



**4<sup>th</sup> Raúl Prebisch Lecture**

**RESTRUCTURING IN THE USSR AND  
INTERNATIONAL ECONOMIC  
RELATION**

**By**

**Abel G. Aganbegyan,  
one of the Principal Economic Advisers of the  
Government of USSR**

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# RESTRUCTURING IN THE USSR AND INTERNATIONAL ECONOMIC RELATION

*The fourth lecture of the series,  
delivered by Academician Abel G. Aganbegyan,  
one of the principal economic advisers  
of the Government of the USSR,  
on 6 July 1989  
at the Palais des Nations, Geneva*

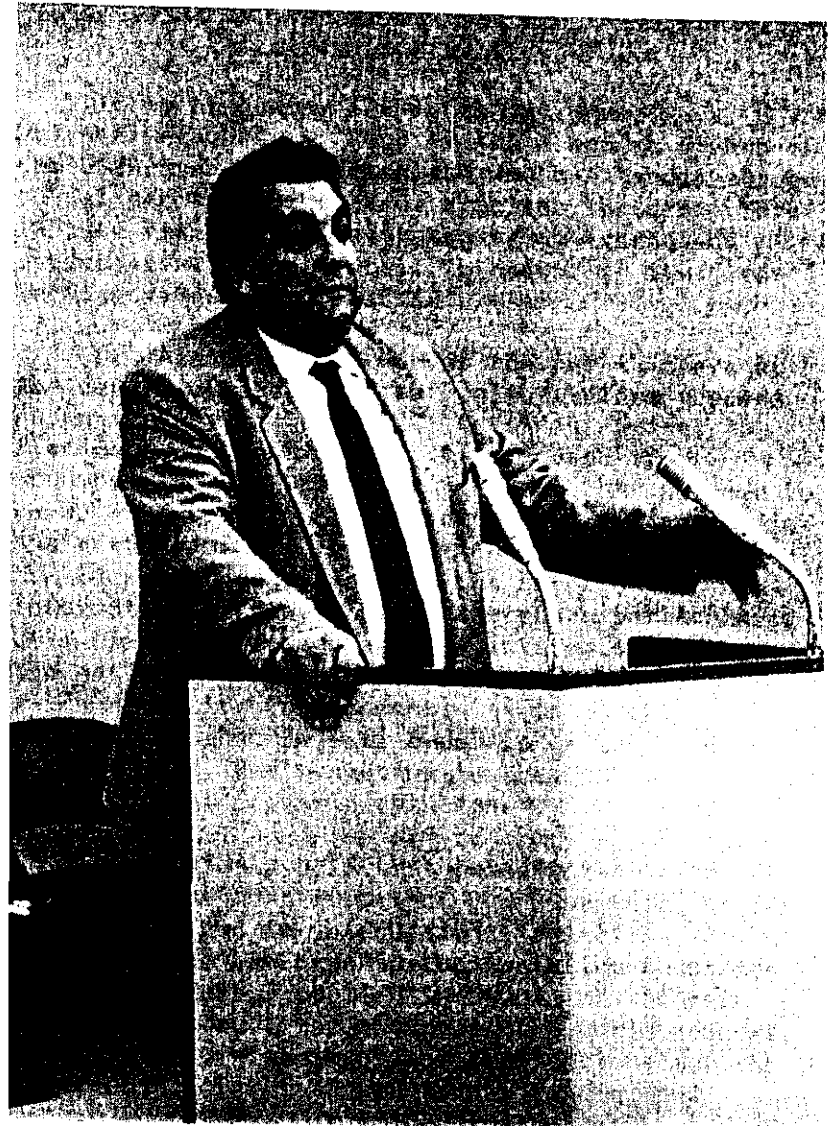
UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT  
Palais des Nations, 1211 Geneva 10, Switzerland



## FOREWORD

Academician Abel G. Aganbegyan, one of the principal economic advisers of the Government of the USSR, was born in Tbilisi, Georgian SSR, in 1932, and has been a member of the USSR Academy of Sciences since 1961. He joined the Institute of Economics and Industrial Engineering in Novosibirsk, which is the Siberian branch of the USSR Academy of Sciences, in 1961, first as a Professor and afterwards as its Director. In 1985, he returned to Moscow and became Chairman of the Academy's Committee for Study of Productive Forces and Natural Resources. Since 1986, he has been Head of the Economic Branch of the USSR Academy of Sciences, and an economic adviser to Mikhail Gorbachev, General Secretary of the Soviet Communist Party Central Committee and President of the USSR Supreme Soviet.

