A Program for Trade Recovery in the New Independent States

by Constantine Michalopoulos and David G. Tarr

All fifteen states established in the economic space of the former Soviet Union (FSU) have experienced substantial declines in trade and economic growth since regaining independence. Their heavy economic interdependence, with its roots in the centralized state planning system of the Soviet Union, has intensified the decline in trade and output. In 1993 total trade among the fifteen countries (interstate trade) declined to a third of its 1990 level, while their total trade with the rest of the world dropped to 46 percent compared with 1990. Gross domestic product over the same period dropped by 30 to 50 percent (see table on page 4).

New market-based mechanisms for allocating resources were slow to emerge in most countries. The institutional infrastructure for the conduct of trade was and remains deficient and all too often continues to be dominated by state-trading organizations. Exports have also suffered from the overall dislocation resulting from the breakup of central planning and declining supplies of some key products (for example, oil in Russia).

Ineffective trade policies worsened the problem. Most FSU countries featured extensive use of export controls "to keep goods at home." Exports, primarily of fuel, raw material, and food, have been restricted, with the aim of keeping domestic prices low, and hence have softened the impact of price liberalization both on enterprises and consumers. Export restrictions have included licenses and quotas, taxes, monopsony purchases by state trading organizations and these organizations' control of trade in key commodities, and surrender of foreign exchange at below-market exchange rates.

Before 1994 most new states had imposed few formal controls on imports. The problem so far, however, has been too little competition from imports rather than too much, because overvalued foreign currency rates hiked up import prices, even in the absence of formal protection.
import restraints. In 1992, real wages—measured at the undervalued local rate—reached only about $10-$20 a month in many FSU countries, and were just slightly higher in 1994 in many states. (The local exchange rate became undervalued because of the strong demand for foreign currencies—as residents sought a store of value other than domestic currencies—and also because hard currency supplies tapered off, not least as a result of the export restraints.)

Appreciating Currencies

Russia through 1993, and Uzbekistan to date, subsidized imports extensively. In Ukraine foreign exchange has been allocated at below-market rates to preferred importers. As a result, there was less (or more expensive) foreign exchange available for those who wanted to import competitive goods and services. From late 1993, as exchange markets gained strength and new currencies were introduced, foreign exchange became more available. The appreciation of local currencies (in real terms) in some states prodded domestic enterprises to seek protection from international competition. Several countries, including Latvia, Lithuania, and Russia, responded to such pressures in early 1994 with new, stricter regimes of import tariffs or with plans to impose higher tariffs.

Trade among the republics of the Soviet Union was too high and should have declined, once countries gained independence and started to introduce market reforms. Russia had the lowest dependence on trade with the other republics: in 1990 its share of interstate trade represented 61 percent in total foreign trade, while for the other countries, such trade in 1990 amounted to between 82 percent and 93 percent of total trade. This high level of trade interdependence was the result of highly concentrated production and arbitrary specialization. Central planning decisions forged trade links that often had little relevance to comparative advantages or location advantages. But declines in interstate trade following independence were due less to the introduction of market forces and more to other factors:

Payments problems, with economic agents either unwilling or unable to use the banking system to pay for imported goods and services, may well have been the most serious impediment to interstate trade. This problem culminated in 1992 during the period of the common ruble zone. Russia was the only country entitled to print ruble notes, but all fifteen states could expand the aggregate money supply as their central banks were able to create ruble credits at will. In the absence of monetary coordination among the central banks, governments were not particularly interested in exports to the ruble zone. They would earn rubles, which would be credited to their account—something their central banks could do anyway. And they had too many rubles already. Governments quickly responded by imposing export licensing requirements on interstate trade, which usually were more severe than restrictions on their trade outside the FSU.

Risky Ruble Trade

The payments situation deteriorated further after July 1992. Russia began to accumulate large bilateral trade surpluses against the new independent states. To avoid unlimited financing of these trade surpluses and stem the outflow of goods, Russia's central bank imposed credit limits on other FSU countries. But the system was still plagued by huge uncertainties and long delays (transfer payments took on average about three months).

By late 1993 all countries except Tajikistan had introduced their own currencies. The new independent states no longer had to worry about worthless trade surpluses. Commercial banks throughout Russia and Ukraine—
through their growing network of correspondent accounts—provided reasonably fast turnaround on payments. But even as this network facilitated trade in 1993 and early 1994, new problems emerged.

The new currencies, with the exception of the Baltic currencies (and possibly the Russian ruble), were not convertible and could not be used in trade. Denominating trade in rubles, however, was risky because of the ruble’s instability. The use of correspondent accounts was further constrained by the general weaknesses of the commercial banking system and limitations imposed on markets for rubles or dollars in some states such as Ukraine.

Furthermore, many countries were facing a serious foreign exchange shortage and were unwilling to use the ruble for denomination or settlement of interstate trade transactions. As a result, barter continued to be the favored instrument of trade among most of the new states.

Interstate trade was also hampered by major terms of trade adjustments, which took place especially between exporters and importers of fuel and raw materials. Over the past three years, the major energy exporters, Russia and Turkmenistan, raised their oil and natural gas prices in interstate shipments to close to world market levels. As a result, the Baltic states, Belarus, and Moldova suffered an estimated 20 to 40 percent loss in their terms of trade. (This was a larger shock by far than the 1973 OPEC oil shock.) Energy importers attempted to mitigate the terms of trade losses by making special arrangements in bilateral agreements with exporting countries to supply oil and other raw materials at less than world prices.

Country Strategies

Countries reacted to the interstate trade breakdown in different ways:

- Estonia and the other Baltic states moved quickly to abandon policy tools of the planned economy. By mid-1994, with few exceptions, little of the Baltics’ exports flowed through state trading organizations.
- State organizations in Georgia, Turkmenistan, Ukraine, and Uzbekistan continued to control the bulk of foreign trade, especially key exports.
- Kyrgyzstan, Moldova, and Russia made progress in stabilization and market reforms, but accorded the state a continued (though declining) role in controlling key commodity exports, while liberalizing other trade policies. They have moved away from state orders, for example, and their respective state trading agencies compete with other buyers for the procurement of exportables.

For countries other than the Baltics, annually renegotiated intergovernmental barter agreements provide the framework for allocating goods through state ministries or agencies. This mandatory trade leads to widespread distortions, even though prices fixed in the agreements are getting closer to world market prices, and goods included in the agreements have narrowed recently to a few commodities. The arrangement has also failed to meet its central objective of sustaining trade: actual deliveries under the “obligatory” component of the agreements usually are less than fifty percent of the contracted amounts.

In parallel with intergovernmental barter, various groups among the fifteen

---

CIS Cooperation: How to Transform Words into Action?

Eleven governments of the Commonwealth of Independent States (CIS) are considering a Russian proposal on oversight of CIS trade and international currency operations. At the October summit meetings in Moscow, CIS countries (Azerbaijan, Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan) adopted two documents, one on creating a supranational Interstate Economic Committee, and another on forming a clearing union. (The document mentions a payments union, but it does not spell out the creation of a credit facility, a standard feature of payments unions.) Turkmenistan refused to sign the first document, and Azerbaijan signed only with reservations.

All CIS states signed the agreement on the clearing union, which is to ensure that interstate accounts and transactions are not disrupted by the lack of convertibility. If successful, the agreement could reduce the reliance of the CIS states on economically inefficient bilateral barter trade. But in the past two years initiatives to set up such a payments mechanism under a newly formed interstate bank have failed. (See the comment of Daniel Gros, "Genesis and Demise of the Interstate Bank Project," in the forthcoming book, Trade in the New Independent States.) The bank has not become operational to date. The CIS countries have been waiting for Russia to move, but Russia, which runs a huge surplus with all CIS countries, has little incentive to do so.

The new initiative envisions conversion of each CIS currency into other CIS currencies, to be guaranteed for all "socially significant payments," including pensions, postal transfers, alimony payments, and other government grants. Furthermore, it foresees a mutual information exchange about currency flows and the establishment of a CIS-wide system for monitoring currency movements and compliance with national laws governing them.

The CIS Interstate Economic Committee held its inaugural session in mid-November and dealt with the creation of a CIS customs union and a common market for goods, services, capital, and labor. It discussed uniform customs codes and customs service regulations for member states, and a common tariff regime for imports from outside the CIS.

countries have tried to put in place other cooperative arrangements in trade and payments. On the trade side most agreements involve the provision of tariff preferences for imports under free trade arrangements; on payments the most ambitious effort has been to negotiate a clearing union under the auspices of a new interstate bank. None of these efforts has affected trade so far, however. The proposed free trade areas—with the exception of an agreement among the Baltics—exclude the major exports that are subject to controls. And the interstate bank has not been set up yet, although the proposal has been ratified by several parliaments. The recent CIS agreements (see box, page 3) might make meaningful progress in addressing key constraints on interstate trade.

Recovery and Integration

Some policy suggestions for promoting recovery and fuller integration in the world economy:

- Governments of the new independent states should reduce their direct involvement in international trade. While many countries, in particular the Baltics, have made big strides in reducing the role of state trading, in other countries state-owned trade organizations or other public entities continue to dominate international trade. Instead of prescribing what, how much, and at what price commodities should be traded, governments should limit their role to providing a policy and regulatory environment and helping establish the financial and institutional infrastructure that would facilitate interenterprise trade. The principal shortcomings in the trade policies of the new independent states have to do with exports, not imports. Remaining export licenses should be converted to export taxes and those taxes should be eliminated over time. Authorities should also be alert and abstain from restraining imports (increasing tariffs) if the real exchange rate starts to appreciate in response to successful stabilization measures.

- Governments of these states should strive for currency convertibility, at least for current account transactions. Estonia and Latvia proved that early currency convertibility is feasible. Even if currencies are not convertible, it is important to develop a network of commercial banks and develop foreign exchange markets for “vehicle” currencies. The Russian ruble could become a suitable currency for denomination and settlement of trade, if it stabilizes. If not, other currencies should be used, replacing barter.

- Both trade and payments reform should be implemented in the context of broader market reforms, including price and enterprise reform. Macroeconomic stability is essential for developing currency convertibility and undistorted exchange rates. The latter in turn would reduce incentives for export controls.

- Joining the GATT, and ultimately the new World Trade Organization (the successor to GATT), would enhance the international market access of these countries. But a prerequisite for membership is reform of the candidate countries’ trade regimes. If such reforms are undertaken, GATT members and the GATT Secretariat should expedite the process of admission to the extent possible. OECD countries can support the integration by terminating their designation of these countries as “state trading countries,” once stabilization and structural adjustment are making progress.

