Why is Foreign Trade in the USSR a State Monopoly?

Yuri KRASNOV

The Soviet Experience

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From the Author

In recent years many developing countries have introduced either complete or partial state monopoly of foreign trade in the belief that this would promote greater economic independence, better utilisation of natural resources and a faster rate of economic development.

State monopoly of foreign trade is not a novelty. It was introduced in Soviet Russia a few months after the victory of the October Revolution of 1917.

What does state monopoly of foreign trade mean? What does it consist in? In what way does it further a country’s economic independence and development?

State monopoly of foreign trade means that all foreign economic relations are administered and controlled exclusively by the state. Its main function is to safeguard and promote the interests of the country as a whole in the sphere of foreign trade.

The experience of the Soviet Union shows that in the period of consolidating political and economic independence, state monopoly of foreign trade protected the country’s economy from the onslaught of foreign capital, and made it possible to work out a unified foreign trade policy, and to prevent foreign interference in the country’s internal affairs.
Not only does state monopoly of foreign trade guarantee the independent development of the country's economy; it facilitates its reconstruction along socialist lines and provides reliable protection of the country's economic interests on the world market.

This booklet tells how and when state foreign trade monopoly was introduced in the Soviet Union, how it functioned and what benefits it brought to the Soviet people.

Why State Foreign Trade Monopoly Was Introduced

Let us first take a look at the Russia of 1918, when the term "state monopoly of foreign trade" entered the economic lexicon.

The peoples of Russia had just overthrown the government of the capitalists and landlords and embarked on the construction of a new society. The state received a grim heritage from the tsarist regime. Notwithstanding the establishment of capitalist relations and a livening up of industry in the early 20th century, Russia then was a backward agrarian country where about 80 per cent of the population were engaged in agriculture and no more than 10 per cent in industry. Per capita income was one-sixth to one-fourth of that in such countries as Britain, Germany and France.

On the eve of the First World War (1914-1918) Russia's per capita output of iron and steel was one-eleventh of that of the United States and one-eighth of that of Britain. The gap in coal output was even bigger. Russia's industry lagged far behind that of the major capitalist states of Europe and America in technical equipment and degree of specialisation. Labour productivity was one-ninth of that of the United States and one-fifth of that of Britain.
Foreign capital held strong positions in the leading branches of the economy. In 1913 foreign investments in Russia’s economy totalled 1,700 million rubles, or 41 per cent of the entire joint-stock capital in Russia. Involvement in the world war was a heavy drain on the country’s resources and caused economic disruption, especially in transport. Grain crops fell sharply. The foreign debt rose to an unprecedented extent, as a result of which the country’s dependence on foreign capital further increased.

Russia’s backward economy could not withstand the immense strain imposed by the war. Famine hit the majority of the cities, and throughout the country there was a shortage of raw materials and fuel. Besides causing additional hardships for the cities this led to a grave situation in industry, forcing hundreds of factories and plants to close down. Within only a few months in 1917 five hundred and sixty-eight enterprises employing over 104,000 people were shut down. Unemployment reached a mass scale by the autumn of 1917. Workers’ wages dropped to half of that of 1913, while prices went up eight times.

But then came the victory of the armed uprising in Petrograd (now Leningrad), in October 1917. Breaking the frenzied resistance of the ruling classes, the revolution spread to the whole country. The government of the capitalists and landlords was overthrown, and the exploitation of man by man was abolished in Russia.

The newly created state of workers and peasants was faced with extremely difficult tasks: it had to overcome the sabotage of former officials and specialists, crush the resistance of the remaining exploiters, rebuild the national economy on the basis of public property, and repulse the attack of foreign imperialists.

The Soviet government immediately abolished landlord property rights; all land was nationalised and became the property of the whole people. The state took over the major banks and some of the large enterprises. At all enterprises workers’ control was introduced over the production and distribution of commodities. The Soviet republic annulled all agreements on foreign loans concluded by the tsarist and bourgeois governments, thereby ending forced financial dependence on the big imperialist powers. The worker-peasant government proceeded to nationalise more banks and large industries and the railways. Deepgoing economic changes were carried out over a number of years. It required prolonged and strenuous efforts to gradually oust private capital from all spheres of economic life and create a planned economy. The tasks involved in a complete transformation of the national economy could be carried out only after the economic independence of the young socialist state was assured.

The difficulties connected with the revolutionary break-up of the old state machinery and the creation of new administrative bodies to take its place were multiplied as the country’s national wealth was in danger of being plundered. Foreign as well as Russian capitalists hastened to take out of the country everything that they could. This is why only a few days after the victory of the revolution the Soviet government established control over the export of foodstuffs, fabrics, footwear, gold, silver and jewelry. Military-revolutionary committees in all towns were instructed to safeguard export and import goods. In Petrograd shipments of privately-owned goods from bonded warehouses were stopped. And on December 29, 1917 the Council of People’s Commissars issued a decree introducing a temporary system of state control of foreign trade.
A Foreign Trade Department was set up under the People's Commissariat (Ministry) for Trade and Industry. Import and export of goods without the permission of this Department was regarded as contraband, and customs offices were directed not to let goods out or into the country unless a special permission was presented.

Actually there was nothing fundamentally new in such a system of state control. It was an instrument previously used by states to protect certain branches of their industry from foreign competition. But in Soviet Russia at that time, in the foreign trade apparatus worked mainly those who retained close contacts with industrialists and merchants and with representatives of foreign capital. Under these circumstances neither customs protection nor a ban on imports and exports could be a reliable barrier against the offensive of domestic and foreign capital. Besides, mere control of foreign trade by the state would not ensure its efficient use for the development of socialist economy, for the transformation of the whole national economy along socialist lines.

Lenin wrote in this connection "that no tariff system can be effective in the epoch of imperialism when there are monstrous contrasts between pauper countries and immensely rich countries." He emphasised that "under the circumstances indicated any of the wealthy industrial countries can completely break down such tariff barriers. To do this it will be sufficient for it to introduce an export bounty to encourage the export to Russia of goods upon which we have imposed high import duties. All of the industrial countries have more than enough money for this purpose, and by means of such a measure any of them could easily ruin our home industry."

