Chapter-5

ECONOMIC SECURITY DURING PERESTROIKA
5.1. The Necessity of Economic Reforms

Economic security played a decisive role under perestroika. It had two major dimensions. In the domestic front it aimed at bringing reforms to boost up the stagnant Soviet economy through structural changes and integrating Soviet economy into the global economy. In the international front, it brought several proposals for restructuring international economy. Soviet leader Gorbachev tried seriously for ensuring peace and security of the world by implementing those proposals.

Now the common question comes to mind of a researcher; Why Economic Reforms? A critical analysis of Soviet economic history revealed that the Soviet economy after the Second World War went through three distinct phases. In the first phase Soviet economy grew rapidly during 1950s and 1960s. In the second phase, it dramatically slowed down in the 70's and came to standstill position in the 80's. This phase was called 'Brezhnevite Stagnancy' as it happened during his time.

Before analysing the second phase, which compelled Soviet leader and economists to bring reforms to overcome the economic stagnancy and to revamp the Soviet economy, one would like to know the strategy for economic growth in 50's and 60's. During this phase, abundance of resources supported the strategy for economic growth. High investment rates also helped for rapid development of the industrial infrastructure of Soviet Union. The most important factor in Soviet economic growth during this period was a growing labour force and increase in labour force participation rate. The Soviet economy was also benefited from the general abundance of raw materials.
and natural resources and their location near the industrial centres in the European part of the Soviet Union.¹ No doubt, favourable global economic conditions, East-West trade and access to Western technology helped for the growth of its economy.

In the 70's the situation changed dramatically. Soviet economy performance decayed to low level and checked growth in consumer welfare development of industrial base. The cause of declining economic growth rates was due to transition from an economic environment of resource abundance to one of resource stringency. During this phase, there was slow down in growth rate of Soviet labour force due to decrease in the growth rate of Soviet working age population. Another important aspect related to this problem was the reluctance of the Soviet Central Asian Muslims those constituted large chunk of labour force to work in the modern industrial environment.²

The availability of relatively inexpensive material output went on declining. Soviet Union was forced to spend huge amount of money as operating cost for extracting fossil fuels from the remote sites in the east. Non-energy raw materials were also becoming less accessible and hence costly.³ Inefficient utilization of resources, over planned and over administered system, target oriented approach to agricultural and industrial production

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² Ibid., p. 79.
³ Ibid.
where emphasis was on quantity rather than quality; linking bonus to the fulfillment of target, lack of incentives and independence to workers and managers to work hard freely made the economic situation worse. Other negative features of 70's and early 80's, which accelerated the process of Soviet economic decay were the 'shift from positive to negative factor productivity and the diversion of resources, especially technological from potentially civilian to defence needs.'

By the time Gorbachev came to power, there was standstill position in industry, agriculture and services. In the words of Desai:

"The Soviet economic system that Gorbachev inherited has all the trapping of a rigid institutional structure. Commands from the central planners have left little initiative and even less incentive, for the performing actors and economic agents. The ill-fitting pieces of shortages, bottlenecks, retarded innovation and faltering growth have been the inevitable consequences. Gorbachev has chosen to restructure the jigsaw puzzle and provide incentives to the players to fit the pieces where they belong".

5.2. Restructuring the Economy

Reforms in Soviet Union was not introduced for the first time during Gorbachev period. Since the death of Stalin, there were three periods of reforms in Soviet economy. The first period of reforms started from the 20th CPSU Congress in 1956 and continued till Brezhnev came to power. During

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5 Padam Desai, op. cit., p. 25.
the Brezhnev period, reforms were not successful partly because of bureaucratic resistance and partly due to mistakes committed by the central leadership. The second period of reforms was the mid-1960s when serious attempt was made to decentralize the economy to give independent positions to factory managers, to introduce new economic indicators such as profit and to increase the incentives to employees to work hard. But it could not yield any concrete result as it was implemented slowly because of resistance from the bureaucrats and half-hearted attitudes of central leaders. After 1968, these reforms ceased to exist, because of the influence of Prague Spring during which even more far-reaching reforms were proposed in Soviet Union, protestation of anti-reformers that radical reforms would erode the authority of the Communist Party.6

The third period of reforms was started during the time of Gorbachev. Although the plan of restructuring or perestroika in Soviet Union was set forth in April 1985, just after he assumed power, the foundation of the new reform programme was laid at the 27th CPSU Congress, 1986. The specific elements constituting perestroika were not spelt out all at once. It was a gradual process and obviously continued upto December 1991 when Soviet Union finally disintegrated.