Constantine Michalopoulos is senior adviser in Country Department III of the Europe and Central Asia Regional Office, and David G. Tarr is principal economist in the International Economics Department, of the World Bank. The article is based on the forthcoming book, Trade in the New Independent States, edited by the authors, to be published by the World Bank, Washington, D.C. (For ordering and price information, see page 24.) Contributors, in addition to the authors, are Misha Belkindas, Greta Bull, Michael Connolly, Yuri Dikhanov, Sergei Glaziev, Daniel Gros, John Hansen, Ardo Hansson, Oleh Havrylyshyn, Bartlomiej Kaminski, Daniel Kaufmann, Vladimir Konovalov, Kathie Krumm, Francois Le Gall, John Nash, Piritta Sorsa, Silvina Vatnick, and Jonathan Walters.
Averting Debt Crisis in the Russian Economy
by Qimiao Fan and Une Lee

There is deep concern in Russia that another enterprise arrears crisis is imminent. (Arrears are generally defined as debts or obligations that are overdue.) This debt scare comes after the longest spell of tight financial policy since the start of economic reform in January 1992 and amid continued sharp declines in industrial output. There are also concerns that increasing interenterprise debts will result in more unpaid taxes to the budget, more unpaid loans to the banks, and more unpaid wages to workers, thus threatening not only macroeconomic and financial stabilization, but also social stability in the country.

Between October 1993 and June 1994, interenterprise arrears increased from 3.1 percent of annualized gross domestic product to 4.8 percent. (Data in this article are provided by Goskomstat, Russia's State Office of Statistics.) Overdue bank credits and wage arrears also increased in recent months, although less vigorously. Interenterprise (trade) arrears are the largest category of arrears in the economy. Their share in total enterprise arrears was 63.8 percent as of 1 June 1994. The second-largest category is tax arrears followed by loan arrears, and wage arrears. This article argues that although the situation is really difficult, with proper policy measures the arrears problem can be overcome.

Arrears, Arrears Everywhere

Interenterprise (trade) arrears. In Russia about 45 to 50 percent of all enterprise trade credit is currently overdue. Measured in months, the average overdue period in early 1994 reached about 1 month for commercial receivables and 0.8 to 2 months for commercial payables. Trade arrears are especially high (around 60 percent of total commercial credit) in oil extraction and refining; production of gas; coal, chemicals, and petrochemicals; wood; and microbiology. The total debt of the FSU countries against Russian energy supplies equalled 2.6 billion rubles as of 1 March 1994. Most of the debt, 1.9 billion rubles, was against gas supplies and was concentrated in Ukraine. The Russian arrears figures, however, are not worse than overdue payment figures of the leading Central and Eastern European transition countries or of Western Europe. At the end of 1991, Czech and Hungarian overdue enterprise trade credit represented about 50 percent of all enterprise trade credit, and averaged 44 percent in 11 West European countries. Measured in months, the average overdue payment period in Hungary and the Czech Republic was 0.8 to 1.2 months, and in Western Europe between 0.6 to 1.6 months.

The share of tax arrears in Russia's total enterprise arrears has increased dramatically, from 10.7 percent on 1 October 1993, to 19.8 percent on 1 June 1994. Tax arrears as a percentage of total tax obligation have also doubled in the same period; in industrial enterprises their share rose from 22 percent on 1 October 1993 to 53.9 percent on 1 June 1994. More than half (53.3 percent) of total current tax arrears are due by the energy sector, with fuel alone accounting for 47.6 percent. Industries such as coal, gas, and oil production, forestry, ferrous metallurgy, and construction accumulated the largest tax obligation. In oil production, overdue taxes exceeded arrears on payables to suppliers. The oil and gas sector are major sources of fiscal revenue; their poor taxpaying record has a significant negative impact on budgetary balance.

Arrears on bank credit have increased from 4.6 percent of total enterprise arrears on 1 October 1993, to 5.7 percent on 1 June 1994. Enterprise arrears accumulate when enterprises are unable or unwilling to adjust to the changing economic environment. Therefore, this issue cannot be expected to disappear overnight and the problem may recur periodically. There is no simple and generalized solution. What is critical in this process are the expectations of enterprises and the credibility of the government. Enterprises that have built up excessive arrears should change behavior and not wait for government bailouts. Programs must tackle the root cause—the lack of financial discipline of enterprises—and force changes in enterprise behavior. The following measures, some successfully implemented in the Central and Eastern European economies, can alleviate the debt problem:

Wage arrears increased sharply in early 1994, and were equal to about 40 percent of the monthly wage bill in April 1994. In agriculture, wage arrears exceeded tax arrears and bank arrears. Wage arrears in coal mining exceeded bank arrears. Although average remuneration in the fuel sector is more than twice the industrial average (in gas production, four times the average), wage arrears are relatively rare. Worker wages in this sector are apparently financed by increasing trade and tax arrears.
Clear and Present Dangers

Estimates of the size of Russia’s interenterprise debt vary widely, with the lowest figure being around 30 trillion rubles ($13.8 billion) and the highest around 112 trillion. (For comparison: the Russian government estimates a nominal 1994 GDP of 700 trillion rubles.)

Repeated proposals for the issuance of government-backed promissory notes against enterprise debts have a number of risks:

*They would reinforce the perception that the government will never crack down and force enterprises into bankruptcy on any large scale.

*They would cover only existing interenterprise debts, although inflation eroded their real value anyway. (The interenterprise debt share of GDP fell from 50 percent at the end of 1991 to 9 percent last year.) The plan would do nothing to address the flow problem, and hence would not prevent the accumulation of new debt.

*They would be thinly disguised soft credits. If debtors failed to pay in the end, the government would be left to pick up the tab.

*They would effectively penalize those enterprises that have taken the initiative to address the debt problem themselves (for example, by negotiating debt-for-equity swaps).

Some recent developments indicate further government support for indebted enterprises: new credits worth 3.5 trillion rubles have been promised to the defense sector and to heavy industry, and 6.0 trillion rubles to the farming sector; and subsidies have been allotted to the coal and nuclear sectors. Deputy Prime Minister Ole Sokovets, chairman of the interenterprise debt commission, has proposed a number of solutions, including a tougher approach to Russia’s debtors in the former Soviet Union, government payment of debt owed by state ministries, and a lid on energy prices charged by monopoly suppliers and transport companies.

Radical reformers want to crack down on debtors and force large-scale bankruptcies. But the debt problem is so widespread, and the chains of nonpayment arrears so complex, that it is difficult to know which enterprises ought to go bankrupt. Besides, much of the debt—possibly 16 trillion to 20 trillion rubles—is owed by the government itself. By the end of the year, government debts to enterprises will be at least 25 trillion rubles. The Federal Bankruptcy Agency has indicated that the value of state obligations that appear as credits on enterprise ledgers will be ignored, a decision that has provoked sharp protests from managers and regional governments.

In the absence of government action, some enterprises and regional governments have already begun to actively seek solutions to the debt problem via such mechanisms as debt-for-equity swaps and mutual write-offs. These measures will help to address the stock problem. The flow problem—the creation of new debt—will be impossible to address, however, as long as managers expect the government to intervene and bail them out. The fundamental question remains whether the government will resist pressure from industry to bust the budget or will loosen up monetary policy. The danger is that even limited concessions to industrial managers will put recent gains on the stabilization front in jeopardy.

(Based on recent reports of the Oxford Analytica, Ltd., Research Group)

• **Encourage bankruptcy procedures.** In Russia creditors can go to court to recover their debts, but court procedures are lengthy and costly, and the penalties that one imposed on debtors insignificant. Many creditors are therefore reluctant to initiate liquidation and bankruptcy procedures against their debtors. Through legislative changes, the government can empower creditors; for example, the government can allow creditors to sell their debtors’ assets if the debts are overdue for a certain period. The effective threat of liquidation and bankruptcy will force enterprises to pay their creditors, suppliers, and the budget on time.

• **Develop a market for interenterprise arrears.** Some enterprises might have a liquidity problem and be unable to pay their bills at a particular time. The government can encourage the development of a market for interenterprise credit and arrears. (A presidential decree to this effect was issued but has not been implemented.) The market for nonoverdue interenterprise credit is akin to a market for commercial bills in mature market economies, while the trading of interenterprise arrears (overdue credits) is similar to trading in international debts. (Poland in the past two years has developed a small but active market for interenterprise arrears and the experience so far has been positive.)

Such an arrears market

• **Would provide liquidity for cash-thirsty enterprises.**

• **Would generate better information about the creditworthiness of enterprises.**

• **Would reduce the frequency of liquidation and bankruptcy procedures as creditors could recoup part of their money without initiating costly, formal procedures.**

• **Would add new financial instruments, and thus would diversify and strengthen the emerging financial market.**

• **Enforce tax collection.** Tax compliance should be enforced and those enterprises that do not pay their taxes on time should be penalized. Russian tax authorities are taking steps to collect tax arrears; for example, they seize and cash in commercial receivables, retaining the revenue against the tax arrears. (Reforming the accounting system and improving information flow will also help tax collection.)
- Compensate for arrears that originate from intergovernmental agreements. For some enterprises, especially those in Russia's fuel and energy sector, arrears build up because other countries of the former Soviet Union (FSU) cannot pay for imports, a requirement mandated by intergovernmental agreements. Consequently, enterprises should not be forced to bear the burden of resulting arrears. The government should pay the enterprise for the purchases, either directly from the budget, or out of revenues from sales of goods purchased under intergovernmental agreements. (By doing so, the government can isolate the effects of intergovernmental agreements on enterprises as well as make explicit the subsidies to other FSU countries and domestic users of goods from other FSU countries purchased under intergovernmental agreements.) Ideally, the government should get out of intergovernmental trade altogether and stop forcing enterprises to sell.

- Reduce budgetary arrears toward enterprises. Many utility enterprises, especially those in gas distribution, electricity, and transport, are not getting paid by the local authorities (often for household deliveries that are supposed to be subsidized by local budgets). This in turn restricts the enterprises' ability to pay their creditors. These subsidies should be reduced eventually, but a transitional measure to alleviate the payments problem is to transfer the subsidies directly to households and make them responsible for paying their bills. Making households directly responsible for the services and utilities they consume (while not overlooking the need to target social assistance) will also improve energy efficiency and reduce waste. Federal budget arrears also have contributed to the increase in enterprises arrears and should be avoided.