The breathing space the young republic got after signing the Brest peace treaty with Germany in March 1918 and after its declaration of nonbelligerency in the world war opened up opportunities to establish trade ties with some European countries. But with the permisive-prohibitive system operating in foreign trade the initiative remained in the hands of private capital. Naturally, the bulk of foreign trade profits went into the pockets of private importers and exporters. Only to an insignificant degree could the state of the workers and peasants use foreign trade to promote the economic transformation of the country.

So that all profits from foreign trade would remain in the hands of the state and be used to strengthen the country's economy, complete nationalisation of foreign trade was necessary. The way towards establishing state monopoly of foreign trade was paved by the enactment of measures for state control of foreign trade as well as by the introduction of state monopoly on trade in grain and some other goods.

A Revolutionary Decree

On April 22, 1918 Lenin signed a government decree on establishing state monopoly of foreign trade. It read as follows:

"I. All foreign trade is hereby nationalised. Trade deals for the buying and selling of any type of products (products of the mining and processing industries, of agriculture, etc.) with foreign states and individual commercial enterprises abroad shall be carried out by the authorised agencies on behalf of the Russian Republic. All import and export transactions conducted with foreign countries by bodies..."
other than the authorised agencies shall be prohibited.

"II. The nationalised foreign trade shall be administered by the People's Commissariat for Trade and Industry."

Thus, already at the beginning of 1918 the state had assumed the key positions not only in industrial production, but also in the sphere of circulation, including the sphere of foreign economic ties.

However, in practice it was not possible to establish state monopoly of foreign trade immediately after the signing of the decree. The respite from war came to an end. The joint forces of internal counter-revolution and fourteen imperialist powers attacked the young Soviet republic. But nevertheless foreign trade operations in the period of the foreign intervention and civil war, which were insignificant in volume, were conducted in a centralised manner by the People's Commissariat for Trade and Industry.

Victory over internal counter-revolution, achieved in the main towards 1920, and the rout of the foreign interventionists enabled the Soviet republic to start implementing the decree on establishing state monopoly of foreign trade, and on its basis to conduct the exchange of goods with other countries. In 1920 a People's Commissariat for Foreign Trade was set up and charged with the direction of the nationalised foreign trade and goods exchange. The Commissariat was the republic's sole agency vested with the right to conduct all trade relations with foreign, state, public institutions and private organisations, commercial and industrial enterprises and individuals, and to implement all measures and carry out, through the respective bodies, all operations connected with the import and export of goods. All foreign trade operations were to be conducted according to state plans for export and import. The drawing up of these plans was entrusted to the Foreign Trade Council of the Commissariat.

Thus the state came to assume full control of one of the most important sectors of the country's economy—foreign trade. State monopoly of foreign trade was called upon to accomplish three main tasks:

- to facilitate the building of the country's economy on socialist foundations with the aim of transforming the country from an agrarian to a highly developed industrial power;
- to defend the socialist economy under construction against possible economic intervention by the capitalist world, and against the influence of the spontaneous world capitalist market;
- to ensure peaceful coexistence with the capitalist countries by pursuing the peaceable Soviet foreign policy in the sphere of foreign economic relations.

Opposition to State Foreign Trade Monopoly

The introduction of state monopoly of foreign trade was met with fierce resistance on the part of international reaction as well as of Russian capitalists, who, though limited in their scope of activity, still held important positions in the Soviet republic's economy and trade during the first years of Soviet rule.

For international capital the introduction of state foreign trade monopoly meant the loss of the possibility to plunder the abundant resources of Soviet Russia, to take valuable raw materials out of there, and to dump on the Russian market goods which might have been produced domestically. It virtually made it impossible for international capital to join
forces with capitalist elements inside Russia which were hoping to restore capitalist relations. It adversely affected the basic interests of world capitalism as well as those of the propertied classes of the former tsarist empire, now overthrown by the revolution.

The imperialists used diverse forms and methods of struggle against the Soviet system of state monopoly of foreign trade. After the failure of the 14-power intervention and of the counter-revolutionaries' attempts to restore capitalism, the imperialist powers tried to wreck the war-torn economy of Soviet Russia by means of an economic blockade.

The Soviet republic was discriminated against in all spheres of foreign trade. The majority of countries refused to trade with Soviet Russia. A "gold blockade" was imposed, i.e., most countries did not accept Soviet gold as payment for purchased commodities; and there was a "credit blockade": the top banks in Europe and America refused to advance loans for foreign trade deals with the young republic. The attack on the foreign trade monopoly was also carried out by such crude methods as raids on Soviet trade delegations in other countries.

However, necessity forced the imperialist circles gradually to slacken the economic blockade and then lift it altogether. The capitalist states could not for long shun their traditional trading partner without doing serious damage to their own economies, since that partner was in possession of tremendous natural resources. In addition, Russia had always provided a market for their commodities. Because of these circumstances, already in the early 1920s the governments of many capitalist countries, including some of the major ones, were compelled to conclude trade agreements with the Soviet republic and officially recognise its state monopoly of foreign trade.

But even after recognising the Soviet state's foreign trade monopoly the capitalist states did not cease denouncing it. From the 1920s the press in the European countries had been complaining that state foreign trade monopoly, i.e., the conduct of foreign economic relations by a centralised foreign trade department, hampered "lively communication". Today, more than sixty years later, the same complaints are heard: the information media of some imperialist countries continue to allege that state foreign trade monopoly hampers the expansion of economic ties between the USSR and countries with a "market-oriented economy", that exercising the monopoly through a "cumbersome" state apparatus prevents the speedy solution of trade problems, and that, moreover, the planned nature of Soviet foreign trade also hinders active economic, industrial and scientific-technical exchange.

At negotiations with Soviet foreign-trade delegations, the capitalist states from the very outset put down as a condition for trade the abolition or a significant slackening of state control of foreign trade. At the Genoa Conference of April 1922 the Western powers declared that they were ready to render Russia economic aid provided it abrogated its state monopoly of foreign trade. They demanded guaranteed freedom of action on the territory of Soviet Russia for foreign businessmen, including uncontrolled import and export of goods. These demands were rejected by the Soviet state.

In the face of widespread economic disruption in the country in the early 1920s, the Soviet government proclaimed a New Economic Policy (NEP) which temporarily permitted a certain livening up of private capitalist activity to normalise domestic trade, and the use of foreign concessions, all under state control. That period saw an intensification of attacks
on state foreign trade monopoly by capitalist elements inside the country seeking unhampered access to the world market.