*The Raúl Prebisch Lectures were instituted in 1982 by Gamani Corea, the then Secretary-General of UNCTAD, to honour Raúl Prebisch, UNCTAD's first Secretary-General. The first lecture was given by the late Dr. Prebisch himself. The second one was by the late Shrimati Indira Gandhi, Prime Minister of India, on the occasion of UNCTAD VI (Belgrade, 1983), and the third by Dr. Saburo Okita (Japan) on the occasion of UNCTAD VII (Geneva, July 1987).*



Academician Abel Aganbegyan  
delivering the lecture  
at the Palais des Nations, Geneva

Welcoming address by Mr. Kenneth K.S. Dadzie,  
Secretary-General of UNCTAD

It is an honour for me to introduce Dr. Abel Aganbegyan, Head of the Economic Branch of the USSR Academy of Sciences, who has kindly agreed to deliver the fourth Raúl Prebisch lecture. This lecture series was instituted by my friend and predecessor, Gamani Corea, in honour of the first Secretary-General of UNCTAD.

Dr. Aganbegyan is one of the key thinkers at the centre of the important policy reform process now under way in the USSR. He is an adviser to President Gorbachev - and it is indeed from accompanying his President to Paris that he came to be with us today. After a distinguished career in the service of his country, Academician Aganbegyan has in recent years come to the forefront of the international scene. He is therefore particularly well placed to comment on the interaction between the national policies of his country and the external policy environment. It is on this interaction that he will speak to us today, under the title of "Restructuring in the USSR and international economic relations".

It is widely held that perestroika in the USSR is one of the most important and beneficial trends to have emerged in international relations in recent years. Reforms in the socialist countries of Eastern Europe promise to be one of the main factors of structural change in the world economy in the 1990s, with important implications for the functioning of the international trading and monetary systems. If guided in the right direction, these reforms could open up new vistas for mutually-beneficial trade and economic

co-operation between socialist and developing countries. I believe that the United Nations has an important part to play - for the benefit of all Member States - in analysing these trends, identifying the opportunities they create and encouraging intergovernmental agreement to take advantage of those opportunities. Above all, the United Nations can facilitate the accommodation of these new realities in the endeavour to improve and strengthen the systems, structures and arrangements which underpin international economic relations.

I am sure we have much to learn from Dr. Aganbegyan's wisdom and experience and I have pleasure in giving him the floor.

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## RESTRUCTURING IN THE USSR AND INTERNATIONAL ECONOMIC RELATIONS

Lecture by Academician Abel Aganbegyan

Mr. Secretary-General, Ladies and Gentlemen,

On this important occasion of the twenty-fifth anniversary of UNCTAD, it is a great honour for me to deliver a lecture in the prestigious series dedicated to Raúl Prebisch, the distinguished public figure and economist, whose works helped to create a new approach to one of the most acute problems of our time, a task of truly world-wide dimensions, that of overcoming the socio-economic and technological backwardness of developing countries.

I should like to begin by saying that restructuring in the USSR, i.e. perestroika, is a complex process taking place on many planes, which must always be considered in the unity of its different aspects. We conceive of perestroika as a revolutionary transformation of our society: changes in its foreign and domestic policies, in the field of human rights, in its political system, in ideology, in our views of contemporary processes. We are transforming our political and legal system, the sphere of culture. Of course, as an economist, I consider the most important thing in perestroika to be the transformation of the basis of society - the economy. It seems to me that our leaders, or at least many of them, do not entirely realize this and in their immediate activities do not give it the attention it deserves.

We are advancing at different speeds in the various processes of perestroika. You will agree, I am sure, that enormous progress has been made in foreign policy and in disarmament. Radical changes have occurred as regards democratization and glasnost. All of us, or at least all Soviet citizens, were glued to our television sets, excitedly watching the work of the First Congress of Peoples' Deputies, which laid the basis for a political reform that was quite unimaginable even five years ago. Tremendous alterations have taken place in culture, in the activity of the mass media. In the economy, however, the changes are unfortunately proceeding more slowly than we expected and than we would like. The economic situation in the country is unfavourable, although here too there are positive changes associated with the profound reversal in economic thinking. In the past, we considered the term "market economy" a dirty word but today we look upon it as a desired goal. Such words as "shares", "leasing" and many others are for us new economic terms that have become part of our vocabulary.