- Improve financial information on enterprises. The cash flow in some enterprises is not as bad as the rapid increase of arrears would suggest. The presence of both large arrears and a healthy cash flow (liquidity) is indicative of the business policy of some enterprise managers. The government may even publicize sectors and enterprises that are in reasonably good financial shape, but that nonetheless refuse to pay their suppliers, their taxes, their bank loans, and wages to their workers. The government should consider removing those managers in state-owned enterprises who deliberately delay wage payments.

Qimiao Fan is an economist, and Une Lee a consultant, in Country Operations Division II, Russia, Europe, and Central Asia Region, the World Bank. This article is based on preliminary results of a larger, ongoing World Bank study on arrears in the Russian economy.
What's Next? Strategies for Enterprise Restructuring in Russia
by Maxim Boycko and Andrei Shleifer

Mass privatization in Russia officially ended on 1 July 1994. Some 14,000 medium- and large-scale enterprises have been privatized, in part through distribution of shares to insiders (workers and managers) and in part through voucher auctions. Two-thirds of the Russian industrial labor force is now employed by privatized firms. More than 40 million Russians became shareholders in either privatized enterprises or investment funds. This transfer of ownership was accomplished in a matter of twenty months, with relatively few major scandals or severe setbacks.

Privatization, of course, is not the ultimate goal; it is a means to steer the Russian economy on a growth course. Enterprise restructuring should follow ownership transfer. Many privatized enterprises have indeed begun to change their product lines, reduce employment, and involve foreign companies in joint ventures. Major investors, who accumulated blocks in voucher auctions and in post-auction trading, have actively challenged and even displaced old-school managers. Perhaps most important, privatization has created a political constituency of entrepreneurs who, rather than concentrate their lobbying efforts on extracting further state subsidies, expect the government to go ahead with further reform in such areas as corporate governance, securities markets, and law enforcement.

Nonetheless, restructuring of the Russian economy has been slowed down by the following factors:

- Most enterprises are still run by the old management teams, which often lack the human capital and interest to initiate significant changes, tending instead to stick with traditional product lines. In many cases, these enterprise managers have consolidated their control by buying shares in the secondary market.
- Those enterprises that do want to restructure often lack the capital to move aggressively. Private markets have not succeeded in providing capital to privatized firms, so the government remains a major source of finance. Politicians continue to dominate the allocation of export rights, capital, space and other essential inputs. This endangers the political and economic independence of these companies.
- The legal and regulatory environment in Russia has greatly discouraged foreign investment.

There are six key strategies for enterprise restructuring.

1. Transition to cash privatization. Voucher privatization aimed at creating millions of shareholders. In the new phase of cash privatization, shares will be sold—either government-owned shares of privatized enterprises or shares of enterprises that are still state-owned. Much of the proceeds could be retained by the firms themselves, to cover restructuring costs.

2. Assurance of tangible control rights. Managers of privatized Russian firms often go unchallenged by shareholders. (Managers and workers own more than 50 percent of most privatized firms.) External shareholders have trouble exercising their rights, such as obtaining information, communicating with fellow shareholders, voting their shares, and getting their transactions registered. Some outside investors consider minority shareholdings worthless.

As to creditors’ rights, neither the commercial banks nor creditor enterprises have any legal mechanisms of collecting what is owed them. The new bankruptcy procedure, largely ignores creditors and instead gives control over bankrupt firms to a new government agency.

Only recently, new regulations have begun to be implemented, giving outside investors more rights, including the right to vote and transfer shares. Outside investors will begin supplying capital to the privatized firms only when they can obtain tangible control rights in return.

3. Creation of securities markets. New equity issues are likely to become an important source of capital for privatized firms in Russia. Many firms are planning to issue equity, but are concerned about their ability to distribute shares to investors. The time for securities markets has come, and they hold the potential of both addressing the capital needs of Russian firms and facilitating corporate governance. In Russia establishing a single centralized stock exchange at this point is not desirable, since it is likely to be controlled by a government agency, rather than market forces. A less centralized network of exchanges, controlled by broker dealers, seems more appropriate.

4. Reform of land and real estate ownership. Land reform includes the reorganization of collective farms, the creation of private ownership rights (including transferability) of small land plots.
used for both recreation and small-scale farming, and the transferring of ownership of land used by enterprises. Over the past three years, despite President Yeltsin’s forceful efforts to decree change, land reform in Russia has been held up by the agrarian interests. The bureaucracy has managed to prevent privatization of collective farms and even registration of ownership of existing private land plots.

The prospects for consolidation of ownership rights over personal land plots, and ownership, particularly, of the land under enterprises are improving, although privatization of real estate has been frequently delayed by local governments. In large cities, such as Moscow and St. Petersburg, real estate is probably the most valuable asset enterprises have (as confirmed by the extremely high valuation of firms in these cities). The city governments, not surprisingly, have passed decrees designed to maintain government control over the leasing of real estate and to prevent the creation of private real estate markets.

5. Support of competition. Under competitive pressure, firms change their products, reduce costs, fire incompetent managers, reduce employment, and take other actions associated with restructuring. In Russia progress in this area has been relatively slow. The central government has imposed a variety of foreign trade barriers, including tariffs and quotas.

Local governments have also imposed administrative barriers to interregional trade; among other measures, licensing requirements greatly discourage entry. However, the privatization agency has so far resisted efforts to form financial industrial groups (with the exception of a few regions, such as Yekaterinburg) to monopolize product markets and extract credits from the central government. The antimonopoly agency is beginning to develop a rational procompetition policy that focuses on monopolistic abuses rather than on regulation of all large firms. And Russian trade, despite all the regulations, is expanding.

6. Transferring of social assets. Russian firms provide their employees with free, or substantially below cost, social services such as housing—by far the largest item—child care, medical care, and sports and cultural facilities. Because layoffs are penalized, firms keep their workers on at very low wages on long-term vacations rather than lay them off. Besides being a tremendous financial burden on the firms (representing about 20 to 25 percent of total labor costs), this commitment to social services scares away potential investors, reduces labor mobility, and gives extra bargaining chips to old-time managers in negotiations with the government over cheap credit and subsidies.

Transferring social assets to local governments would solve many of these problems. If the transfer of social assets to local governments entails a decrease of local subsidies to enterprises, an increase in real prices charged for social services, privatization of local assets and real estate, and a switch to payroll and real estate taxation by local governments, the whole system of local government in Russia, and not just industrial firms, will be restructured. This would accelerate all reform, including stabilization.

The transfer of social assets from enterprises could result in fiscal tensions between various levels of government. Local governments might use their new responsibility for social assets to lobby the central government for more funds or for a bigger share of the tax revenues they collect. This is fiscal federalism Russian-style; local governments, by threatening separatism and social unrest, extract resources from Moscow, which in turn finances the expenditure by printing more money. Foreign aid could help reduce these tensions. The Russian Privatization Center has initiated a $20 million pilot project, using funds from the World Bank, to facilitate the transfer of enterprise kindergartens to local governments over a period of three years.

This program, linked to fiscal reform of local governments, could promote privatization, expansion of the tax base, and introduction of new taxes to finance local government expenditures. A reasonably small amount of aid, properly designed and administered, can go a considerable way toward addressing a major social problem in Russia, encouraging enterprise restructuring, and perhaps reforming local government finance.

Andrei Shleifer is Professor of Economics at Harvard University.

Maxim Boycko is Chief Executive Officer of the Russian Privatization Center (RPC) and had a principal role in the design and implementation of Russia’s mass privatization program.

The World Bank/PRDTE

Czechs Are Optimistic— but Only in the Long Term
ECONsult's Survey

ECONsult, Ltd., in association with AISA Prague, conducted its inaugural survey of consumers in the Czech Republic between October 18 and November 1, 1994. The sample consisted of 1,131 Czech individuals aged 18 and older. Respondents were interviewed face to face in their homes. Some major findings of the survey:

Perceptions of long-term economic prospects were more positive. A majority (54 percent) believed their economy would improve over the next five years. Only 21 percent of respondents predicted worsened long-term economic conditions. ECONsult’s quarterly index of future economic expectations (FEE index), which measures expectations about the economy, unemployment, inflation, and savings, stood at 84 points (with a maximum score of 200). The quarterly index of consumer confidence (CC index), which summarizes public sentiment about both current economic conditions and future economic expectations, stood at 72.

Unemployment and inflation were viewed as equally important problems in today’s Czech Republic. Czechs expected a higher level of unemployment and higher prices in the next twelve months. Prices were believed to have increased over the past year and risen substantially over the past five years. In the next twelve months, prices were expected to increase by 18 percent. Over the longer term—the next five years—prices were expected to rise annually by 35 percent.

The living standard had remained unchanged or had worsened over the past year, most Czechs believed. Higher living costs were viewed as the primary cause for a decreased standard of living. About 25 percent benefited from the introduction of the market economy, while 57 percent felt their situation had worsened over the past five years. Fifty percent of the respondents felt that their living standards would remain unchanged over the next twelve months, while a quarter believed it would worsen somewhat, and 17 percent saw their situation improving somewhat. In the longer term, Czechs expressed greater optimism. About 38 percent felt their household’s financial situation would improve over the next five years, while 20 percent believed their situation would not change over the five-year period.

Savings propensity. Forty-one percent of those surveyed intended to save over the next twelve months, but half of those surveyed felt that now was a poor time to save. Respondents said that at present, a bank account was their method of saving. Savings, rather than credit, were a more likely source of funding for large purchases made in the next three months. Consumers tended to save for specific large purchases. Only a small minority used credit to afford a large purchase. Although more than half of those interviewed felt that now was a bad time to purchase consumer durables, over one-fifth intended to buy these types of large household goods.

Politics and Policies of those surveyed, 45 percent were not satisfied with the present political situation in the Czech Republic. More than a quarter were satisfied, and an almost equal percentage (26 percent) were neither satisfied nor dissatisfied. A majority of respondents were "not very" (36 percent) or "not at all" (17 percent) satisfied with present economic policies of the government, while 23 percent were satisfied and 21 percent were undecided. In terms of present social welfare policies, 61 percent were not satisfied.