It should be mentioned that in those days some government economic executives and Party leaders were also critical of state foreign trade monopoly, saying that it hampered economic development and that the People's Commissariat for Foreign Trade was inefficient. It is true that this newly created body, owing to a number of objective reasons, failed to cope with all the tasks assigned to it. Among its employees were peoples who were loyal to the revolution but lacked experience in foreign trade activity. They were not to blame. That was the first time in history that foreign trade activity was conducted by a centralised state agency and in accordance with a single export-import plan; optimal organisational forms of foreign trade were yet to be worked out. On top of this, there was the sabotage of the secret enemies of the young Soviet government, who worked at customs checkpoints and in the newly formed state bodies empowered to conclude trade deals with foreign countries.

These critics did not openly call for the abolition of state foreign trade monopoly, they suggested that "only" some frontiers should be opened and that free import and export of certain goods should be allowed. As one prominent Soviet economist put it, what they were really proposing was a quiet and unnoticeable abolition of state foreign trade monopoly. Had their proposal been accepted, the foreign trade monopoly would have collapsed as surely as a balloon would burst if it were punctured.

But nevertheless in that period the Soviet government temporarily allowed more organisations to have commercial contacts, under the control of the People's Commissariat for Foreign Trade, with foreign markets. These organisations conducted most of their foreign trade operations through Soviet trade delegations abroad.

The livening up of economic activity which began in the country in the period of the New Economic Policy made it possible already in the mid-1920s to embark on full-scale socialist construction in town and country. This called for consolidation of state foreign trade monopoly and the annulment of the concessions granted in previous years.

A Party document of those days (1924) said: "State monopoly of foreign trade has been fully justified itself, particularly in the NEP period, both as a weapon for protecting the country's wealth against plunder by domestic and foreign capital, and as a means of socialist accumulation.

"Only by preserving the system of state foreign trade monopoly in its entirety have we been able to achieve a favourable balance of trade even now, and to concentrate incomes from foreign trade in the hands of the state.

"By preventing the waste of public funds on the import of articles which can be produced domestically, state foreign trade monopoly makes it possible to plan the import of those items which are indispensable for the development of our industry and agriculture."

The Soviet system of state monopoly on foreign trade as a major instrument in the building of the new society withstood all tests in spite of all the attempts of the capitalist powers to destroy it.

A Bureaucratic Organisation or a Flexible Form of Management!

What is state monopoly of foreign trade from the organisational point of view? Is it really a "cumber-
some bureaucratic organisation” that hampers “lively communication”, as critics in the capitalist countries continue to assert? Or is it a flexible form of management of foreign trade that can be modified in accordance with the situation, with the successes of socialist construction, and also with the international situation, and, at present, of the entire range of the Soviet Union’s foreign economic ties?

The sixty-year history of state foreign trade monopoly in the Soviet Union shows that it is not something rigid and unalterable, that ever since it was introduced its organisational forms have been constantly improved. They did not always prove to be optimal for every given stage of the country’s economic development. The experience of a number of years demonstrated the need to change one of its forms or another, and to introduce new forms. But this did not change the essence of the monopoly system.

Foreign trade is an important economic sector for any country. That is why its form of organisation is determined primarily by the system of economic management in the country concerned. The basic principle of management in the Soviet Union is democratic centralism, which means centralised management with broad initiative of lower bodies.

At the same time, the development of a country’s foreign trade takes place in close contact with the world market, with countries that may have a different economic system. So the organisational forms of foreign trade are also influenced by an external factor, namely, the commercial and political conditions that attend this or that market, that exist in this or that country. It was under the impact of these two factors (internal and external) that the structure of Soviet foreign trade took shape.

As said earlier, in the 1920s the People’s Commissariat for Foreign Trade was charged with the direction and control of economic relations with foreign countries on the basis of an import-export plan. Direct operational work on external markets was carried out by organisations empowered by the Soviet government to do so. In the NEP years this right was given to some mixed companies (i.e. companies with both state and private capital), to the co-operative society “Tsentrosoyuz”, and to certain production associations. In that period several joint-stock foreign trade companies in which foreign capital owned shares were also set up. But such organisational “liberalisation” of the Soviet system of state foreign trade monopoly was necessary only for a short period.

In the mid-1920s the various concessions were abolished and mixed industrial and foreign trade companies shut down. With socialism rapidly advancing on all fronts of economic construction, it became necessary to introduce major changes in the organisational forms of foreign trade, and first of all to remove from the sphere of foreign trade production and other economic organisations which often competed with one another. Because of this competition deals were sometimes made in the interests of an individual organisation or province, contrary to the interests of the state as a whole.

By the early 1930s the reform in the management of foreign trade in the USSR was completed. Its purpose was to enable the state better to cope with the task of socialist reorganisation of the national economy. The industrialisation of the country and the collectivisation of agriculture required a substantial increase in the purchase of machinery and equipment, and a reduction of the import of those goods which Soviet industry itself was able to pro-
duce at the time. And imports could be increased only if more Soviet goods were exported. In view of these tasks the number of organisations having the right to trade on foreign markets was considerably decreased.

All foreign trade operations were since placed under the supervision of newly created export and import associations, which worked on a profit-and-loss basis and were subordinate to the People's Commissariat for Foreign Trade.

This Commissariat was the sole body empowered to regulate and control the country's foreign trade; it directed the activity of all foreign trade associations. An important instrument in the hands of the Commissariat was the system of licences and quotas; this meant that import and export operations could be carried out only with written permission of the state, and that the amount of exports and imports must be within the limits set by the state. In addition, the Commissariat exercised control over foreign exchange operations in connection with export and import transactions, and took over the matter of the chartering of foreign vessels and the leasing of Soviet ships for transporting foreign trade cargoes.

The system of organisations set up under state foreign trade monopoly included customs offices at the country's frontiers, at its seaports and airports. They ensured state control of exports and imports, checked whether deliveries conformed to the import and export plans, verified import and export licences and the observance of quotas, and combated all forms of smuggling.

