding debts to Western companies has been incurred by state-owned FTOs.

Quite typically for the initial stage of marketisation, multiple cases of firms' misbehaviour are reported. Tax evasion is probably a universal phenomenon; to avoid the 40-percent surrender requirement and other taxes, firms have been using barter transactions with underinvoicing of exports and overinvoicing of imports. Other typical features of behaviour are violations of customs regulations, non-repatriation of export proceeds, inaccuracy in delivery, cheating, fraud, etc.

7. The state regulation of foreign trade of private firms

The system of state regulation of foreign trade in the USSR includes: registration of participants; customs clearing; export/import taxation; quantitative restrictions; exchange controls; state procurement; direct trading in selected strategic commodities. Apart from union-level (federal) legislation and regulation, there is a rapidly growing body of legislation at the level of republics and regions. This creates confusion about the legal rights and powers of both agents and authorities. For instance, each republic's authorities will now be in charge of foreign trade licensing, while the main tariffs are set uniformly for the whole country.

Theoretically, all kinds of agents in foreign trade should enjoy equal rights. However, policy-makers in the USSR have never concealed their ideological preferences in favour of the state sector. Unequal opportunities for different sectors are preserved in various forms in practice. Private firms find it more difficult to obtain licences for import and export. They have to pay extremely high taxes to import consumer goods. Access to commercial credit and to investment credit in foreign currency is problematic for private firms. Private firms are forbidden to enter into barter transactions. So far, not all categories of private firms have had access to the foreign exchange auctions and market (e.g., joint ventures were not admitted as buyers).

8. Feedback between privatisation and foreign trade reform

A partial liberalisation and decentralisation of foreign trade came well ahead of privatisation. When decentralisation started, there were no private firms in the Soviet economy. Since then, the number of cooperative, joint-stock and other private companies has grown fast, as has their share in gross output and employment. These firms are starting to play a visible role in certain subsectors. Nevertheless, the private sector does not yet have enough political weight to exert an influence on the formulation of foreign trade policies.

Foreign trade is essential for many private ventures. Whereas, on the domestic market, wholesale trade in inputs has insufficient scope, importing represents a vitally important channel of access to new technology, materials, managerial skills and business techniques. In view of huge price distortions, a successful intermediation business offers high and quick returns indispensable for initial capital accumulation and development of the firm. Many of the new, genuinely private firms in the USSR accumulated their starting capital through distribution of imported computers. A large proportion of private firms seek integration with foreign capital, whether as subcontractors or distributors.

Therefore, until the economic regime changes, the outlets and opportunities offered by foreign trade contribute to the survival and development of private firms which operate in a hostile environment.

9. The need for a coherent package of economic reforms

The shortcomings of the reform of foreign trade stem basically from its lack of coherence with other elements of economic reform.

When introducing decentralisation of foreign trade at an early stage of the reform, policy-makers believed that new institutional and legal framework would force the then existing economic agents to adopt new behaviour patterns and to act in foreign trade as real market firms, i.e. in a non-system-specific way. Clearly, these expectations were not fulfilled. Since the nature of agents did not change, as they remained in state ownership, their behaviour did not change either. Moreover, new kinds of agents - such as small-scale private firms and joint ventures - had to assimilate to the same patterns and explore the opportunities provided by the existing environment. Before the economic weight of private firms reaches some critical mass and before the regime undergoes a radical change ("big bang"), there is little reason to expect qualitative changes in the situation described.

Decentralisation of foreign trade has brought about new problems rather than solved any of the old ones. Direct and indirect destabilising effects can be discovered in the spheres of exports, imports, foreign indebtedness, investment, price growth and inflation, and output. This empirical evidence provides an argument against the idea of promoting reforms in one field ahead of others ("optimal sequencing"). Premature "opening" of a non-market economy is dangerous.

The above suggests the need for a comprehensive reform package with trade liberalisation as one of its elements. Evidently, privatisation requires a fairly long period of time, and its effects may become sensible in the medium-run at best. At the stage of macro-economic stabilisation, which necessarily precedes structural and institutional change, trade liberalisation will have to come together with price liberalisation, elimination of most subsidies, reduction of the budget deficit and the imposition of "hard" budget constraint on enterprises.