In the first part of my lecture I shall review what has actually happened in the economy during the four years of perestroika and the main future trends in the restructuring of our economy. The second part of the lecture will be devoted to changes in international economic relations relevant to the inclusion of our country in the world economy.

Perestroika in the economy is taking place in four basic areas. The first is the social reorientation of our development, the effort to turn our entire national economy towards man, towards the satisfaction of his needs. The second

area concerns changing the factors and sources of economic growth. In the past, our economy was developed primarily by extensive means, through the application of additional production resources, and attention was mostly directed towards the dimension of production, towards expanding the sphere of production, whereas now we want to turn to intensive methods and develop by improving efficiency and quality, making the technological revolution the key source of development. Our standard of living will ultimately depend on how well we can increase the effectiveness and productivity of labour. The third area in which perestroika is proceeding is of decisive importance, being indispensable for the first and second: the reform of economic management, the transition from the administrative-command system of management to an economically-motivated system, involving such elements as a market, material economic interest, incentives. And the fourth area is the transition from a relatively closed type of economy to a more open economy linked to the world economy.

Let us look at the problems in each of these four areas, beginning with those associated with the social reorientation of our economic development. We must sadly recognize that the standard of living of our people does not correspond to the position of our country in the world, its industrial might, the level of development of its science and technology, and the generally high level of education of its population. Our people are living worse than they could be. The last 15 to 20 years before perestroika, the years of stagnation, were particularly unfavourable. During that period, more than half of the gross national product went

into capital investment - which is excessive for our country - investment used for bringing into production more and more resources, for greater and greater expansion of production. In addition, there were large military inputs. On the other hand, only a small part of the gross national product went for consumption by the population, particularly personal consumption. Consequently, the main justification for perestroika and the principal area of its operation is the reorientation of economic development. It is essential to change the structure of the economy radically and to turn its face towards man and his needs.

Let us look at some specific facts and figures. What changes have taken place during perestroika? Before perestroika, capital investment in the production sphere rose twice as fast as in the social sphere. Over the four years of perestroika, capital investment in the social sphere has risen 2.5 times faster than in the production sphere. In the next five years, it is planned to reduce capital investment in production by 10 per cent while increasing capital investment in the social sphere by 50 per cent. A 15 per cent reduction of capital investment in industries producing capital goods is to be accompanied by a doubling of investment in industries which work for man, namely the light and food industries, and in the production of other consumer goods and services. Thus, major structural changes are already visible and even bigger ones are expected. Over the 20 years prior to perestroika, the volume of housing construction per 1,000 persons fell 30 per cent. Over the four years of perestroika, this indicator has risen 20 per cent and a growth of 40 per cent is planned for the next five-year

period. Before perestroika, the proportion of the gross national product spent on public health and education fell steadily. Over the four years of perestroika, that proportion has risen by 35 to 40 per cent. Both overall and child mortality have started to decline. The quality of education has improved, inter alia, as a result of a one-time boost of 40 per cent in teachers' salaries. Although some movement towards the redistribution of resources in favour of man is visible from these data, in a spirit of self-criticism it must be admitted that we have not succeeded in improving the people's diet. For the last three years our agriculture has been marking time and, as before, we are compelled to buy food abroad in ever greater quantities. A richly endowed country, having the world's best soils, which in the past exported grain, butter and other foodstuffs, always known for their high quality, can no longer feed itself. Although highly important measures had rather belatedly been taken to develop the country's food complex, the March 1989 Plenum of the CPSU Central Committee adopted a new agrarian policy which included pluralism in the forms of ownership in the countryside. Not only collective farms and State farms but also small co-operatives, family farms and other forms of ownership are to be given the right to exist. A decree has been adopted on the leasing of land and the relevant legislation is being drafted. We are counting on the development of an agricultural market, and for January 1991 a reform is planned in agriculture prices with considerable decentralization of price formation. Enterprises producing in the agriculture sector, whatever their form of property, will themselves determine how they will operate, i.e. all forms of State planning of their activities is eliminated. Major steps for the social restructuring of the countryside have also been taken in other



respects. On the whole, a regulatory and legal basis has been created for making growers interested in producing more food, conserving it, processing it better and getting it to the consumer. We believe that these measures will make it possible to increase the country's food production by 5 per cent a year.