Soviet trade delegations were opened abroad back in the early 1920s, and they enjoyed extraterritorial rights in most countries. They promoted the USSR's interests in matters of foreign trade in the countries concerned. Some of their main functions were to check whether the country concerned and its foreign trade bodies carried out the bilateral or multilateral agreements signed with the Soviet republic, to control the activity of Soviet organisations which had obtained permission from the Soviet government to trade on the market of the host country, and to see that they observed the rules and regulations under state foreign trade monopoly and the provisions of the contracts concluded. Soviet trade delegations issued import licences, transit permits and certificates of origin of goods.

One of the most important functions of trade delegations was to conclude foreign trade deals on behalf of the Soviet government. In the 1920s more than half of all import and export goods were bought or sold through the trade delegations. And in cases where foreign trade organisations of the USSR concluded deals on their own behalf, trade delegations issued guarantees of the Soviet state if this was stipulated by international agreements.

In countries where for one reason or another the Soviet Union had no trade delegations, the observance of state foreign trade monopoly was seen to by trade agencies, which acted as the plenipotentiaries of the People's Commissariat for Foreign Trade. And in countries with which the volume of trade was small, the post of trade counsellor was instituted within Embassies of the USSR.

The main organisations empowered by the Soviet government to enter into commercial deals with foreign firms were the All-Union export-import associations. Actually this type of economic organisation first appeared in the period between 1930 and 1935, and it took the place of the export-import joint-stock companies that had been operating since
The Organisation of Soviet Foreign Trade Today

The system of organisation of foreign trade created in the 1930s has in the main been retained to this day, though some changes have been introduced. The significance of foreign economic ties for the Soviet Union has been steadily growing. The scientific and technological revolution has given rise to new forms of co-operation in the industrial and scientific-technical fields. The high level of development of the productive forces in the USSR has enabled it to take a more important part in international division of labour and to expand its foreign trade.

Fundamental changes have taken place on the international scene. As a result of victorious socialist revolutions in many countries of Europe and Asia, a world socialist system has taken shape, and dozens of countries in Asia and Africa have won political independence.

It is interesting that the emergence of new nations which have chosen the socialist road of development has considerably changed and broadened the functions of the Soviet system of state foreign trade monopoly. These nations began to pool their efforts within the framework of socialist economic integration, having set up in 1949 the first international economic organisation of socialist countries—the Council for Mutual Economic Assistance (CMEA). The main goal of integration is optimal utilisation of the resources of each member of the Council for the good of all member states. To this end the actions of all the partners need to be coordinated with due regard for the national interests of each. This becomes feasible thanks to international socialist division of labour.
This does not imply that the common interests of the CMEA countries are promoted at the expense of the national economic interests of each country. The problem is resolved by giving due consideration to national economic tasks and aspirations and by coordinating these tasks within the framework of economic unification of the countries.

In conditions of socialist integration state monopoly of foreign trade acquires a new function—to achieve economic cohesion and gradually to work out a joint foreign economic policy for the CMEA countries.

All this calls for a further improvement of the organisational forms of state foreign trade monopoly in the Soviet Union.

The Ministry for Foreign Trade of the USSR remains the principal government body in charge of foreign trade. It exercises general control of foreign trade and supervises the activity of export-import associations. In the 1960s and 1970s, in view of the growing range of goods traded with other countries, and for the sake of raising the efficiency of work, the associations were put on a specialisation basis. In 1978 the Ministry for Foreign Trade had 45 associations under it. In the same year the various departments of many associations were reorganised into independent specialised firms which have greater independence in commercial activities than the departments.

The rapid development of a new sphere of the USSR’s foreign economic activity, namely, economic co-operation with, and technical assistance to, the socialist and developing countries in building enterprises and installations, necessitated the setting up of the State Committee of the USSR for Foreign Economic Relations. The task of the Committee is to promote economic ties with the socialist and developing countries, and to see that the USSR’s aid commitments with regard to these countries in building a variety of projects are fulfilled. The organisations under the Committee’s jurisdiction conduct prospecting, design, construction, assembly and other work under contract, and supply complete plant and material. The Committee sends Soviet specialists abroad to render technical services and train local personnel in socialist and developing countries.

Also taking part in the management of foreign trade are the transport ministries, each of which supervises the transportation of goods by the respective means of conveyance and maintains contacts with foreign transport agencies.

There are a number of other state institutions which participate in managing certain specific forms of foreign economic activity. For example, the Ministry of the Meat and Dairy Industry of the USSR has been granted the right to import livestock for slaughter, and the Ministry of Fisheries, to establish foreign contacts in matters relating to fishing and exploration of fisheries in the World Ocean. The State Committee of the USSR for Cinematography has a monopoly on the export and import of films, and carries out such transactions through the association “Soveksportfilm” which is under its jurisdiction. The co-operative organisation “Tsентроторсоюз” also has the right to conclude commodity-exchange deals with foreign countries.

In the 1960s and 1970s many ministries set up their own special boards, departments or even associations whose main function is to organise the export of machinery, equipment and other goods. This has greatly increased the efficiency of the Soviet export system.
Improvement of the organisational forms of state foreign trade monopoly in the USSR is an unending process. On the one hand, centralism, one-man management, is enhanced in this sector of the economy; on the other, there is ever greater initiative, efficiency and flexibility in decision-making on the part of all the organisations that have economic ties with other countries.

In the management of foreign economic activity wide use is made of automatic control systems and various types of computing equipment. The latter is used in preparing commodity market forecasts. The fulfilment of contracts is checked with the help of automatic control systems. In a word, state foreign trade monopoly makes possible optimal and extensive use, without duplication of effort, of the achievements of the scientific and technological revolution in the management of foreign trade activity in the USSR.

Facts and Fiction

State foreign trade monopoly has functioned in this country for more than six decades now. But the attacks against it have not slackened. One of the main arguments of its opponents is this: "Because of the monopoly, in the USSR foreign trade is separated from production, and this prevents the Western countries from making maximum use of Soviet markets. And besides, foreign buyers incur considerable losses in prices because they are deprived of direct access to producer enterprises."

A reasonable argument at first glance. It is true that the present structure of management of foreign trade in the USSR does not provide to producer enterprises or industrial ministries direct access to foreign markets. Trade dealings with foreign firms, are conducted by Soviet foreign trade associations, each specialising in a particular group of commodities. But does this mean that there is a gap between production and foreign trade? Definitely not!