(ECONsult specializes in forecasting for the most dynamic economies in Eastern Europe, including the Czech Republic, Hungary, Poland, Estonia, and Slovakia. For information: ECONsult, Ltd., Reid House, 31 Church Street, Hamilton HMFXBermuda, tel. in U.S. (408) 385-1049, fax in U.S. (408) 385-1304.)
A number of transition economies of Eastern Europe have begun to show signs of recovery from a transition slump that has been as severe, or more so, than the collapse of the interwar years. In 1994, GDP in most East European economies has been rising by between 2 and 5 percent, fueled mainly by exports to Western trading partners and, to a lesser extent, by an increase in private consumption and investment demand. Exceptions include Bulgaria and the successor states of the former Yugoslavia, except Slovenia. In the Czech Republic, Hungary, Poland, Slovakia, and Slovenia, the recovery has spread to industry, which had suffered most in the slump.

Between 1989 and 1993 fixed investment in Eastern Europe dropped by nearly 40 percent (and by much more in Russia and the CIS). But in the leading reform countries investment is now picking up. For 1994, gross fixed investment should rise by some 5 to 11 percent in the Czech Republic, Hungary, Poland, and Slovenia. Apart from Hungary, where some slowdown is expected, these rates should increase slightly in 1995. In Poland investment in machinery and equipment has been rising at 14 to 15 percent a year since 1992.

Russia’s GDP is likely to be some 16 percent lower in 1994 than in 1993, despite the government’s earlier hopes of holding the decline to 6 to 8 percent. For the CIS as a whole, the average fall in output is likely to be nearer 20 percent. The acceleration in the fall of Russian output was largely a consequence of the tough austerity program introduced in early 1994 to combat inflation. This policy was relaxed to meet the protests of state industries and agriculture, leading to sharp fluctuations in the ruble exchange rate and a new upsurge in inflation. The more fundamental reasons for the lack of an improved performance in Russia lie in the failure to create a political and social consensus behind a coherent program of short-run stabilization and longer-term institutional and structural reform.

In other economies of the CIS, governments have been slow to adopt reform programs—Ukraine announced its first program only in October 1994—and to introduce effective stabilization policies, despite the potentially greater scope for national action after the dismantling of the ruble zone. They have also been adversely affected by the collapse in intra-CIS trade and the long delay in reaching agreement on an effective payments mechanism. The economic performance of the Baltic states falls between that of Eastern Europe and that of the CIS. Output was still falling in Latvia and Lithuania in the first half of 1994, but at a slower rate than in 1993. A recovery seems to be emerging in Estonia.

With the strong recovery in Western demand, transition economy exports have risen in the first half of 1994—in dollar terms—by 4 percent. Trade between the CEFTA countries (the Czech Republic, Slovakia, Hungary, Poland, and Slovenia), and between the CIS and non-CIS states, increased rapidly, more than offsetting the loss of intra-CIS trade.

Consequently, the trade and current account deficits of the East European countries have fallen sharply, while the Russian current account surplus has increased further. In aggregate, the Eastern current account deficit fell by $3 billion to a level of $1.7 billion in the first half of 1994 (compared with the first half of 1993), while the Russian surplus rose to $5.2 billion from $4.8 billion. The current account balances of the Baltic states deteriorated to a combined deficit of $390 million in the first half of 1994.

Net inflows of capital into Eastern Europe declined by one half to around $3 billion in the first half of 1994. Nearly $2 billion of this was direct and portfolio investment. Access to the international capital markets for medium- and long-term funds has improved, though it is still available only to the Czech Republic, Hungary, and Slovakia, although Poland may soon be able to join this select group, but the funds raised in 1994 ($2.1 billion in the first ten months) are much lower than in 1993 ($6 billion). Loan disbursements from the development banks, which have been in the forefront of financing infrastructure projects, were modest. Utilization of officially backed credits was small, probably held back by low domestic investment, the high costs of borrowing, and for some, the lack of access.

Although the climate for foreign investment in the transition has generally improved, foreign direct investment (FDI) in Eastern Europe amounted to only just less than $4 billion in 1993, and stagnated in the first half of 1994 at $1.3 billion. At mid-1994 the stock of foreign investment in Eastern Europe amounted to $12 billion, and nearly $17 billion when the Baltic states and the European CIS countries are included. To place these numbers in perspective it may be noted that Mexico alone received $3.3 billion in FDI in the first half of 1994, a 25
percent increase over the same period in 1993.

The fears expressed a few years ago that there would be a massive shift of foreign funds away from the developing countries to Eastern Europe and the former Soviet Union have so far proved groundless. The share of OECD foreign direct investment going to the transition economies rose from about 0.2 percent in 1990 to 2 percent in 1992, but that of the developing countries rose from 16 percent to 23 percent. Significantly, Germany is the one OECD country where the share of total outward investment going to the transition economies has risen markedly, from 0.8 percent to 6 percent between 1990 and 1992—but again, the switch has been at the expense of the OECD, not that of developing countries.

The foreign investment that flowed into Mexico and half a dozen other Latin American countries in 1994 was attracted in particular by privatization programs. This is also the case in Eastern Europe. Foreign investors are awaiting the end of the second round of voucher privatization in the Czech Republic and the conclusion of the Czech and Hungarian programs for privatization of key industries (telecommunications, fuels, and so on), which may partly explain the overall slowdown of FDI into Eastern Europe in the first half of this year. Moreover, the privatization programs in Bulgaria, Poland, Romania, and Slovakia, for example, have moved much more slowly than expected at the start of the year.

(It was unrealistic, on the part of both Western and Eastern governments, to suppose that private foreign investment would somehow lead or bring about the transition to a market economy. Foreign investors are usually seeking an environment that promises competitive, risk-adjusted rates of return, with an appropriate framework of business services and protection for investors taken for granted. Far from leading the transition process, foreign investors, for the most part, will wait on the sidelines until they see sure signs of success.

Another widely held misconception was that FDI would rush into Eastern Europe to exploit the relatively cheap skilled labor. This ignores the fact that it is the broader, prospective rate of return that matters in the FDI equation, not just the cost of skilled labor. Moreover, more than 80 percent of foreign direct investment by OECD countries stays within the OECD area, where differences in the costs of labor are not generally significant. Studies of the determinants of FDI usually cite the size and openness of partner countries, and expectations of a stable, growing economy, among the important variables.)

If the transition economies' access to private finance and the resources of the multilateral institutions fall short of their balance of payments financing requirements, funds may be made available through the G-24's complementary macroeconomic support. The European Union provides one half of the target amount. In 1993-94 the G-24 and the European Union set loan targets or made commitments to Bulgaria ($360 million), Slovakia ($245 million), Romania ($220 million), and Albania ($42 million). None of these funds had been disbursed by mid-1994. More adequate credit and better targeting of official assistance is still needed to remove many of the obstacles to the transition to functioning market economies [and to promote] foreign direct investment.


From the Russian daily Izvestia

The more I want to eat, the less I want to be free.
New Euromoney Country Risk List—China Surges Ahead, Cuba Trails

London-based Euromoney magazine published, in September 1994, its latest country risk list in an article entitled “Country Risk: Watch Out, Uncle Sam.” (See table on page 14.) Excerpts from the article follow:

China moved up to 30th place in Euromoney’s latest ranking of countries by risk. China’s young capitalist economy is growing at the rate of 10 percent a year. Foreign investment, vast natural resources, cheap labor, and the takeover of Hong Kong in 1997 will further enhance China’s economy. Vietnam, which has improved its standing in the past four rounds of ranking, now stands in 88th place, up from 128th in 1992. The communist government’s reforms in the late 1980s have fueled the economy and attracted foreign investment. Investment inflows totaled $1.9 billion in the first six months of 1994.

Eastern European states making gains in the ranking include the Czech Republic, which moves up one place to 39. The Czech Republic has risen 10 places since the takeover of Hong Kong in 1997 will.

<table>
<thead>
<tr>
<th>Country</th>
<th>Moody’s*</th>
<th>Poor’s**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment grade</td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>A3</td>
<td>BBB</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>Baa2</td>
<td>BBB+</td>
</tr>
<tr>
<td>Hungary</td>
<td>Ba1</td>
<td>BB+</td>
</tr>
<tr>
<td>Slovakia</td>
<td>...</td>
<td>BB-</td>
</tr>
</tbody>
</table>

* Best grade: Aaa; ** Best grade: AAA.

Source: World Bank

Assessing Country Risk

The Euromoney country risk assessment uses nine categories that fall into three broad groups: analytical indicators, credit indicators, and market indicators. The highest score in each category receives the full mark for the weighing; the lowest receives zero. The country risk ranking shows only the final scores after weighing. The categories are as follows:

- Economic data (25 percent weighing). Taken from the Euromoney global economic projections for 1994-95.
- Political risk (25 percent). Euromoney polled risk analysts, risk insurance brokers, and bank credit officers. A score of 10 indicates no risk of nonpayment; zero indicates there is no chance of payments being made. Countries were scored in comparison to each other and with previous years. Country risk was defined as the risk of nonpayment or nonservicing of payment for goods or services, loans, trade-related finance, and dividends; and the risk of the nonrepatriation of capital. This category does not reflect the creditworthiness of individual counterparts in any country.
- Debt indicators (10 percent). Scores are calculated using the following ratios from the World Bank World Debt Tables 1993-94: debt service to exports, current-account balance to GNP, and external debt to GNP.
- Debt in default or rescheduled (10 percent). A score of between zero and 10, based on the amount of debt in default or debt rescheduled over the past two years. Scores are based on the World Bank World Debt Tables 1993-94.
- Credit ratings (10 percent). The average of sovereign ratings from Moody’s, Standard & Poor’s, and IBCA. Countries without credit ratings, or those that are rated lower than BB, score zero. (See table above.)
- Access to short-term finance (5 percent). Members of OECD consensus group I score 10, members of group II score five, members of group III score zero. Coverage from U.S. Exim Bank and the Dutch NCM is worth between zero and 10, depending on the level of coverage available.
- Access to international bond and syndicated loan markets (5 percent). Reflects Euromoney’s analysis of how easily the country might tap the markets now, based largely on issues since January 1993. A score of 10 means no problem whatsoever; eight, no problem on 95 percent of occasions; and six, usually no problem; four means it is possible to acquire loans, depending on conditions, two, just possible in some circumstances; and zero, impossible.
- Access to and discount on forfaiting (5 percent). Reflects the maximum tenor available (up to five years) and the forfaiting spread over riskless countries such as the United States. The score equals the maximum tenor minus the spread. Countries for which forfaiting is not available score zero. Data were supplied by Morgan Grenfell Trade Finance.
its first ranking in September 1992. As
the most accessible ex-communist state,
it can look forward to greater invest-
ment, better technology, and a transfer
of Western management techniques.