Major steps have been taken for the production of widely used consumer goods since, here too, perestroika has so far not shown results. Public demand for quality consumer goods is not being satisfied. We had been governed by the fallacious theory that the production of capital goods must grow faster than the production of consumer goods - something which has no basis either in theory or in practice. In 1989, for the first time, the country's production of consumer goods will rise by 7 per cent, which is twice the growth rate of production in heavy industry. Energetic efforts, both administrative and economic, are now being made to increase the production of non-food consumer goods by 20 per cent in 1990. This will be facilitated by the current respecialization of more than 400 enterprises of the USSR's military-industrial complex. As you know, in connection with a reduction of military expenditure by 14 per cent over two years, we have decided to cut armaments output by 19.5 per cent and effect a massive conversion of military production. Even before, enterprises of the military-industrial complex produced civilian goods. In 1988, for example, civilian products accounted for 40 per cent, in value terms, of total military output; in 1990, the proportion is to be raised to 46 per cent and by 1995, to 60 per cent. This will concern mainly two groups of products: equipment for the food and light industry, and widely used

consumer goods. In addition, production space in all other branches is being made available for the production of these goods. Apart from utilization of the capacities of military-industrial enterprises, large credits have been obtained from banks in the Federal Republic of Germany, Italy and a number of other countries for the specific purpose of buying equipment for the light and food industry.

At present, our country's consumer market is in disarray. This is due not only to deformation of the production structure, i.e. to insufficient volumes of production of food and widely used industrial goods, but also to the major mistakes made by the previous Government in its financial policies. In the four years of perestroika, the budget deficit has not only not declined but has even increased because expenditure on social programmes has risen while other expenditure items were not reduced. A 100 billion-ruble budget deficit, equivalent to nearly 11 per cent of GNP, is weighing on the market. In addition, in the process of transition to economically motivated methods, guidelines for the constitution of the wage fund were wrongly formulated. Wage increases went out of control, and since most prices for consumer goods are fixed by the State and could not keep pace with the growth in wages, the population found itself with a large surplus of money and this brought about even greater shortages on the consumer market. The surplus money supply exerted increasingly heavy pressure on the consumer market, and this caused inflation since those prices that were not fixed centrally rose. Prices on the "black market" climbed sharply; our country's grey economy is, generally speaking, rather large and should not be underestimated.

There were also shifts in the range of goods sold to the population towards a higher proportion of more expensive products and a lower proportion of goods whose prices are fixed by the State. We assume that, for 1988, prices rose by 5 per cent, but the depreciation of money was greater than the rise in prices because there was nothing to buy for part of the money received as wages and it had to be saved, so that we estimate the overall inflation index in our country at 9 per cent. The interest paid on ordinary deposits in savings banks is 2 per cent and on time deposits, 3 per cent, i.e. considerably less than the rate of inflation. Money is thus depreciating, and a process known throughout the world and well-described in the literature has started - the flight from cash. People are making every effort to convert their money into goods. This is a very dangerous phenomenon, which leads to disintegration of the consumer market, and therefore an urgent programme is necessary to normalize the financial situation.

Such a programme was adopted by the Government in March 1989. It provided for the reduction of capital investment by 7 per cent; many think that that is not enough and that in such a situation it should be reduced by 15 to 20 per cent. Additionally, the programme included a reduction of military expenditure by 14 per cent, or 10 billion roubles, which again many consider insufficient, believing that it is necessary to begin with a reduction of at least 30 per cent. The Government has stated that for the next five-year-plan period it will reduce the share of military expenditure by a third to a half.