The import plans according to which the associations buy goods from abroad are compiled on the basis of the requirements of various economic sectors, industrial ministries and individual enterprises. Representatives of the enterprises concerned sit on one of the management boards of the association, namely, its foreign trade council. In fact all technical questions are decided by industrial specialists at the initial stage of drawing up a contract. And associations which import consumer goods work in close contact with representatives in the sphere of domestic trade.

Export plans are drawn up on the basis of the production potentialities, assignments and plans of the respective industries and individual enterprises. When fulfilling a contract representatives of foreign firms, if necessary, enter into contact with representatives of Soviet enterprises. Thus there is adequate access to the market, to the producers themselves.

However, one of the basic principles of state foreign trade monopoly in the USSR is that commercial activities should be conducted mainly by specialised foreign trade organisations. The associations' employees, who are highly qualified specialists, are guided by the interests not of any one industry or enterprise, but of the national economy as a whole. A major economic effect of this is that competition between Soviet enterprises is eliminated (this, in fact, is a main source of dissatisfaction among Western economists with the Soviet foreign trade system!).

The second complaint most often heard is that state foreign trade monopoly means conduct of
foreign trade on a planned basis, and that since conditions on the world market are in a constant state of change this hampers the development of world trade based on the dynamics of demand and supply on the market. The critics usually speak of Soviet import and export plans as hard-and-fast directives which make it impossible for foreign trade organisations to take market conditions into account, and which therefore run counter to the incessant changes taking place on the world market.

While they have much to say about centralism in the organisation of Soviet foreign trade, the critics forget about the second aspect of this principle. The fact is that under centralised management of foreign economic relations on the basis of annual and long-term plans and plan assignments, the foreign trade associations and firms enjoy a large degree of independence in their operations and commercial activity.

What does this mean in practice? The export and import plan of a foreign trade organisation outlines, as it were, the final goal of its commercial activity for a certain period. Acting within the framework of this plan, which, as a rule, is not very detailed, the organisations, proceeding from commercial and market considerations, make independent decisions regarding the volumes of purchases or sales, the time-limit in which they are to be carried out, and the choice of buyer or seller. What is more, the export-import plan is not something handed down from above; it is drawn up with the participation of both higher and lower bodies, and account is taken of the proposals of foreign trade organisations. In the course of implementation of the plan, depending on changes on the commodity market, amendments may be introduced in the original plans based on proposals of the associations. Thus the planning principle does not rule out commercial flexibility of Soviet foreign trade organisations operating on the world capitalist market and cannot be an obstacle to mutually advantageous trade between countries with different social systems.

The opponents of state foreign trade monopoly are again reviving the old myth about autarky being characteristic of the trade policy of the USSR, and of all socialist countries for that matter. State foreign trade monopoly, bourgeois economists assert, has as its main aim the establishment of complete economic self-sufficiency of each socialist country and, of late, the self-sufficiency of the bloc of socialist countries. They say that the socialist community strives to isolate itself from the capitalist market and has dealings with it only once in a while in order to eliminate snags in its planned economy.

Such arguments are untenable. State foreign trade monopoly protects the country's economy from foreign influences, but autarky has never been its goal. On the contrary, the Soviet state has always regarded it as the principal means of enabling the country to participate in international division of labour—a powerful factor accelerating the development of its productive forces. The Soviet government has in fact always tried to establish mutually advantageous cooperation with all countries of the world. Thus, Soviet Russia participated in international division of labour in the first years of its existence, in the 1920s, in spite of the economic blockade, and later during the cold war years in spite of the discriminatory trade policy adopted by the majority of capitalist states toward the USSR. And now, in conditions of relaxation of international tension, it is making redoubled efforts to promote international economic co-operation. It is impossible that it should want to hamper this objective process.
The assertion that the economy of the socialist community as a whole is isolated is equally untrue. Unlike the Common Market, the Council for Mutual Economic Assistance is not a closed economic grouping that opposes itself to the rest of the world. CMEA’s Comprehensive Programme for Socialist Economic Integration provides for the vigorous participation of all member countries in international division of labour, in the development of all-round economic, industrial and scientific-technical ties with countries having a different socio-economic system on a bilateral or multilateral basis. To be convinced of this one only has to make a careful and objective study of the programme.

Finally, critics of state foreign trade monopoly claim that the state monopoly has turned the foreign trade of the USSR into a mere instrument of its foreign policy, which often runs counter to its economic interests.

But is it not a fact that the foreign economic ties of any country are in some ways related to its foreign policy at any given time? The point is, what is the nature of this policy?

The imperialist powers, as we have already said, many a time resorted to discriminatory measures with regard to the USSR in the sphere of foreign trade so as to undermine the Soviet economy or at least to slow down its growth rate.

In his book Rebirth L. I. Brezhnev recalls such a case. In the postwar years the Americans undertook to provide a complete plant for the restoration of the Dnieper hydropower station (the Soviet Union’s biggest at the time), which had been destroyed by the fascists during the war; but they stopped deliveries after having supplied only three units. In their list of strategic materials they included sheets of steel and stopped delivering these, too, to the Soviet Union, although they knew full well that without such sheets neither motor cars nor tractors could be made.

“That was not the first, and, unfortunately, not the last instance where capitalist countries, taking advantage of our difficulties, tried to dictate their will to us and interfere in our internal affairs,” L. I. Brezhnev wrote.

But the US politicians had miscalculated. The Soviet Union, utilising the possibilities provided by a planned economy, regrouped its forces and, by concentrating resources in the key sectors, was able to do without the help of the United States.

In later years the Soviet Union and its partners within the socialist community quickly overcame the temporary difficulties arising from the cutting-off or curtailment of their traditional commercial ties; they increased the production of articles that were formerly imported. The socialist countries developed all branches of their economy in a planned manner, thereby ensuring their technical and economic independence from the capitalist world.

But for many Western firms the loss of big and stable markets in the socialist countries posed no inconsiderable problems. This is what the West German newspaper Die Zeit said on August 12, 1963 in connection with the West German embargo on the delivery of large diameter pipes to the USSR: “... The consignment of pipes, whether its delivery is permitted or not, amounts to approximately one and a half week’s Soviet production. So there is no putting pressure on the Soviet Union by a prohibition of deliveries. NATO’s decision to impose an embargo on pipes means we are giving Russia a pinprick and ourselves— a great blow...”

Towards the late 1960s economic necessity compelled the capitalist world virtually to lift the block-
ade of the CMEA countries, which by that time accounted for about a third of world industrial production.