Poland moves from 80 to 73 on the back
of economic success, political stability,
and a lively stock market. Euromoney's
GNP growth forecast for Poland for
next year is 4.5 percent. Croatia climbs
eight places and now ranks 128 in the
light of plans for an IMF-World Bank
financial package.

### Country risk rankings of 37 transition economies (compared with the five "leaders"), 1994

<table>
<thead>
<tr>
<th>Country</th>
<th>Rank</th>
<th>Analytical indicators</th>
<th>Debt indicators</th>
<th>Access to international financing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sep-94</td>
<td>Mar-94</td>
<td>Sep-93</td>
<td>Total</td>
</tr>
<tr>
<td>United States</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>97.93</td>
</tr>
<tr>
<td>Switzerland</td>
<td>2</td>
<td>6</td>
<td>4</td>
<td>97.89</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>97.69</td>
</tr>
<tr>
<td>Singapore</td>
<td>4</td>
<td>10</td>
<td>12</td>
<td>96.92</td>
</tr>
<tr>
<td>Austria</td>
<td>5</td>
<td>2</td>
<td>8</td>
<td>96.32</td>
</tr>
</tbody>
</table>

Source: Euromoney

November-December 1994
Milestones of Transition

The European Bank for Reconstruction and Development (EBRD) will spread its investments over a greater geographical area, work more with local lenders, and increase its equity financing, according to EBRD President Jacques de Larosiere. The bank will emphasize assistance to local, small and medium-size enterprises; and it will both lend and invest large sums of capital in local financial institutions, and train their staff in modern lending techniques. The EBRD had an operating profit of $4.5 million in the third quarter of 1994, reversing a second-quarter loss of around $8 million. The turnaround was fed primarily by what bank officials termed an "outstanding" performance by the treasury department, which manages and invests the bank's cash.

The European Union's latest summit in Essen did not fix a timetable for economic and political integration with six former communist countries (Bulgaria, the Czech Republic, Hungary, Poland, Romania, and Slovakia), but pledged a minimum of 5.5 billion Ecu ($6.6 billion) over five years to help the six close the economic gap with the Union.

The European Union Council of Foreign Ministers, during their late-November meeting in Brussels, agreed to open talks with the Baltic states on an association agreement. Estonian Ambassador to Brussels Clyde Kull said the timing of the talks will depend on the completion of technical preparations, but that it is hoped that the agreements will be signed in March or April 1995. He noted that the council set similar conditions for talks with the Baltic states as it had with the six East European countries that are already European Union associate members. A transition period of up to six years—necessary to make legislative changes and gradually pull down tariff barriers—is envisaged before the Baltic states become full members.

The new World Trade Organization, which will link more than 120 countries in a wide-ranging treaty liberalizing global trade, will start operations on 1 January 1995.

In Poland the new zloty will be introduced on 1 January 1995. Initially, three bank notes (10, 20, and 50 zloty) and nine coins (1, 2, 5, 10, 20, and 50 groszy and 1, 2, and 5 zloty) will be introduced; 100- and 200-zloty notes are to be issued in mid-1995. The new currency will replace the current zloty by reducing its nominal value by 10,000.

The German Commerzbank on 1 December agreed to take a 21 percent stake in the Polish Export Development Bank. This is the first time a German bank has invested directly in Poland's financial sector. The Commerzbank investment amounts to DM 80 million and provides the German bank with a local partner to deal with its clients in Poland. The Dresdner Bank, and the French Banque Nationale de Paris, are currently setting up branches in Poland, but similar attempts by other Western banks have run into opposition from the Polish National Bank, which insists that investors buy into existing Polish banks to help strengthen the Polish banking system.

The Czech government's proposal for 1995 envisages a balanced budget, with budgetary expenditures and income totaling 411.5 billion korunas each. The government also proposed that the National Property Fund, the country's top privatization agency, provide 10.7 billion korunas to pay the interest on the country's state debt.

In Slovenia GDP growth for 1994 is expected to reach 4 percent. The pace of restructuring is quickening, although the government still takes a cautious line on privatization.

In the first half of 1994 Slovakia's GDP increased 4.4 percent (reaching 45.5 billion korunas), compared with same period last year. The central bank's reserves (excluding gold) increased by $240 million to $720 million. The budget deficit reached 10.5 billion korunas by end-June. The Statistical Office envisages a 3.9 percent increase in real GDP for 1994, a 14.7 percent increase in consumer prices, and a drop of 2 percentage points in unemployment, to 14.5 percent.

Rapid growth in exports and a burgeoning in investment are pushing the Hungarian economy toward 4 percent GDP growth in 1994. Industrial output has been rising at a 7 percent annual rate while construction has boomed with a 15 percent growth rate. Agriculture is expected to rise by 5 percent this year. Hungary's foreign trade deficit will probably reach $2.8 billion by the end of 1994. During the first nine months of the year, the value of exports was $7.4 billion, while imports reached $10.0 billion. Trade with Germany accounted for one-third of both imports and exports. Exports to Western industrial countries grew 21 percent over last year's figures. Some $900 million in foreign capital was invested in Hungary from January through September.

The Hungarian government has submitted its 1995 budget to parliament. The draft provides for a deficit of 282.7 billion forints ($2.7 billion) or 5.5 percent of estimated GDP, excluding interest payments on the accumulated debt. The government announced on 8 December
that electricity and gas prices for consumers will increase by an average of 65 percent and 53 percent, respectively, as of January. The government will allocate 9 billion forints ($8.2 million) from the state budget to compensate those hardest hit by the increases. It is estimated that a 100 percent hike in household energy prices is needed to bring them up to world levels and to cover production costs.

**Russia** is experiencing a dangerous tendency toward curtailing education at all levels, claims Vladimir Terekhov of the Analytical Center of the Federation Council [the upper house of the Russian parliament]. Russia currently has 2.6 million students in a total of 535 state colleges and universities. Spending on education at all levels in Russia is among the lowest in the world. Investment in education has in recent years seen a steady decline. Teachers are paid wages that rank among the lowest in the country. Student maintenance grants allow for only two hours of study a day, instead of eight, and students must earn their living the rest of the time.

The total student body in Russia declined by 409,000, or 13 percent, between 1980 and 1992. And whereas in 1987 some 41 percent of school leavers intended to enroll in college, the figure dropped to 28 percent by 1991. The number of students at state colleges of economics and law has dropped by 23 percent. Over the past year an average of 40 percent of the younger (under 40) college professors and teachers have either quit their jobs to join commercial structures or emigrated. According to sociological surveys, one in five professionals and a quarter of college graduates are planning to emigrate. The potential emigration of professionals is estimated at 1.5 million by the year 2000. (Source: Nezavisimaya Gazeta, 29 November 1994.)

In early November **Russian** President Boris Yeltsin named radical reformer Anatoly Chubais as first deputy prime minister. Chubais is now responsible for several economic agencies, including the ministries of economics, finance, and foreign trade. Vladimir Panskov, who between 1987 and 1990 served as first deputy to the Soviet minister of finance, Valentin Pavlov, was appointed to the post of minister of finance. Vladimir Polevanov, a professional geologist, was appointed as chairman of the state committee for property, to manage the country's privatization program.

President Boris Yeltsin has ordered that his administration's staff levels be reduced by one-third and that part of its function be transferred to the Russian government. According to former Minister of Finance Boris Fedorov, the total of personnel in Yeltsin's presidential administration in Moscow and other regions has reached 40,000. This is much higher, Fedorov claims, than the staff of the Central Committee of the Communist Party during the Soviet period.

**Russians** are currently keeping about $10 billion to $14 billion in their foreign bank accounts, Andrei Vermikov, Deputy Director of the Bank of Russia's Foreign Operations Department, has said. These funds can return, provided the Russian economy is stabilized, the rate of inflation is curbed, and the interest rates of the Bank of Russia are lowered. The volume of foreign investments in Russia may total $2 billion in 1994, as compared with $1.6 billion and $1.8 billion in 1992 and 1993, respectively. Direct investments in the charter funds of banks and industrial enterprises were the principal form of foreign investment. Russia currently has 14 banks with foreign equity, Vermikov said. Artyom Tarasov, a deputy of the state duma and a well-known entrepreneur, has suggested the establishment of a Western-Russian investment fund for returning Russian capital from abroad. The fund would guarantee the anonymity of investment and efficiency in the utilization of capital, both in Russia and abroad.

In **Russia** about 4,400 industrial facilities were closed in the past nine months; decline in industrial output over the same period reached 23 percent, as compared with the same period in 1993. At the same time, gross domestic product dropped by 16 percent. Capital investments were reduced by 26 percent during this period, mainly because industrial construction is being wound down. At present the earnings of the highest income decile in Russia are 29 times those of the lowest income decile.

By the end of 1994 the official number of unemployed in **Russia** will have reached 2 million, writes the Nezavisimaya Gazeta. By the end of 1995 the unemployment figure is expected to double and, according to the Federal Employment Service, will amount to between 4 million and 5 million. As of 1 November 1994 the Federal Employment Service had 1.7 million people officially registered as unemployed.

Sergei Storchak, deputy head of the Finance Ministry's External Debt and Foreign Credits Department, suggested that **Russia** would not ask for forgiveness on its foreign debt, but would try to stretch its payments out for as long as possible. Without taking account of agreed rescheduling deals, Russia will have to pay creditors $15.5 billion in 1995, equivalent to 40 percent of the state's total budgeted income. The government's main task in 1994 has been (and will continue to be in 1995) to calm creditors and to service debts so that they are not too much of a burden on the budget. Moscow has been giving pref-
ence to repaying the $9 billion debt incurred since 1992, and less emphasis to reducing the debt inherited from the former Soviet Union. (According to a Russian finance ministry document circulated at a closed session of the state duma, the debts of the former Soviet Union totaled $112.7 billion at the start of 1994. Soviet debts stood at $103.9 billion and Russian debts at $8.8 billion. Germany, the USSR's largest creditor, was owed $15.9 billion. When the former Soviet Union later collapsed, Russia assumed responsibility for repaying its debts, but it has had to seek rescheduling deals to give it extra time to pay.)