The next step is to reduce the subsidies to loss-making State enterprises, and, thereafter, the contraction of the administrative apparatus and, therefore, a corresponding reduction in the costs of maintaining it. Over the four years of perestroika, the administrative apparatus supported by the State budget has shrunk from 2.2 to 1.6 million persons and this is felt to be rather little. The First Congress of People's Deputies and the Session of the Supreme Soviet of the USSR adopted a decision to eliminate 25 ministries at the level of the Union and it is also planned to eliminate hundreds of organizations at the level of the Republics. This is expected to result in further cuts in the budgetary expenditures relating to the administrative apparatus. Measures are also being prepared that will help to immobilize the liquidity in the hands of the population, such as the floating of attractive loans, possible increases in savings-bank interest rates, etc.

The question is asked of how long it will be possible to tolerate the financial crisis in our country. In my opinion the answer is three years. Academician Abalkin, Director of the Institute of Economy of the USSR Academy of Sciences and recently appointed Deputy Chairman of the USSR Council of Ministers and Head of the Economic Reform Commission, said on Moscow television that this must be done in one and half years and, if not, the Government should resign.

Some believe that the worsening financial situation rules out the implementation of economic reform for years, for as long as the situation does not improve. This is an incorrect conclusion because the financial situation can only be improved through economic reform. This means that

agriculture must be aided by creating an agricultural market and giving economic freedom and land to the peasants. It is necessary to raise the output of consumer goods, organize trade, and create new management machinery that would stimulate such developments. Inflation must be restrained and an anti-inflationary mechanism created, and we are now preparing a new anti-inflationary tax on profits. In other words, only by deepening and widening economic reform can our financial problems be solved. I consider a period of three years as only a first stage, during which to satiate the market with goods, to rehabilitate the consumption sphere and to ensure that at least two thirds of Soviet families really feel the material benefits of economic restructuring. But even such measures will not suffice to eliminate the structural deformation of our economy. For that, further measures will be necessary and, above all, a reform of wholesale prices, now postponed for three years, and a new investment and structural policy, which I have already partly touched on.

I shall now deal with the second area of perestroika - the problems of efficiency and quality and of technological progress. In the solution of these problems the chief objective is re-equipment of the national economy. Perestroika urgently needs a renewal of the economy's equipment reflecting world advances in science and technology. We must restructure our civilian engineering industry, which has fallen far behind. In 1985, we carried out a survey of the state of equipment and it turned out that 71 per cent of the equipment, machinery and instrumentation employed in the civilian-engineering industry was not up to modern standards and should be taken out of production. But in 1985 only 3.1 per cent had actually been eliminated.

An extensive programme for the radical reconstruction of the engineering industry has been prepared and is being implemented, although not completely. In 1988, we eliminated 9.8 per cent of obsolete engineering equipment. In 1990 we expect to raise the renewal factor to 13 per cent and in the next five-year-plan period we are planning an average annual renewal rate of 15 per cent. The transition to a modern engineering industry is enormously expensive; during the 1986-1990 period capital investment in electronics and engineering quintupled as against an increase of only 24 per cent in the preceding five years. This capital investment is going mainly into modernization of the equipment in the engineering plants themselves. The strategy consists of initiating mass production of new equipment and thereby re-equipping all the other industries.

The biggest difficulties in restructuring the economy are being encountered in administrative reform. It took three years to work out this reform in the face of tremendous problems and obstacles. In 1988-1989, new conditions of economic activity began to be introduced, but from the very beginning they were plagued by major errors and deviations from the adopted laws, in particular the new laws on State enterprises, co-operatives and individual labour activity. As a result, we are still at the very beginning of economic reform. Nevertheless, there are already some signs of a trend towards departure from nationalized economic relations. The proportion of State ownership is declining. In the last three years, 350,000 co-operatives have been formed, employing 2.9 million persons. Nearly 1 million have formed family businesses after buying licences from the State. The nature of State ownership

itself is being transformed: many workforces are leasing capital equipment and some enterprises have begun to issue stocks and bonds. Legislation on share capital is being prepared and I believe that we will make wide use of this form of ownership.

Enterprises have been given rather extensive rights but they cannot use them because there is still no market. As before, the distribution of capital goods and resources is centralized. To create a market, efforts are being made in two areas. The first is correction of the money-supply situation. The money supply must correspond to the turnover in goods. And the second is the implementation of a banking reform and a reform of the credit system. In the past, there were actually only three State banks that distributed State-owned resources. Now nearly 100 commercial, co-operative, investment and venture-capital banks have been formed and a new bank appears every two weeks. These banks are to operate on the basis of responsibility for their own financing, their own solvency and profitability. A law on banking is being prepared. The State Bank will be the bank of bankers and will regulate interest rates. In this way we will be able to avoid loan losses and set to rights the entire sphere of monetary relations between enterprises.