However, even today, when there is a relaxation of international tension, certain imperialist powers are resorting to old methods by attaching political strings to foreign trade and interfering in the internal affairs of the USSR. A vivid example is the ban imposed in 1978 by US President Carter on the delivery of a computer for the Olympic centre in Moscow. Not only did the President prohibit US firms from delivering such equipment, but demanded that the other Western states should support his discriminatory measures.

This demand aroused indignation among the public and business circles in the West European countries. The organ of the French business community, the newspaper Les Echos, declared that the Soviet market had become too important to Paris to be ignored. And the West German Westdeutsche Allgemeine noted on the same day: “Economic boycott is by no means a new weapon... In regard to such a great industrial power as the USSR it is ineffectual. The Soviets... are capable of the highest scientific achievements and are technically inventive, as they have quite often proved. We Germans learned about this long before the sputniks, during the last war...”

For the Soviet Union and its partners in the socialist community, foreign trade and other forms of foreign economic ties are a key factor in the peaceful coexistence of countries with different social systems, the material basis for detente. And this factor does not run counter to the economic interests of any group of countries: in developing trade with the developing and the capitalist countries, the USSR has always taken their economic requirements into account.

Foreign Trade and Foreign Exchange Monopoly

State monopoly on foreign trade is closely connected with another state monopoly— that of foreign exchange. As a matter of fact, state foreign exchange monopoly is an essential complement of state foreign trade monopoly and one of the main means of implementing the latter.

Let us imagine for a moment that the socialist state has taken foreign trade into its own hands but has left the door open for the free movement of foreign exchange. This would have made the foreign trade monopoly vulnerable because through various financial channels foreign capital would have been able to penetrate deeply into the country’s economy and hamper the carrying out of socialist changes.

What does state foreign exchange monopoly consist in? The state takes possession of all foreign exchange earnings from exports and other foreign economic transactions, and from the extraction of precious metals in the country.

Under state foreign exchange monopoly the State Bank of the USSR has the exclusive right to operate with foreign currencies and other foreign exchange values on the territory of the Soviet Union. On the instructions and under the control of the State Bank, such operations can also be carried out by the Bank for USSR Foreign Trade.

State foreign exchange monopoly enables the state to accumulate the necessary foreign exchange funds and to use them for the development of the national economy. It also serves as a reliable barrier against the influence of the spontaneous capitalist money market, which is subject to periodic crises.

The international settlement and credit transactions of the Soviet Union, like all its foreign econom-
ic ties, are planned by the state. In addition to the annual export-import and foreign exchange plans, now long-term plans (for five and more years) are also being drawn up and they form part of the overall economic plans of the country.

By means of foreign exchange plans the state determines over what periods and to what extent foreign exchange resources should be used. The state also establishes the procedure to transfer foreign currency, and valuables and securities abroad and the procedure for the import and export of foreign and Soviet currencies.

The organisational forms of state foreign exchange monopoly have also undergone changes over a long period. Immediately after the revolution the Soviet government assumed direct control of all transactions involving the transfer of foreign currencies abroad, and by 1930 private foreign exchange deals were prohibited and stock exchanges closed down.

From the mid-1930s all foreign exchange operations were conducted by the State Bank. The exchange rate of the rouble was established by the State Bank and was therefore unaffected by current fluctuations—sharp fall or rise—in the value of foreign currencies taking place on the world capitalist money market. All foreign exchange began to flow into the State Bank, and under its control into the Foreign Trade Bank. These banks were vested with the exclusive right to allot foreign currencies for the payment of imports and for services done by foreign organisations.

In making international payments the State Bank and the Foreign Trade Bank of the USSR checked the timeliness of foreign exchange receipts, the correctness of payments, and their conformity with the inter-state agreements concluded.

A major function of state foreign trade monopoly is to ensure the stability of international payments of the Soviet Union. For this purpose the country maintains a gold and foreign exchange reserve, formed from a favourable balance of trade and growing gold output. The need for such a reserve is also dictated by market fluctuations in capitalist countries and by the various discriminatory measures applied by these countries in their trade with the USSR.

In trading with capitalist countries unforeseen factors often arise. In such cases, too, reserves come in handy.

State foreign exchange monopoly also applies to the sphere of credit relations of the Soviet Union, which has become a major creditor providing substantial economic aid to other countries. These are mostly socialist countries but also include a large number of developing nations.

Soviet credits to socialist countries are granted on highly favourable terms: the interest rate does not exceed two per cent annually, and the credits and the interest on them can be repaid with deliveries of the recipient countries’ traditional exports.

To the developing countries, too, the Soviet Union grants credits on preferential terms: the interest rate is usually no more than 2.5-3 per cent annually, and the term of repayment is 10 to 15 years. The Soviet Union does not demand of them, as the capitalist countries usually do, that they should repay their credits in freely convertible currencies; they can pay with their export goods.

On the other hand, the Soviet Union has become a major recipient of credits, especially in transactions involving co-operation and compensation agreements.

The exclusive right of the state to engage in foreign exchange transactions, and the foreign exchange
plan which covers all types of earnings (from foreign trade, scientific exchange, tourism, and also the gold and foreign exchange reserves) ensure a stable system of the country's international payments and make it possible to utilise foreign exchange resources for the development of the socialist economy.

Foreign Exchange Relations of the Socialist Countries

State foreign exchange monopoly came to perform many new functions with the formation of a world socialist system after the Second World War. Economic relations between the socialist states have been developing on the basis of coordination of their national economic plans, on the basis of division of labour and specialisation in production.

With regard to the socialist countries, state foreign exchange monopoly is a means of coordinating and developing economic co-operation. At first the main form of settlement between the socialist countries was a system based on bilateral clearing agreements. In the late 1950s and early 1960s, as a result of the successful development of co-operation among the socialist countries and the rapid growth of their economies, conditions were ripe for the introduction of international settlements on a multilateral basis. This was facilitated also by the establishment of quotas for mutual deliveries of goods for long periods.

In 1963 the CMEA member countries signed an agreement on the setting up of an International Bank for Economic Co-operation (IBEC). As of January 1, 1964 settlements on a multilateral basis were introduced for goods deliveries and other transactions between the CMEA countries.