The attempts at restructuring Soviet economy had two important characteristics. First was opening up the closed Soviet economy to foreign investments and new technology. Second was the creation of a market for

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consumer goods and removal of administrative control over this market. These changes aimed at both external and internal liberalization. The reform period during *perestroika* could be divided into two phases. The first phase covered up to November 1989 and the second phase was up to December 1991.\(^7\)

5.2.i. Economic Management

The major attempts at reforms in this first phase were made for an establishment of an integrated, efficient and flexible system of economic management. The objective of this reform was to reduce the role of the State in all major areas of economic activity by allowing an important role for cooperative and individual enterprise. Private enterprises were allowed in the Soviet Union from 1st May 1987, according to the law of individual labour activity,\(^8\) the first time certain types of private enterprises started functioning in USSR. The activity of the new enterprises was concentrated in the consumer goods and service sectors. Individual citizens and members of their families participated and hiring of employees were not allowed. People who had permanent work elsewhere were provided opportunity to work in State enterprise at their free time. It was really a positive step in the direction of reform as the labour market was supplied with large number of new workers which was helpful for overcoming the problem of labour shortage. In the consumer goods sector, a number of areas were opened to individual labour excepting few areas like manufacture of medical equipment, chemical


\(^8\) *Izvestiya*, 21 November, 1986.
products and copying machines (Articles 12-13). Even the scope of the private enterprises were small but introduction of new law brought important charges in consumer and service sectors.⁹

Another important reform in the direction of economic management was the introduction of new cooperatives. In May 1987, these new cooperatives started functioning in the Soviet Union. The new cooperatives were of different kind and could be labelled workers cooperatives and in some cases industrial cooperatives. In Soviet Union, cooperative restaurants and cafes were set up to provide meals to the people. New cooperatives also started functioning in the clothing manufacture. Most probably Soviet leaders followed Hungarian model when designed these new cooperative enterprises. These cooperatives were oriented to meet the need of the market. They were extremely flexible and modified their production as demand fluctuated. On 8th June 1988, the law of cooperatives was published which acknowledged the role of cooperatives in Soviet Union.¹⁰

Another important innovation in the law in this direction was the creation of small cooperatives in the field of science and technology which provided services in engineering, construction and other technologically oriented areas. No doubt, the above mentioned reforms ended the monopoly of the State in key areas like foreign trade, where apart from foreign trade organizations which had complete control over all foreign trade hitherto conducted by the USSR, enterprises were also allowed to conduct trade.

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⁹ Jan Dellenbrant, op .cit., p. 94.

¹⁰ Pravda, 8 June, 1988.
The new system of economic management also stressed on the area of joint ventures. A decree of January 13, 1987 allowed for the first time the creation of joint ventures involving foreign capitalist partners including developing countries on the territory of Soviet Union. Another decree of September 17 of the same year officially sanctioned Soviet participation in joint ventures in developing countries on their territory. The joint ventures were allowed to set up their own targets and to set their prices and market their output without the dictates of the State planning authority.

The same independence was also granted to the State enterprises and associations as well through the adoption of the law on State enterprise in June 1987. They were granted freedom to establish their own business contacts in both domestic and international market. This decision also facilitates individual enterprises to retain more than a third of their output for directly selling in the market by changing the earlier decision of placing the entire output at the disposal of the State.