Another problem associated with transition to a market is price reform. Agricultural price reform is due on 1 January 1991. A reform of wholesale prices in industry has also been prepared. Many suggest combining it with the agricultural price reform and carrying out both reforms at the beginning of the next five-year-plan period. In the course of this reform there are a number of problems to be solved, in particular

that of adjusting our prices to world prices and of decentralizing the very process of price formation, i.e. that of sharply reducing the proportion of centrally fixed prices and increasing the proportion of free-market prices. After that, it will be possible to move on to extensive wholesale trade in capital goods and create a market supplying production resources and funding. Banking reform will involve the creation of a money and investment market or, in Western terminology, a capital market. Gradually, a securities market will also emerge. In the coming months, practical steps will be taken to establish a foreign-currency market in the form of auctions at which it will be possible to buy and sell foreign currency for roubles at the resulting market prices.

Lastly, I turn to international economic relations. They are influenced by two trends in perestroika. One trend is the change in our foreign policy and our view of the world as an interrelated whole of which we are a part and in which the general interests of humanity supercede the narrow interests of a particular country, class or ideology. This means a completely new world view, constituting the premise of our foreign political strategy, which is aimed at maintenance of peace, strengthening of security, disarmament, development of co-operation with all countries, and active participation in solving the global problems of mankind. And if this view is extended to international economic relations, then it is perfectly obvious that the economy of the USSR must be considered not as a self-contained closed system but as an organic part of the world economy and the world market.

The second trend influencing economic international relations is our domestic economic policy, whose principal features are rejection of the administrative system of management, decentralization, transition to market methods of operating the economy - features that require a completely different approach to foreign economic relations, their decentralization, including direct access to the world market.

What, specifically, is new in our foreign economic activities? First, there is the changed conception of foreign economic activities and our overall view of them. Previously, we considered foreign trade largely as a means of "plugging gaps". Now, we have an entirely different approach and we consider foreign economic relations as a source of increasing effectiveness in the widest sense and not merely of gaining an immediate effect in the form, say, of profit. We now look at them from the points of view of competitiveness, of learning through competition, of inculcation of marketing techniques, of assessment of quality in terms of foreign standards and much more. We need not only to derive a direct effect in the form of growing material benefits but also to acquire intellectual potential. Secondly, we have always, and especially more recently, considered foreign economic relations as a means of opening the way to political and other relations.

In connection with our foreign economic strategy, we have made forecasts of how our foreign trade will develop up to the year 2000. Naturally, they reflect our wishes and projections. Over the 1986-2000 period, we intend to increase the proportion of foreign trade in our gross national product. Thus, we are planning, while doubling

GNP, to increase exports and imports by factors of 2.2 and 2.4 respectively. There is also to be a considerable restructuring of exports, in which the share of fuel and raw materials is to be reduced and that of manufactured goods sharply increased. Similarly, the structure of imports is to be changed by cutting back imports of common foodstuffs and metal products, and at least doubling imports of consumer goods and of various types of equipment. The share of exports in national income will be raised from 6 to 9 per cent. We do not consider our 4 per cent share of the world market worthy of our potential and it will be increased to approximately 6 per cent.

Another innovation in our international economic relations has been decentralization. Previously, those relations were the monopoly of the Ministry of Foreign Trade, which concluded practically all export and import contracts. Vis-à-vis our enterprises, foreign economic dealings were calculated not in foreign currency but in roubles. As a result, the direct producers were divorced from the market; they often did not know at what prices their production was being sold abroad and were not interested in improving its quality.

At present, all organizations, enterprises and co-operatives have a right of direct access to the world market and have their own foreign-currency account. At the same time, this right is subject to certain limitations: for example, prior licensing is required for export-import operations of importance to the State as a whole. Nevertheless, even with such limitations, enterprises are now given appreciable freedom in

their foreign economic activities. It may therefore be said that that decentralization of foreign trade is a reality.