Multilateral payments are made in a collective currency, namely, the transferable ruble (gold content—0.987412 gram). The transferable ruble is basically different from the ruble used under bilateral clearing agreements in that the transferable ruble performs the role of an international currency, and not that of the Soviet currency used in bilateral clearing. As a means of multilateral payment the transferable ruble can be used without any restriction by any party to an agreement. Transferable rubles cannot be circulated inside the USSR.

Of great importance for the functioning of state foreign trade monopoly is the stability of the currency used as a means of payment. The transferable ruble meets this demand. Its stability is guaranteed by a system of regulating foreign trade based on the import-export plan, and by stable prices of goods bought and sold (adjusted every year on the basis of average world market prices for the five preceding years). It is also ensured by the maintenance of an equilibrium of the balance of payments of each country in relation to the other parties to the system of multilateral payment as a whole for every year. Every partner has the right freely to use the transferable rubles in its possession to buy goods or services from other partners in the system. Any temporary deviation from the balance of earnings and payments is regulated by means of short-term credits granted by the International Bank for Economic Co-operation.

IBEC has become a centre for multilateral payments among the socialist countries. It also carries on a great deal of work to expand and strengthen its ties with banks of socialist countries which are not its members, and with those of the industrial capitalist and the developing countries.
In recent years IBEC has done business with more than 160 banks, including many major banks of capitalist countries.

In the credit relations among the CMEA countries a considerable role is played by a second international banking organisation, namely, the International Investment Bank (IIB), which began to operate on January 1, 1971. Its authorised capital (the main source of the bank's credit fund) was put at 1,050 million transferable rubles, 70 per cent of which is contributed by the member countries of the Bank in transferable rubles and 30 per cent in freely convertible currencies.

The main task of the International Investment Bank is to mobilise financial resources and grant long-term (up to 15 years) and medium-term (up to 5 years) credits to its member countries for carrying out economic measures connected with international socialist division of labour.

In addition to its authorised capital and some other financial resources, the International Investment Bank sets up special funds made up of contributions of the countries concerned.

By its aims, by the terms and type of credits it grants, and by the methods it uses in running its operations, the International Investment Bank represents an international credit institution of a new type which differs fundamentally from international capitalist credit institutions.

Being an organisation of socialist countries, the International Investment Bank does not set as its main aim the earning of profit. However, to ensure profitability and observance of the rules concerning payment, and to enable borrowers to use most effectively the loans granted to them, the Bank imposes on its loans an interest rate which depends on the length of the period for which the credit is grant-
ed, the nature of the credited project, and the currency in which the credit is given.

Apart from its main activity which is the granting of long-term and medium-term credits, the International Investment Bank has been co-operating successfully with other banks and international organisations of socialist, capitalist and developing countries.

The collective currency of the CMEA countries—the transferable ruble—can be widely used in future settlements between the socialist and developing countries. It will be possible to make all payments in transferable ruble, i.e., without the use of the dollar or any other capitalist currency; this will prevent the capitalist monetary system exerting an influence on economic relations between the two groups of countries.

Use of the transferable ruble will enable the developing states experiencing monetary difficulties to enjoy the advantages of the socialist countries' system of multilateral settlements. For those developing countries with insufficient foreign currency reserves it would mean that they would not have to cut back on trade but could increase the range of their import and export goods.

Use of the transferable ruble ensures an exact equivalence of exchange and the stability and reliability of trade, and rules out any violation of the equality and sovereignty of the trading partners.

The International Bank for Economic Co-operation grants the developing countries transfer credits at an interest of 1.5 per cent annually. The International Investment Bank has also started to use the transferable ruble in managing the credit relations of the CMEA member states with the developing countries; in 1973 it set up a Special Fund to provide credits for implementing measures of economic and technical assistance to developing countries.
The Fund comes to 1,000 million transferable rubles. From this Fund the International Investment Bank grants credits for a term of 15 years for the building of industrial projects.

Thus, the mobilisation and collective use of funds by the CMEA countries create conditions for deepening economic co-operation between the socialist and the developing states, and for adopting the most rational forms of specialisation and co-operation in international division of labour.

What Benefits Has State Foreign Trade Monopoly Brought to the Soviet People?

State monopoly of foreign trade has existed in the USSR for more than sixty years. We may now sum up the results and see what benefits it has brought the Soviet people.

First and foremost, it helped to build a socialist society in the USSR, uphold the country’s economic independence and raise the living standards of the people.

With the help of state foreign trade monopoly the country’s foreign trade was transformed from a means of enriching capitalists, from a means of exploiting and plundering other peoples, into an instrument for stimulating the growth of the socialist economy, furthering the conduct of a policy of friendship among nations and promoting the peaceful coexistence of states with different social systems.

From the first day the Soviet government was formed the country has organised its economic relations with other states on a planned basis. This has enabled it to make the most efficient use of international division of labour for the benefit of the people.

In the years immediately following the revolution the country had to purchase foodstuffs from abroad for its starving population, equipment and raw materials for pulling its industry out of the ruins, and machinery for building up its agriculture. It bought tractors and other agricultural machines, pedigree livestock, seeds and fertilisers for the farms. In 1922, a year of harvest failure, grain imports helped to save thousands of people in the Volga area from starvation. At that time foreign trade facilitated commodity circulation inside the country, thereby promoting the rehabilitation of national economy. A major item of Soviet import was cotton, which was needed by the textile industry.

Moreover, thanks to state foreign trade monopoly, the country could pursue a policy of import prices that enabled not only rich peasants, but also the less well-to-do and even the poor ones (who were united in co-operatives) to buy agricultural machinery. Thus, already in those years state foreign trade monopoly helped to introduce socialist forms of economy in the countryside.

State foreign trade monopoly also made a great contribution to the restoration of transport.

By the end of the Civil War (1920) three-quarters of all the locomotives, thousands of kilometres of railway, bridges, tunnels and railway stations had been destroyed. There was practically no transport means for bringing grain to the population, fuel to the major cities, and raw materials to industries. Transport machine-building plants stood idle; transport repair shops were shut down. The Soviet government bought 700 locomotives from Germany, and locomotives, tank cars and other railway equipment from Sweden. This helped within a comparatively short time to organise transport services, and then other branches of the economy.
In the 1920s the country embarked on the electrification of the national economy; in the next few years electric light came to hundreds of villages and workers' settlements. Plant for the power stations under construction was purchased from abroad.