Several problems arise with regard to regulation of individual agents' foreign trade activity. One can expect a disappearance of purely speculative motivations only on condition that domestic prices for tradeables are set in line with world market prices. Postulating the exchange rate at a very optimistic level of 10 roubles/dollar, it would still produce a tremendous one-off inflationary shock, since some groups of prices will have to grow by a factor of ten or more. It is important to remember that East European economies, e.g. Poland, have been approaching price liberalisation for a number of years, so by the time of the "big bang" many prices had been liberalised. Perhaps, there is no need to pursue a "supershock therapy" in the USSR, and the problem of the tradeable goods outflow can be kept under control through unfashionable, but unavoidable, quantitative restrictions on export.

If combined with harder budget constraints, a devaluation of the rouble is likely to reduce the demand for imports. Firms using imported inputs would face serious financial problems. The strength of this shock depends on the rate of exchange as well. Even at the present "commercial" rate of 1.8 roubles per dollar some firms find it difficult to finance their purchases of imported inputs, and, under the assumed devaluation of the "commercial" rate towards 7 or 10 roubles/dollar, industries will have to shut down, unless there are special stabilisation funds to subsidise them.

The Soviet government has decided to introduce internal convertibility of the rouble as of January 1, 1992. It means current account convertibility for residents.(Anulova et al.,1991). At first, internal convertibility is likely to involve companies only, while for individuals exchange restrictions will be maintained. As suggested by the Polish experience, internal convertibility can represent a powerful tool for stabilisation, but it requires in turn a whole set of pre-conditions and conditions which mostly do not exist currently in the Soviet Union. (Vernikov, 1991 b). Without or ahead of financial stabilisation, introduction of internal convertibility can become unsustainable and counterproductive in view of the shortcomings analyzed in previous sections. If domestic firms keep their inflationary expectations at the present high level and behave according to these expectations (a perspective of further devaluations of the rouble; maximisation of import volumes in the short run; non-repatriation and non-surrender of export receipts), then domestic finance and foreign exchange reserves may get into trouble.

As regards the interlinkage between internal convertibility of the rouble and import liberalisation, these two measures have a chance of success only in combination. However, in the USSR mainstream thinking and policy-making tends to be restrictive towards imports, particularly imports of "non-essential" items. A situation may arise when domestic output is hit by recession, and imports by exchange restrictions and high customs duties. The population then will fail to see any palpable positive outcome of the reform so necessary for policy credibility. In Poland, a surplus of supply over demand was achieved in 1990 mainly through an inflow of imported goods. If this condition is not met, shortages will grow yet more acute, and prices will jump.

10. Conclusions

10.1. Foreign trade reform in the USSR has so far taken the path of decentralisation. The share of private firms in the turnover remains very small, more or less in proportion to their weight in output, so a decrease in the share of central FTOs has been offset by that of state-owned enterprises, associations and ministries. The autonomy of micro-level agents in the foreign trade of the USSR has narrow and ill-defined limits, due to various tools of regulation.

10.2. Foreign trade decentralisation has not produced positive shifts in the volume and structure of export, or in the balance of trade, or in the utilisation of imported inputs.

10.3. When granted foreign-trade rights, economic agents transfer into this sphere the patterns of behaviour that prevail within the domestic economy. Agents are guided mostly by considerations of profit maximisation in the short run through exploitation of existing price differences within and outside the Soviet economy. Investment in export-oriented industrial projects is rare. Misbehaviour of micro-level agents takes diverse forms, e.g. tax evasion, violation of customs rules, dumping, corruption, etc.

10.4. Foreign trade decentralisation has contributed to the destabilisation of the national economy, in particular through diversion of inputs to the external market. It aggravates domestic shortages due to the absence of supply response and low supply price elasticity.

10.5. Under the prevailing economic regime, private firms and even foreign-owned firms adopt the perverse rules of the game in a distorted, controlled and non-competitive market. They start behaving quite similarly to state-owned Soviet companies.

10.6. The private sector in the USSR does not have enough strength yet to exert an influence on the formulation of foreign trade and exchange policy. At the same time, trade liberalisation has been and continues to be of crucial importance for survival and development of private firms which otherwise operate in a hostile environment.

10.7. The anticipated foreign trade and exchange decentralisation has been a mistake. This reform must be incorporated into a market-oriented package of reforms, which at the first stage (macro-economic stabilisation) includes also hardening the budget constraint, financial discipline, price liberalisation and, at a later stage, involves privatisation of the majority of state-owned enterprises and structural change. Within a stabilisation programme, import liberalisation must be accompanied by introduction of current account convertibility for residents.

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