Still another important innovation concerns joint ventures. Their number is increasing quite rapidly. About 100 joint ventures are created each month and thousands of applications are under consideration. This is due to the fact that the conditions for establishing joint ventures have been liberalized, in particular by the elimination of the requirements that the Soviet partner must own 51 per cent of the capital, that the top managers must be Soviet citizens, that the hiring of personnel and the level of wages must comply with the rules in force in the USSR, and so on. As a result, big Western businesses have begun to show interest in the formation of joint ventures, and there are now prospects for the conclusion of some very important deals involving billions in capital for the creation of petrochemical, engineering and mining ventures. Work is proceeding on the establishment of a joint Soviet-American consortium involving vast amounts of capital and complex domestic relations. The task is now to interest small and medium-sized businesses in the establishment of joint ventures, and relevant measures are being worked out with that in view.

Joint ventures are encountering two difficulties, however. The first is due to the fact that we still do not have a capital-goods market and the distribution of resources is centralized. It will take three to four years to remove this obstacle. The second difficulty is due to the non-convertibility of the rouble, which compels the ventures to engage in double bookkeeping in order to make sure that they are

covering their costs both in roubles and in hard currency. At present, the USSR has about 120 joint companies abroad but they are mainly engaged in infrastructure and trading activities. There are few production enterprises abroad, and so far there is only an intention to look into this problem.

The question of creating free-enterprise zones in the USSR has been settled in principle. Unlike the Chinese example, our zones will largely aim at satiating the domestic market. We want to form free-enterprise zones not only near our borders as, for example, in the Far East but also in the interior, for example by the creation of technopolises around scientific centres. As a first experiment, we have discussed creating zones on the border with Finland and in the Far East near the port of Nakhodka. Armenia has proposed declaring its republic a free zone, and similar proposals are being made by the Baltic republics.

The most difficult and important question is that of the convertibility of the rouble. This requires a number of prerequisites, some of which depend on an appropriate convertibility into our currency. We realize that our official exchange-rate for the rouble does not reflect reality, and starting in 1991 we intend to establish a new, more realistic exchange-rate. As to statistics, trade and customs figures are being made increasingly available. We have already published, admittedly under condensed headings, our military expenditures, the costs of outer-space programmes and the amount of the debt. We are changing our statistical methodology and going over to the System of National Accounts.

The difficulty is that international economic relations are lagging considerably behind the progress being made in political relations. While in political relations new thinking is developing and we are no longer considered an enemy, just as we do not regard other countries as enemies, in the economic sphere we are still sometimes thought of as a country with a State monopoly of foreign trade. Even today it is not realized that decentralization has already been carried out and that our enterprises, after selling a shipment of goods abroad, are not even required, for example, to report the prices to the Ministry of Foreign Economic Relations - prices that are determined by the management of the enterprises or co-operative concerned. Thus, State bodies do not fix the prices of exports. Nor is it realized that a law has been adopted under which the State is not responsible for the debts of an enterprise, and an enterprise is not responsible for the obligations of the State, including its international obligations. On the other hand, voices are already calling for repeal of the Jackson-Vanik Amendment and for the application by the United States of the most-favoured-nation clause to trade with the USSR, and I hope that this will happen very soon. The United States is buying our goods through third countries at prices three times higher than they would have to pay directly to us. We are unable to sell our goods to the United States directly because of the high duties, while third countries, enjoying most-favoured-nation status, are re-selling our goods at a profit. This is not good either for us or for the United States, but everyone shuts his eyes to the situation. In future, there could be 5 to 10 times as much trade between our countries than at present. We have discussed this matter

with the chairmen of some 150 major United States companies during their visits to the USSR and they have come more or less to the same conclusions.

After the journey of our Minister for Foreign Affairs to Japan, prospects for settling our relations with that country have taken a turn for the better. I hope that this will be followed by a substantial expansion of economic relations, for which there is great potential. I also think that the visits of Mr. Gorbachev to West Germany, France and other countries in the interests of political progress will also lead to economic progress.