Russia's "shadow" economic sector—that is firms and individuals avoiding taxes by failing to declare incomes and revenues—now accounts for about 20 percent of Russia's gross domestic product, according to Yuri Yurkov, head of the State Statistics Committee. The output figures but do not include criminal activity, he said, but take account of hidden volumes of sales, companies working without licenses, and private individuals involved in unlicensed imports. At least 12 million to 14 million people in Russia have monthly incomes upward of one million rubles, claims Yurkov. He also estimates the number of people with incomes of 10 or more million rubles a month at several hundred thousand. On the other hand, about 10 million people do not have enough money even for a minimal standard food basket.

Countries of the Commonwealth of Independent States (CIS) continue to experience high inflation and falling production. According to figures from the CIS statistical committee, consumer price rises in October over September showed Georgia suffering the highest price inflation, at 36.3 percent, followed by Azerbaijan at 28.3 percent, Belarus at 25.4 percent, and Kazakhstan at 24.8 percent. Russia had inflation of just over 14 percent in November, compared with 15 percent in October.

Lithuania's premier, Adolfas Slezevicius, estimated that the country's gross domestic product would increase by 5 percent in 1995. He also affirmed that there would be no change in the decision to peg the litas to the U.S. dollar at a rate of 4:1. Lithuania's hard currency reserves have been increasing by $20 million to $25 million a month and now exceed $600 million. Slezevicius said credits obtained from the IMF for a litas stabilization fund were no longer needed and would be returned to save interest payments.

President Boris Yeltsin in early November issued a decree establishing new rules for the Russian securities market. Business activity on the security market will be allowed only for trade professionals and institutions that obtain state licenses. Consequently, only state-licensed dealers will be permitted to issue stocks and bonds. A Federal Commission on the Securities and Bond market has been set up, headed by First Deputy Prime Minister Anatoly Chubais, to protect the rights of shareholders and investors and to monitor Russian financial institutions' compliance with international and domestic laws.

Lithuania's inflation in the first nine months of 1994 was 31.3 percent, compared with 137.2 percent during the same period in 1993. In Estonia prices for goods and services have risen by 50.9 percent compared with September 1993.

Ukrainian President Leonid Kuchma has issued a decree aimed at privatizing more than 8,000 state enterprises in 1995. The decree seeks to guarantee the right of Ukrainian citizens to use privatization certificates and create a market for shares. Shares will be sold to insiders (employees and enterprise managers) and at auction. Managers, who have been cool toward privatization, will have the right to buy up to 5 percent of the shares in a given enterprise. Another presidential decree authorizes private ownership of agricultural land for the first time in Ukraine. The decree allows landowners to sell, lease, or bequeath their land to Ukrainian citizens as long as it continues to be used for agriculture.

China has forecast a growth rate of 11 percent this year, but has warned of a second year of high inflation in 1995 as income gaps widen, law and order deteriorates, and ailing state industries await reform, the People's Daily reported. Officials said that control of inflation, and compensation for those workers who are fired from loss-making state firms, will head China's agenda for economic reform next year. The announcement came after a five-day conference, during which economic officials also stressed the need to observe fiscal discipline, boost agriculture, and reform social welfare and state enterprises. A bulletin issued at the end of the conference called on the Communist Party and the country to "grasp opportunities, deepen reform, expand opening to the outside world, promote development, and maintain stability."

Prices have been rising more quickly in the Chinese countryside than in towns and cities this year and many items now cost more in rural areas, the China Business Times reported. In the third quarter, retail prices rose 29.6 percent overall, with prices in rural areas soaring 34.3 percent while prices in urban districts rose only 24.0 percent. The newspaper attributed the rises to flood damage and to a ban on market sales of grain until government quotas are filled. China has imposed strict measures to contain commercial loans to strategic industries in an effort to shore up the
credit rating of local companies amid a spate of bad debts. The measures came as once-generous lenders tightened their own procedures for approving credit to joint ventures, which have mushroomed in the booming Chinese economy and are currently growing at between 11 and 12 percent.

At least a fifth of the people employed and fully paid by China's state-owned industries are unnecessary, according to a senior government official involved in industrial reform. The estimate of Chen Qingtai of the State Economic and Trade Commission means that 25 million to 35 million employees could be in danger of losing their jobs. About 4 million people are already on less-than-full wages because the state enterprises cannot afford to pay them. Meanwhile, other officials estimate China's inflation will peak this year at around 19 to 20 percent.

China will look to foreign investors to provide more than 40 percent of the $7 billion it needs to develop its telephone and communications manufacturing industry over the next five years. At least $3 billion should be raised from overseas, Zhou Dal Qun, director of China's telecommunications department, told an Asian telecoms conference in Singapore. According to conference participants, the World Bank estimated that China would require $141 billion to set up telecommunication infrastructure between 1995 and 2004.

China is expected to implement a plan next year to raise more than $3 billion worth of foreign funds for construction of the Three Gorges Dam, the Xinhua news agency reported. Most of the more than $16 billion estimated to be needed for the seventeen-year project, which is expected to begin in coming weeks, will come from the Chinese government.

China plans to set up its first private bank next year to provide loans mainly to private entrepreneurs. Minsheng Bank will have registered capital of about $235 million and will operate nationally, although the central bank has yet to approve of the private bank's management regulations, which include a list of shareholders, board members, and executives.

China has registered a $2.4 billion trade surplus for the first ten months of the year, compared with a trade deficit of $7.0 billion for the period January through October 1993, the China Daily reported. Exports grew by 29.7 percent to $89.9 billion and imports by 14.5 percent to $87.5 billion, the paper said.

China plans sweeping reform of its welfare system to provide a social safety net for urban employees, "many of whose jobs are under threat in ailing state industries," the Financial Times reported. Municipalities such as Shanghai have been experimenting with new social security measures for the past year or so, the article says, but the national government has decided to formally overhaul the system. China's official urban unemployment stands at 2.6 percent, but this figure vastly understates the problem. The number of jobless in some industrial cities may be as high as 20 percent of the work force.

Asia will lead the world in brisk economic growth in 1995, as the industrialized world recovers from recession, and the region will continue to get the bulk of capital inflow from developed countries, according to experts meeting in Manila at an international conference on Asia's economic outlook. (A slowdown in China will bring the overall growth rate down from 7.8 percent in 1994 to 7.3 percent in 1995.) Conferees attributed the jump in Asian economic growth in 1994 to higher rates of saving and investment, open trade and industrial policies, and control of inflation and fiscal deficits. Asian countries may need up to $400 billion in investment in power generation over the next ten years, claimed experts at a separate Manila conference, on energy.

The Manila-based Asian Development Bank (ADB) has approved a $40 million stabilization loan to Kyrgyzstan. The interest-free ADB loan is earmarked for the financing of imports to strengthen the energy and transportation sectors, for educational services, and for the revitalization of public and private enterprises.

Viet Nam's central state bank has appointed the Bank of Tokyo and the Australia and New Zealand Banking Group as advisers on the restructuring of the country's medium- and long-term commercial bank debt. An advisory committee comprising representatives from the two foreign banks has held initial meetings. Foreign bankers estimate Viet Nam's commercial bank debt at $700 million to $800 million.

Cambodia, Laos, Thailand, and Viet Nam agreed in late November to share and jointly develop the waters of the Mekong River. Senior officials from the four countries initialed a draft agreement on "cooperation for the sustainable development of the lower Mekong river basin."

Tanzania's government has borrowed $44 million from its central bank, defying World Bank advice not to exceed a $20 million limit, Finance Minister Jakaya Kikwete said, adding that tax fraud had brought the government to the verge of bankruptcy, forcing it to borrow heavily.

(We appreciate the contributions from the RFE/RL Research Institute.)
World Bank/IMF Agenda

Disclosure

IMF First Deputy Managing Director Stanley Fischer has announced that a proposal to publish IMF Article IV consultation documents is due to go to the Executive Board before the end of the year. Fischer said several countries indicated they were willing to publish, but others were concerned that publication would inhibit the frankness of the discussions between the IMF and its members that form the basis for Article IV consultations. Fischer said the Board will vote on whether to allow governments that want to publish Article IV consultation papers to do so, and will also discuss the possibility of opening the IMF’s archives to permit viewing of past Article IV documents. He said there would likely be a tradeoff between publication of Article IV documents and the frankness of some discussions, but said this would differ from country to country.

New IMF Lending Facility?

The IMF has begun to explore the possibility of setting up a multibillion dollar lending window to help countries cope with sudden capital flight by big-time speculators. Called the short term financing facility (STFF), the new pool of funds would be designed for use during economic crises, to help countries cope with sudden capital flight. Such a facility would help member countries avoid being pushed off track by wayward and temporary losses of confidence among international investors. Under the proposal, the IMF would be able to quickly lend money to countries hit by capital flight without first having to go through lengthy negotiations. The money would have to be repaid quickly, and would only be lent to countries pursuing sound economic policies.

Russia—IMF Talks

The IMF and the Russian government have started talks on a $6 billion standby credit. The talks have focused on the abolition of Russian export quotas including for oil and petroleum products, on Russia’s draft 1995 budget, and on the ruble’s exchange rate. Prime Minister Viktor Chemomyrdin foresees a budget deficit amounting to 7.8 percent of gross national product, but IMF First Deputy Managing Director Stanley Fischer suggested that Russia further tighten its 1995 draft budget, to 7 percent of GNP, in order to have the standby loan approved by the first quarter of 1995.

Russia’s monthly inflation rate in September was 7.7 percent, and draft versions of the 1995 budget have set a target of 3.0 percent monthly inflation for the end of next year. The IMF estimates that sales of government bonds amounting to 2 to 3 percent of GDP can be attained in the context of a tough stabilization plan. The $13 billion budget figure for foreign financing is reasonable, but depends on liberalization of oil export rules. The $6 billion ruble stabilization fund would be available if the ruble were pegged.) “Russia would not be able to achieve its financial stabilization plan for next year without key legal reforms to assure the government sticks to the budget that parliament approves,” Harvard Professor Jeffrey Sachs asserted.

World Bank Cofunds Russian Environment Project

The World Bank on November 8 approved a $110 million loan to Russia to help underwrite a program to deal with massive deterioration in the environment. The new $194.8 million Environmental Management Project—which, in addition to support from the Bank, is funded by the Russian government and various Russian enterprises and banks—will help the country replace its fragmented, uncoordinated environmental management system with a more effective, decentralized one. A new pollution abatement fund will finance cleanup operations of contaminated rivers, polluted industrial sites, and toxic waste dumps. In addition to coming up with coordinated national standards, the management project will finance programs in the Upper Volga, Ural, and northern Caucasus regions.