State foreign trade monopoly made it possible for the Soviet state to concentrate in its hands all incomes from foreign trade and all the gold and foreign exchange reserves, which would be needed in the event of a natural calamity, a new economic blockade or a military attack. Thanks to the foreign trade monopoly all the contacts which international capital had with the remaining bourgeois elements inside the country were gradually eliminated.

In the period of industrialisation, which was indispensable for building a firm economic foundation for the new socialist society and for achieving economic independence, state foreign trade monopoly again played an important role. The state mobilised export resources, expanded the export of raw materials and foodstuffs, and with the proceeds increased the purchase of items primarily for the heavy, industry—machinery, equipment, steel structures, instruments, and also raw materials, particularly ferrous and non-ferrous metals.

The decisive role in industrialisation was of course played by the country's own industries, which were growing by leaps and bounds. Imports of machinery and equipment in the late 1920s did not exceed 20 per cent of what was turned out by Soviet enterprises, and in the 1930s amounted to a mere 5-7 per cent. But for some newly created industries, the chemical industry for example, the import of plant was of decisive importance.

In the early 1930s, after the foundations of heavy industry had been built, the Soviet people began to carry out Lenin's plan for the collectivisation of agriculture. Collective farms were set up all over the country. However, the technical base of agriculture was still weak; tractors and combines were badly needed, even the simplest implements were lacking. Industry was called upon to supply agriculture with the necessary equipment.

State foreign trade monopoly made it possible for the country to buy up agricultural surpluses and offer them for sale on the world market, and to use the earnings for purchasing plant and materials needed to build enterprises for making agricultural machinery, mostly tractors and combines. In addition, purchases of motor vehicles, land reclamation machines, and also of pedigree livestock, fertilisers and high-grade seeds were increased.

The war with Nazi Germany (1941-1945) disrupted the USSR's economic ties with the world market, but the USSR succeeded in organising economic cooperation and mutual aid with the countries in the anti-Hitler coalition, and in broadening its commercial ties with some neutral countries.

The USSR's victory in the Great Patriotic War radically changed its international position. A world socialist system came into being, and imperialism's colonial system began to crumble. These changes broadened the area of fair economic relations among nations. And the high growth rates of the economy of the USSR in the postwar period created the prerequisites for expanding its economic relations with foreign states. The country's foreign trade turnover rose from 2,900 million rubles in 1950 to 63,400 million rubles in 1977. In fixed prices the volume of the USSR's foreign trade in 1977 was more than 30 times that of the last pre-war year (1940).
The number of the USSR's trading partners rose steadily. It went up from 39 in 1946 to 118 in 1977.

Today state foreign trade monopoly makes a valuable contribution to the development of the country's productive forces and to scientific and technological progress; it provides the national economy with raw materials and other materials and equipment which are in short supply, and helps to raise the people's living standards.

In the period between 1950 and 1977 imports from abroad rose from 1,300 million rubles to 30,100 million rubles—an increase of nearly 28 times.

The development of the Soviet economy in conformity with the demands of the scientific and technological revolution rests on the country's own industrial base, and the discriminatory policies of the imperialists in trade relations with the Soviet Union cannot prevent its economic advancement.

Taking advantage of international division of labour the Soviet Union purchases from other countries industrial equipment which it would be more costly or more time-consuming to produce domestically.

The volume of Soviet imports of machinery and equipment is considerable. The bulk of these imports comes from socialist countries in keeping with the plan of socialist international division of labour. Complete sets of equipment for 2,000 industrial enterprises have been bought from abroad in the past years. Imports played a most significant role in the re-equipment of the iron-and-steel, auto, chemical, oil-refining, gas, light and food industries, and of water-borne and railway transport.

More than ever before, foreign trade is today helping to fulfil a foremost social task—to improve the people's well-being.

In the 1970s, 40 to 42 per cent of the USSR's foreign exchange earnings were spent on imports of consumer goods and of raw materials for their production.

The country imports fresh and preserved fruits and vegetables, cocoa beans, tea, coffee, grape wines and tobacco. Owing to unfavourable weather conditions in some years, large quantities of food and feed grain, meat and meat products were imported. A new major import item consists of such consumer goods as fabrics, clothing, footwear, furniture, plates and dishes, perfumery and cosmetics. In retail trade these goods, imports now account for more than 10 per cent.

It is not difficult to see that it would be impossible for the country to import the aforementioned goods, which no doubt contribute to the well-being of the people, without state foreign trade monopoly.

* * *

Now, a few concluding remarks.

As an institution state foreign trade monopoly is an essential part of the socialist economic system. In a country where land, underground resources and the basic means of production are public property and where planning is practiced on a national scale, such monopoly is both natural and essential. It makes it possible to plan export and import on the basis of the country's potentialities and requirements. It is an efficient lever for ensuring the priority of national interests over the temporary interests of individual enterprises and social groups. It turns foreign trade into an instrument promoting the fulfilment of national tasks and the solution of urgent social and economic problems.
By ensuring that the structure of international trade is favourable to the country, state monopoly of foreign trade does not hamper the development of foreign trade. But it does forestall the plans of those trading partners who try to gain advantages for themselves at the expense of the Soviet state. But for those who want to trade with the Soviet Union on the principles of equality and mutual benefit it is helpful. When conducting trade negotiations with the Soviet Union, the parties concerned have to do with the export potentialities and import requirements of the country as a whole. Hence the prospects of big and long-term deals and full guarantee that the Soviet side will fulfill its obligations.

State monopoly on foreign trade and other forms of foreign economic ties is endorsed by the new Constitution of the USSR, adopted in October 1977. The monopoly is recognised in international law and in practical trade relations.

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МОНРОПОЛИЯ ВНЕШНЕЙ ТОРГОВЛИ:
В ЧЕМ ЕЕ СМЫСЛ
на английском языке
Yuri Krasnov is a writer on economic affairs. He is a member of the Union of Journalists of the USSR, and has been working in the field of Soviet foreign economic relations for more than 25 years. Among his several books dealing with questions of international economic co-operation is a monograph entitled "From Confrontation to Co-operation."

The present booklet explains why state foreign trade monopoly was introduced in the USSR, what it consists in and how it helps to consolidate the economic independence of the country and promotes its economic growth.