In conclusion, I shall say a few words about co-operation with developing countries. The share of these countries in the foreign trade of the USSR is still small - slightly more than 11 per cent; it is growing, but only slowly. I happened to be with Mr. Gorbachev in Washington at his talks with the then President Reagan, and I attended his meeting with American scholars and businessmen. At one point, the well-known American economist Mr. Vasily Leontieff asked Mr. Gorbachev whether he did not think that the biggest world problem in the future will be the problem of the developing countries and that the USSR was showing insufficient activity in that connection. Mr. Gorbachev replied that that was indeed the key problem of future world development and that we must become more active in this field.

Recently, I had occasion to visit Brazil and to discuss with officials, bankers and businessmen the expansion of our economic relations. The potential for such relations between our countries is enormous, but Brazil's current share in the

Soviet Union's foreign trade amounts to only 0.2 per cent, or a quarter of its trade with Belgium, for example. We are now discussing a number of mutually beneficial large-scale projects, which will mean a sharp increase in our trade. And this applies not only to Brazil, for we would like to expand our economic relations with other countries too.

The problems of the developing countries are to a large extent connected with their indebtedness. In September 1988, I had the good fortune to be among a score of prominent figures from various countries invited by Mr. Pérez de Cuellar, the Secretary-General of the United Nations, to take part in a two-day conference, chaired by him, to discuss the debt problems of the developing countries. A major role was played at that conference by Mr. Dadzie, the Secretary-General of UNCTAD.

Our country's position on the question of the developing countries' debts was rather fully set out in Mr. Gorbachev's address to the United Nations General Assembly in December 1988. The main ideas underlying our approach are as follows. The first is internationalization of the debt problem, because it has outgrown the framework of individual countries and has become a global problem. The second is that a differentiated approach is needed towards countries at different levels of development. For the least developed countries, the debt should simply be written off or be allowed a 100-year moratorium. The USSR is prepared to adopt that approach. For other countries, it is important to fix payments at a level that would not hold back their economic development, for that harms everybody. Lastly, in

a number of cases, a considerable proportion of payments should be deferred, depending on the country's level of economic development.

The USSR supported UNCTAD's appeal for a reduction of debts to commercial banks. We also agreed with the idea of creating an international organization for buying up debts at a discount and of providing governmental support for a market mechanism encouraging debt reduction. I personally believe that it would be useful to convene a well-prepared world conference under the auspices of the United Nations for the purpose of examining and adopting strategic solutions for debt problems as well as some decisions on problems of economic security, and in particular credit security, so that such problems would not arise in future.

Perestroika holds the fate of our society, our life depends on it, and there is no alternative to it. But for perestroika there are two possible roads of development. One passes through the apparatus, i.e. attempts to do everything from above and often by old administrative methods. Unfortunately, it is this bureaucratic road which is still dominant in our economy and which is causing us major economic difficulties. In areas where the apparatus was unable to regulate the processes by its methods, in the sphere of glasnost and political reform for example, a major breakthrough is apparent and we very much hope that the existing gap in the progress of political and of economic reforms will be closed. The second road is that of perestroika from below, sustained primarily by democratic transformations and the enlistment of the wide masses of workers in the cause of perestroika. We consider perestroika not as a short-term campaign but as a serious,



long-term process of transformation in all spheres of society. I, like most of our people, believe that we will successfully cope with our economic difficulties, and I very much like Mr. Gorbachev's words to the effect that we have nowhere to retreat to and have only one way to go in perestroika - forward.

Thank you for your attention.

The United Nations Conference on Trade and Development (UNCTAD) was set up by the General Assembly in 1964 as one of its permanent organs, mandated to promote international trade, particularly that of developing countries, with a view to accelerating their economic development. UNCTAD has evolved into a universal forum with a development perspective, in which member States review the interdependence of economies and of issues in trade, money and finance. UNCTAD is composed of 168 member States, including the 159 members of the United Nations; many intergovernmental and non-governmental organizations have observer status. The Conference normally meets every four years at ministerial level to establish policy guidelines. Between sessions, work is carried out by the Trade and Development Board and its standing committees dealing with commodities, manufactures, tariff preferences, development finance and insurance, shipping, transfer of technology and economic co-operation among developing countries, and by other subsidiary bodies. The problems of the least developed countries and of Africa's economic recovery receive special attention in UNCTAD's work. The UNCTAD staff-part of the United Nations Secretariat-numbers about 400 and is headed by a Secretary-General, currently Mr. Kenneth K. S. Dadzie (Ghana).  
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