Preston Visits Three CIS Countries

Economic reform is crucial to ending the environmental pollution that threatens lives in Central and Eastern Europe. Bank President Lewis T. Preston said during a visit to the region in the first half of November. Preston, along with Wilfried P. Thalwitz, Bank vice president for Europe and Central Asia, visited three former Soviet Union republics—Russia, Kyrgyzstan, and Kazakhstan—to discuss the World Bank’s role in supporting their transition to market economies. In Moscow they met with Prime Minister Viktor Chemomyrdin, First Deputy Prime Minister Anatoly Chubais, and Finance Minister Vladimir Panskov and his aide Andrei Vavilov. The Bank’s lending program to Russia next year could reach $3 billion, Preston said. The Bank will be looking closely at Russia’s plans for loosening oil export regulations, he added, noting that a $500 million rehabilitation loan to the Russian oil sector is likely to be prepared for Board approval soon. (Vavilov also mentioned a $500 million loan for social programs and a $600 million loan for agricultural reform, as part of the 1995 World Bank lending program.)
IMF Clears $535 Million to Viet Nam

The IMF has approved enhanced structural adjustment facility (ESAF) loans totaling $535 million over three years to help Viet Nam stabilize and restructure its economy. The first loan, for $178 million, is available in two equal installments, the first of which is available immediately. The government hopes to maintain real GDP growth of 8 percent a year, and to reduce inflation to about 6 percent. The structural reforms include a comprehensive restructuring of tax and expenditure policies, strengthening of financial markets and the banking sector, and further liberalization of the trade and exchange systems. Viet Nam’s main donors, meeting in Paris on November 15-16 at a World Bank-sponsored conference, pledged $2 billion. Last year donors pledged $1.8 billion. About $400 million of the aid pledged last year has been disbursed. Vietnamese officials say they will be streamlining the bureaucracy that deals with development aid and project implementation.

Health Care in Albania

The IDA approved a $12.4 million credit to help restore Albania’s health system. Some 100 primary health centers and 2 regional hospitals will be upgraded. (At present, only two-thirds of primary health centers have heat, a mere 40 percent have running water, and fewer than 15 percent have basic laboratory equipment; most health center stock consists of a stethoscope, some syringes, and a cooking pot for sterilization.) Albanians, partly because of their active, agrarian lifestyle and lower-fat diet, enjoy adult longevity, with a life expectancy that nears seventy-three years. Infant and maternal mortality are still extremely high, however.

Kyrgyzstan Investors Conference

The World Bank cosponsored a foreign investors conference in Paris on December 7-8 to try to get capital flowing into Kyrgyzstan; 343 foreign investors from 29 countries were invited to attend.

$500 Million World Bank Loan to Ukraine?

The World Bank has completed talks with Ukraine on a $500 million rehabilitation loan that is tentatively scheduled to go to the Bank’s Board for consideration on December 22. The loan would help Ukraine fund imports needed to curb a decline in production and cushion deteriorating living standards, Bank President Lewis Preston said in a statement. The United States will provide a $100 million grant to Ukraine for food and fuel imports, and another $100 million in assistance for student exchanges, privatization, and small businesses. European Union finance ministers approved a loan of $108 million, but conditioned disbursement on Ukraine’s signing a standby accord with the IMF. The loan was also tied to closing the Chernobyl nuclear plant.

Fresh Aid Package to Armenia

On December 8 the International Development Association approved a $13.7 million credit to help Armenia maintain and modernize electric power generation in the country. Another $43 million IDA credit will fund efforts to rehabilitate the groundwater network in the Ararat Valley, and to upgrade irrigation facilities generally. Earlier, international donors—in an expression of strong support for Armenia’s reform efforts—pledged $265 million in assistance for 1995. The promised support came during a November 22 meeting of the Bank-sponsored Consultative Group for Armenia at the Bank’s Paris headquarters. Armenian Prime Minister Hrant Bagratian explained that Armenia has managed to halt declining output, decrease inflation, and stabilize the exchange rate. Trade has been liberalized, privatization is accelerating, and new private enterprises are emerging rapidly. Subsidies to enterprises have been cut sharply, and reform of the financial sector is under way. The pledged assistance came from France, Germany, Italy, Japan, the Netherlands, Russia, the European Bank for Reconstruction and Development, the World Bank, and the IMF. A U.S. contribution of $80 million is a grant.

Damage Control Loan to Algeria ...

Algeria will receive a $51 million World Bank loan, approved on December 1, to rebuild schools, housing, health centers, water supply, and other infrastructure destroyed in an earthquake last August. On another issue—rescheduling of Algeria’s debt—little progress was made during recent talks in Paris between Algerian officials and a steering committee of international bank creditors.
Algeria is seeking to reschedule $3 billion in debt falling due between 1994 and 1998, but nearly half of this is made up of loans whose repayment was already rescheduled in 1992.

... Technical Aid to Cambodia

A new $17 million credit approved December 6 by the International Development Association will provide Cambodia with extensive technical aid to improve public sector management, including such techniques as expenditure control and management of investment, debt, and personnel. A second component will help boost private sector development in Cambodia.

... Environmental Loan to Latvia and Lithuania

A $4 million World Bank loan approved December 6 will help reduce discharge of untreated and partially treated wastewater and will promote environmentally sustainable development around the cities of Liepaja and Ventspils. A $7 million loan to Lithuania, approved December 8, is to support efforts to stop environmental degradation of the Baltic Sea in the Klaipeda region and adjacent coastal areas.

... and Structural Loan to Moldova

A World Bank loan of $60 million, approved December 8, will support structural reforms in Moldova. The loan will provide fast-disbursing balance of payments assistance.

Investment Flows to Developing Countries

An increasing share of international investment is going to developing countries, according to the latest issue of the World Bank quarterly, Financial Flows and the Developing Countries. Foreign direct investment flows to developing countries grew rapidly in the 1990s, it was reported, reaching more than $65 billion in 1993 and a projected $75 billion this year. China has received the lion's share of the investment flows, with receipts totaling $26 billion in 1993, compared with $5 billion for the whole of Eastern Europe and $1.8 billion for Africa. Privatization in the developing countries, and the transfer of new infrastructure activity to the private sector, have propelled foreign investment in infrastructure.

Viet Nam is expecting to borrow up to $1 billion annually from multilateral groups over the next three years for infrastructure projects and further economic reforms, the central bank governor, Cao Si Kiem, said in an interview published in Hanoi. Kiem said loans from the World Bank, the IMF, and the Asian Development Bank would mostly be used to develop the country's infrastructure, which is in urgent need of upgrading after decades of neglect and mismanagement.

Privatization

From the Budapest magazine Hungarian Economy
Conference Diary

Negotiating and Structuring International Business Transactions
February 6-7, 1995, Los Angeles

This conference, organized by the American Conference Institute, brings together an international panel of experts on international business law topics. They will provide a review of the issues that arise in most international transactions, as well as up-to-the-minute reviews of developments in key geographic areas. Topics of discussion include: rules affecting transfer of goods, services, people, and money across international borders; structural analysis of letters of credit; the U.N. sales convention in a nutshell; foreign corrupt practices act; negotiating and structuring international business transactions in Latin America, China, and Southeast Asia, Western Europe, and Canada; and international dispute settlement.

Information: American Conference Institute, 175-Fifth Avenue, Suite 2182, New York, N.Y. 10010, tel. (416) 927-7936, fax (416) 927-1563.

Stock Markets, Corporate Finance, and Economic Growth
February 16-17, 1995, Washington, D.C.

The conference, organized by the Policy Research Department of the World Bank, is divided into four sessions: Session 1 presents measures of stock market development and relates these measures to various economic indicators and other measures of financial development. Session 2 examines the links between stock market development, savings, productivity, long-run growth, and specific policy changes. Session 3 evaluates the ties between stock market development and corporate financing decisions. The final session examines a few country cases in detail.


International/Domestic Government Procurement
February 16-17, 1995, Washington, D.C.

The American Conference Institute will conduct a comprehensive two-day seminar on new developments in national and international government procurement law that will affect the ability of contractors to compete in the international marketplace. Highlights will include: competing in the international marketplace; opportunities to explore new markets; developing new products and technologies; key legal principles and policies; the new GATT government procurement: expanded scope and new disciplines.

Information: American Conference Institute, 175-Fifth Avenue, Suite 2182, New York, N.Y. 10010, tel. (416) 927-7936, fax (416) 927-1563.

The U.S. Forum on Russian Trade and Investment

The U.S. Forum on Russian Trade and Investment conference is organized jointly by the Russian-American Chamber of Commerce and Sterling Conferences. Speakers include Dr. Henry Kissinger, former secretary of state of the United States, Dr. Anatoly Sobchak, the mayor of St. Petersburg; the Hon. Yuli Vorontsov, Russian ambassador to the United States; and Mr. Akhremenko, Russian trade representative to the United States. Other speakers include senior representatives from The World Bank, the IMF and the European Bank for Reconstruction and Development, as well as Academic and Government Advisors.

Information: Mr. Andrew Brown, Head of Planning, Sterling Conferences, tel. (4471) 915-9635, fax (4471) 724-0124.

Has the Time Come to Invest in Russia?
March 15-17, 1995, New York

19th Arden House Conference, organized by Harvard University, Russian Research Center, and the Columbia University, Harriman Institute.

Information: Harvard University, Russian Research Center, Archibald Cary Coolidge Hall, 1737 Cambridge Street, Cambridge, Massachusetts 02138, tel. (617) 495-8900, fax (617) 495-8319.

E-mail: chess@husc7.harvard.edu

Doing Business with Russia
March 15-16, 1995, New York

The American Conference Institute has assembled international experts who will present the latest views of the legal, accounting, and economic regimes and investment climate in Russia. Key topics include: the new business reality, 1995 and beyond; corporate acquisitions in Russia; strategies and techniques; documentation; practical lessons learned from experience; legal culture: risk avoidance or risk assumption; U.S.-Russia Enterprise Fund; Russian accounting versus Western GAAP; valuation for privatized enterprises; tax issues regarding investing in Russia; use of offshore entities and structural issues associated with Russian operations; establishment of joint ventures, subsidiary companies, and other legal entities; business-government partnerships; U.S. project finance and political risk; multilateral finance; privatization; Russia's privatization program; strategies for foreign participation in Russian privatization; financing in the CIS; intellectual property protection; trade: importing from Russia into the United States;
Trade: exporting to Russia; Foreign corrupt practices act; preventing fraud and other crimes in Russian business; Real estate opportunities; currency regulation and convertibility; and dispute resolution and litigation in Russia.

