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Polish-Russia barter deal sets model for trade in East

by William Engdahl

The bilateral Polish-Russian Trade Agreement signed in Moscow Sept. 3 between Polish Finance Minister Leszek Balcerowicz and Russian Prime Minister Ivan Silayev, provides the model for the type of pragmatic trade agreements which will emerge between Russia, Ukraine, and other republics in the former U.S.S.R., as well as with other nations, according to European trade specialists familiar with the state of affairs in eastern Europe.

The new agreement abandons the monetarist hard currency "shock therapy" approach to Soviet-Polish trade which was imposed in late 1990. Since the adoption of that hard-currency payment system, Soviet-Polish trade fell by 70% from 1989 levels.

Now, trade will be conducted in a form of barter, with the first such deal to be an agreement by Russia to deliver crude oil and natural gas to Poland in exchange for Polish grain and agriculture products worth an estimated $200 million. The role of hard currency in their mutual trade will thus be sharply reduced, priority instead being placed on trade clearances for exchange of hard commodities. Of all Polish trade with the former U.S.S.R., over 80% was with the Russian Republic.

Similar bilateral agreements are soon expected to be signed between Russia and Estonia and Latvia, modeled on an already existing agreement with Lithuania, as well as between Poland and Ukraine.

Russian Prime Minister Silayev emphasized this cautious approach toward monetary reform when he told a Moscow press conference that same day, that a "shock" approach to monetary and price reform in the transition to a market economy must be avoided. He stressed that the Russian population is "tired," and cannot sustain such a shock. In trade relations with third countries, Silayev envisions a kind of central bank clearinghouse which could settle outstanding annual trade balances in "either rubles or ECUs." Silayev, former chairman of the German-Soviet Economic Commission, did not mention the U.S. dollar. The ECU is a basket of western European currencies dominated by the German mark, indicating the direction of future trade orientation of the resource-rich Russian Republic.

The policy of cautious pragmatism and emphasis on rebuilding hard-commodity trade flows in the wake of the failed Moscow putsch in August, was seen in statements by Volodimir Pilypchuk, head of the Economic Committee of the Ukranian Parliament. He said on Sept. 3, "We must have an appropriate market-oriented infrastructure and a balanced budget. After all this, we can talk about freeing prices and creation of a new currency." Also, according to Lithuanian National Bank Vice President Kazys Ratkevicius, until Russia or Lithuania's other main economic partners are able to recognize a Lithuanian national currency, "We would turn to settling our trade in the old system of transfer rubles."

Addressing the intra-CMEA trade collapse

Adoption of a de facto form of Polish "shock reform" between the U.S.S.R. and former members of the east European CMEA trade bloc ("Comecon") during 1990, was responsible for a precipitous collapse of intra-CMEA trade, as no partner had sufficient western hard currency to maintain trade flows. In a recently issued review of the economic situation in eastern Europe, including the U.S.S.R., the Geneva-based Economic Commission for Europe (ECE) notes the dramatic impact of the shift during 1990 among the countries of the old CMEA of settlements in hard currency rather than in the former transfer ruble accounting arrangement. This shift "was the major new element in the current year, and the impact of the shift to world market prices and convertible currency settlements on trade among the member countries

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the main element of uncertainty."

The ECE reports that the ensuing fall in volume of intra-CMEA trade—for example, between Poland and the U.S.S.R., or Czechoslovakia and Poland—was expected, to a certain degree, by the trading countries, but "the depth of the actual decline clearly exceeded expectations on both sides. In the east European countries, the fall of sales caused severe problems for industries that had long been specialized to service the Soviet market." The ECE reports that many east European factories have been forced to produce for inventory stockpiling in hopes of someday resuming exports.

This is the background to the trade negotiations now under way between the major republics of the former U.S.S.R. and their major trading partners. According to Austrian trade insiders familiar with the situation in the east European markets, Boris Yeltsin's Russian Republic had quietly begun such bilateral barter-type arrangements over the recent months, well before the failed Aug. 19 putsch, including with Hungary, Turkey, and other states.