Information: American Conference Institute, 175 Fifth Avenue, Suite 2182, New York, N.Y. 10010, tel. (416) 927-7956, fax (416) 927-1563.

Seventh Annual Bank Conference on Development Economics (ABCDE)
May 1-2, 1995, Washington, D.C.
Sponsored by Vice President and Chief Economist, Michael Bruno, with a keynote address by Domingo F. Cavallo, finance minister, Argentina, and organized by the World Bank. Conference sessions: Revisiting Redistribution with Growth (Albert Fishlow and Pranab Bardhan); Demographic Change and Development (Peter Diamond and Nancy Folbre); Aid and Development (Dani Rodrik, Elinor Ostrom and Richard Cooper); Fiscal Decentralization (Vito Tanzi and Rudolf Hommes); and a roundtable discussion on Second Generation Issues of Transition. Participation by non-Bank and non-IMF staff is by invitation.


Tenth Annual Congress
September 1-4, 1995, Prague
This conference is organized by the Center for Economic Research and Graduate Education (CERGE) of Charles University and the Economics Institute of the Academy of Sciences (EI). Call for papers (in English) in all areas of economics are actively solicited for the Prague meeting. Submissions should include two copies of the paper, including an abstract. Please attach an additional 100-word abstract in both print and as a WordPerfect file on a floppy disk. Final decisions will be based on the full manuscript.

Please submit papers as early as possible, but before 1 March 1995, to the Program Chairman: Professor Damien J. Neven, University of Lausanne, DEEP-HEC, BFSH-1 CH-1015 Dorigny, Switzerland, tel. (+4121) 692-3484, E-mail: eea@cerge.cuni.cz

Eleventh International Conference on Input-Output Techniques
November 27 - December 1, 1995, New Delhi, India
Conference organized by the International Input-Output Association and the Indian National Institute of Educational Planning and Administration. Topics include input-output techniques in developing countries; demand, supply, and prices in interindustry modeling; environment, natural resources, energy, and infrastructure; new developments in input-output accounts and systems; and the role of modeling for transition countries.

Call for papers: Two-to-three page abstracts until end of January 1995; full papers, by the end of June 1995. Send to: Norbert Rainer, Secretary, International Input-Output Association, P.O. Box 108, A-1033 Vienna, Austria.
New Books and Working Papers

The PRDTE unit of the World Bank regrets that it is unable to supply the publications listed.

World Bank Publications

To order: Babry Keller, room M3-047, tel. (202) 473-5195.


* * * * *

International Monetary Fund Publications


* * * * *

CEPR Publications


To order: Center for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom, tel. (4471) 734-9110.

* * * * *

IRMO Publications, Zagreb, Croatia


Although Croatia adopted its own privatization program relatively early (April 1991), three and a half years of experience ended with rather modest results, in terms of both the size of the privatized sector and privatization proceeds, particularly when compared to the region front-runners. By mid-1994, 2,877 socially owned enterprises (out of 3,619) had submitted applications for autonomous privatization/ transformation. Of these, 2,415 have been given approval by the CPF (Croatian Privatization Fund). Currently, about 2,220 enterprises have completed the process and registered as either joint stock or limited liability companies.

Most of the shares have been bought by small investors, with five-year loan arrangements. As compared with the total value of assets assigned for transformation (about $15 billion), the cash receipts from privatization have been marginal. So far, most transformed property has been state-owned. The government's goal is a substantial increase in the private sector, and free distribution of shares is one option to achieve this. The number of small shareholders could rise to between 0.5 million and 1.0 million as a result.

Other recent IRMO publications:


To order: IRMO, Ulica Ljudevića Farkasa Vukotinovica 2, P.O. Box 303, 41000 Zagreb, Croatia, tel. (385-41) 454-522, fax (385-41) 444-059.

* * * * *

Adam Smith Research Centre, Warsaw, Poland


China’s dramatic economic success and the controversial results of the Russian transition suggest a reassessment is needed of the state’s economic role in order to understand which state policies are able to release the creative powers of the markets even as they define the parameters within which market forces may operate. Experience in both countries underlines that government has an important role to play, for example, in the restructuring of state-owned enterprises, by its calculation of probable changes in domestic and external demand as the economic structure alters. Since unproductive economic units can begin to turn profits as demand takes off, it is important that government be able to discern the profit-making potential of particular state-owned enterprises and avoid shutting them down.


Zoya Girshfeld, and Boris Khersonski, Russian Tax Legislation, Pacific BVL Corporation, United States, 1994, 42 p.

Boris Khersonski, Basics of Legislation on Entrepreneurship in Russia, Pacific BVL Corporation, United States, 1994, 32 p.

To order: Pacific BVL Corporation, 1329 Sixth Avenue, San Francisco, California, United States, 94122, tel./fax (415) 753-6961.

"I am very disappointed in you. I thought you understood the necessity of undertaking certain restrictive measures called for by the catastrophic budget situation."

From the Hungarian magazine Hocipo
Economic reform in China has been a slow, halting, largely uncoordinated process. Two basic socialist economic principles, central allocation of resources and state-controlled markets, have been abandoned. The reform has unleashed market forces that new economic policies are not equipped to deal with. Incompletely reformed institutions in China have had difficulty adopting to, and ensuring an orderly process of, development and growth.

Free market competition requires a move away from state ownership. However, privatisation has lagged behind marketization. Much of the change in property relations has simply modified user rights, rather than effecting transfer of ownership (for example, land use certificates, not land deeds). And although, formally, the state intervenes less than it used to in enterprise production and investment decisions, informally—particularly at subnational levels—its intervention remains heavy-handed and capricious.

Such internal inconsistencies contribute to ongoing destabilization of the economy, and make control of economic cycles, inflation, stock and real estate speculation, unemployment, and distorted (not just market-skewed) distribution of income and wealth elusive. Assuming that the reform continues and that the incompatibilities between political philosophy and the new economic policies can be smoothed over in the short run, the question of the long-term incompatibility of a mature market system and an authoritarian polity remains. The delicate, difficult issue of political pluralization, of the reconciliation of political and economic values, will not go away.

(Jan S. Prybyla is Professor of Economics at Pennsylvania State University.)


Economic growth could face three major bottlenecks in postsocialist economies:

- The degradation of the environment, much damaged by socialist production patterns, will require high investments in the future, which implies a rising capital-output ratio.
- Rising unemployment could lead to increased resistance to rationalization of investments, intensified social conflicts, greater political radicalization, and sustained instability. This would reduce foreign investment inflows and strongly impair the prospects for economic growth.
- Increasing income differentials across countries in the former CMEA area is likely to stimulate migration from poor to rich countries, but also to cause political conflicts among countries; this is a particular problem because of the many ethnic minorities in the former CMEA area.

These impediments to growth could be overcome more easily if Central and Eastern European economies had their own international/interregional organizations in place to deal with problems and prospects of regional cooperation on a regular basis in a standardized way. If the EU could regain full employment and restore efficient decisionmaking within an enlarged community (while not ruling out that some EU members might leave the Community) and if the Central and Eastern European transformation—including the transformation of the former Soviet Union—were successful, a new post-European market economy would emerge.

If Russia cannot be stabilized economically and if its political dynamics cannot be channeled toward meaningful, efficient cooperation in Europe, the progress of the Visegrad countries in transformation and economic opening-up will be short-lived. Without stability in the FSU the political risk for the whole of Central and Eastern Europe is likely to prevent necessary foreign direct investment inflows and to encourage destabilizing Westward migration. If a pan-European market economy is to be achieved, a new vision will have to emerge of shared prosperity, shared values and shared responsibilities, and national economies in which market-clearing is reestablished.


Newsletters

The Russian Economic Barometer, an independent bulletin, published quarterly that monitors microeconomic transition based on monthly surveys in 200 industrial enterprises and 50 banks from all over Russia.

Information: Elena Belyanova, Institute of World Economy and International Relations, 23 Prosfesorznaja St., GSP-7, Moscow, Russia tel. (7095) 128-8105, fax (7095) 310-7027, or IF0 Institute, Pochingerstr. 5, D-81679, Munich, Germany, tel. (4989) 9224-426, fax (4989) 985-369.

The Free Market, a monthly publication by the Lithuanian Free Market Institute that focuses on topics such as banking and social security.

To order: Lithuanian Free Market Institute, P.O. Box 415, 2004 Vilnius, Lithuania, tel. (3702) 332-384, fax (3702) 351-279.

Catalogue of Maps and Atlases of the ex-USSR, #5, a fall 1994 catalogue collection of maps and atlases exclusively from the former Soviet Union.

To order: Four One Company, Ltd., 523 Hamilton Road, London, ON N5Z 1S3, Canada, fax (519) 433-5903.

East European Constitutional Review, a quarterly publication published by the Center for the Study of Constitutionalism in Eastern Europe. To order: CSCEE, the University of Chicago Law School, 111 East 60th Street, Chicago, Illinois, 60637.

East-West Business and Trade, a biweekly publication that focuses on Russian and Central European business and economic developments.

Bibliography of Selected Articles

**Postsocialist Economies**


**Central and Eastern Europe**


"It's terrible! This trade has become over feminized..." From the Hungarian magazine *Uritok*
Bibliography of Selected Articles (continued)


CIS and the Baltics


Asia


TRANSITION is a regular publication of the World Bank's Transition Economies Division, Policy Research Department. The findings, views, and interpretations published in the articles are those of the authors and should not be attributed to the World Bank or its affiliated organizations. Nor do any of the interpretations or conclusions necessarily represent official policy of the World Bank or of its Executive Directors or the countries they represent. Richard Hirschler is the editor and production manager, Room N11-003, tel. (202) 473-6982, Email: RHirschler@Worldbank.org. Jennifer Prochnow-Walker is the research assistant and desktop publisher. If you wish to receive TRANSITION, send your name and address to Jennifer Prochnow-Walker, room N-11023X, the World Bank, 1818 H Street NW, Washington, D.C. 20433, or call (202) 473-7466, or fax (202) 522-1152 or Email: JPROCHNOWWALKER@Worldbank.org. Information on upcoming conferences on transforming economies, indication of subjects of special interest to our readers, letters to the editor, and any other reader contributions are appreciated.