Senior British Foreign Office economic consultant Peter Oppenheimer of Christ's Church College, Oxford, indicated a growing sentiment in British circles against the radical Harvard monetary "shock therapy" reform approach of Jeffrey Sachs and the International Monetary Fund (IMF) toward eastern Europe. In a recent interview, Oppenheimer stated, "I do not actually see the need for ruble convertibility for years. It would be ridiculous of them to begin with this. First they must rebuild their industry to make it economically competitive. In the meantime you can have a kind of ad hoc payment in commodities, without convertibility."

Oppenheimer is outspoken in his criticism of British- or American-style finance as any model for eastern Europe. In a commentary in the Aug. 27 London *Independent*, he called for a "prioritized" sequence of reforms in various sectors of the economy of the former U.S.S.R., and a banking and credit model based on continental European, especially German or French banking, since "attitudes to economic policy on the continent have a more dirigist tendency than in America and Britain. If the Soviets want a few modest lessons on how to do it, they should go to the Germans or French. When on the other hand, they feel ready to meet the financial equivalent of second-hand car salesmen, they will find themselves welcome in London or New York."

The foreign debt problem

The next difficult decisions for the future of the economic and trade relations of Russia, Ukraine, and the other emerging republics will be around the significant foreign hard currency debt repayment falling due before the end of December. According to ECE calculations, of an estimated $64 billion in total hard currency foreign debt, the U.S.S.R. must pay $12 billion by the end of December. In addition, it owes some $4 billion in trade arrears to western companies, and some $2 billion in short-term debts (less than one year). With export revenues from oil and gas sales falling, along with internal production capacity, the crisis is reaching proportions which alarm certain western creditor countries.

Germany has been chosen as the lead western debt negotiator, as by far the largest share of credits to the U.S.S.R. come from German banks—some $20 billion, most guaranteed by the German government. Influential German bankers including Friedel Neuber, the chairman of West LB bank, and Deutsche Bank chairman Hilmar Kopper, have called for an emergency "bridge loan" to be given the Soviet Union through the private agency of the Basel, Switzerland-based Bank for International Settlements, in order to see it through the present transition from the old order into the emerging European Community-style confederation of republics. City of London financial sources say this proposal has a strong likelihood of being approved. "The BIS, unlike the IMF, is not dominated by Washington. At this point, Bush administration policy would favor maximum financial chaos from the U.S.S.R. toward western creditors because it would affect the Germans most heavily," noted one senior London banking source. "The use of the BIS, which tends to reflect the policy consensus of continental European central banks, especially that of Germany and Switzerland, would circumvent likely U.S. blocking as would occur from use of, say, the IMF. The U.S. does not have any voting rights in the BIS."

If such short-term problems can be rapidly resolved, leading west European industry and banking circles are optimistic that a dramatic change in the economic prospects of all of eastern Europe will emerge for the first time since the fall of the Berlin Wall in November 1989. Numerous west European industrial companies would then be ready to commit significant capital to development of the vast resources of Russia, Ukraine, and the rest of eastern Europe. Already, in addition to German firms, Danish, Swiss, and, for the first time, British firms such as the ICI chemicals group, have begun direct negotiations with the various republics for concrete projects from oil drilling to laying a modern fiber-optic telecommunications link to western Europe. Japanese industry is also reported eager to get a major new market as well as to secure future vital industrial raw materials from the Russian and other republics.

Little wonder that with the U.S. economy collapsing, with bankrupt banks, falling real estate prices, and a soaring U.S. budget deficit, the Bush administration is frantically trying to prop up the old central bureaucracy behind Gorbachov and block the development to a union of republics. Washington fears, with good reason, that if the economic and political situation in the Soviet Union were now to stabilize, as one well-placed Danish banker expressed it, "It would leave the U.S. out of the game. Bush is appearing isolated in this entire process since Aug. 22. A strategic shift in world relations of enormous import is under way, and he sees the influence of Washington eroding dramatically under the new conditions."