While a free market for the producers to exploit was being created, the price system remained under the control of administrative mechanism and the correction in price system which was essential for transition to market economy were not allowed. Soviet economists stressed on this price reform as important factors in the reform plan like exchange rate charges linked to the price reform. In the words of Nikolai Shmelyov, a leading economist of Soviet Union:

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"Today a few people will probably deny the need for a price reform. Without the establishment of objective and rational price ratios and without the transition of the bulk of our economy to market principles of price formation, the new mechanism will not operate".\(^{12}\)

But price reform was repeatedly deferred and when it was finally initiated in 1991, it simply made the inflation high. In the process of restructuring, key issues like distribution of national products, ownership of property assumed significance, but government did not take up any clear cut policies. Once the State relinquished property over which it had earlier control, the new forms of its involvement had to be clearly mentioned but the phase did not able to solve these complex problems which surfaced in the transitional phase. It lost its momentum within first two years due to lack of a comprehensive framework. In the first half of 1988, the Deputy PM in-charge of reforms, Leonid Abalkin had commented that *perestroika* had failed to bring the real process of structural change.\(^{13}\)

Hence, Soviet Union searched for new forms and methods of economic management. As Aganbegyan said:

"This search extends not only to the resolution of internal economic problems but to the whole system of external economic and scientific and technological relations. In all these, new approaches, unorthodox solutions and an emphasis on economic cost effectiveness are essential".\(^{14}\)


\(^{13}\) *RIS Digest*, op.cit., p. 41.

5.2.ii. Structural Reforms

The second phase of economic reforms began when Abalkin himself came out with a new package of economic reforms which aimed at structural change. Its objective was the promotion of a market for consumer goods, the releasing of all administrative control over pricing and distribution and above all restructuring the property relations and encouraging private property ownership.

This reform plan took up four major issues such as changes in ownership of property; financial restructuring; price reform; and modifications of conditions for foreign investment. This reform plan was formulated for five years, starting with 1990 and ending with 1995. The closing of 13th Five Year Plan. The Abalkin programme presented to the Congress of People's Republics by P.M. Nikolai Ryzhkov was definitely a unique document. It was a detailed and coherent blueprint for economic reforms. For the first time, it stressed on de-nationalization of State property through arenda, use of credit mechanism through banking system, stabilization of money supply and transition to market economy including the introduction of market for labour, capital and foreign exchange.

RIS Digest, op. cit., p. 42.

However, this programme could not bring any changes in the deteriorating performance of Soviet economy. Hence, government commission headed by Prime Minister was asked to prepare a more radical package of reform. Prime Minister presented its conclusion to the Supreme Soviet on 24th May 1990. Those programs involved a gradual transition to a regulated market in three stages until 1995, incorporating changes to be undertaken to correct the imbalances in the existing market system. Emphasis was placed on consumer goods production and shifting of investment in favour of this sector; increase in food production; undertaking specific measures to stabilize the consumer market by diverting the excess demand for consumer goods to other areas; and correcting the growing government budget deficit.\(^\text{17}\)

But the legal changes, pricing and tax reform and reduction in the scope of central planning could not bring any positive result rather the price of commodity like bread raised substantially. The Supreme Soviet called for the government to submit a more developed and coherent programme by 1st September 1990. There was much debate and discussions among the economists and political reformers to protect the population from the negative effect of these changes and how to control the price of the bread and tackle the problem of regulations prohibiting the sale of goods to non-residents.\(^\text{18}\)

In this critical juncture, a radical plan put forward by a group under the Chairmanship of presidential council member Stanislav Shatalin, advocated

\(^{17}\) *RIS Digest*, op.cit., p. 43.

five hundred days transition to market based upon transfer of state to other forms of property and a 'hard' rouble. But Government's original proposal remained on the table. Ryzhkov opposed it as it would lead to probably political instability and fall in the living standards of the people.

Another group chaired by Abel Agonbegyan prepared a proposal for moving to market economy with least social and economic costs and its conclusion were presented to Supreme Soviet and republican parliaments. The Supreme Soviet asked Gorbachev to prepare a unified programme combining the best elements of all the three documents and proposals.

The new guidelines were prepared and approved by an overwhelming mandate on October 19, 1990. These guidelines were based on the principle of maximum freedom of economic activity and it envisaged a transition to 'market economy' in four stages within a relatively short time. The first stage was to be devoted mainly to establishing the economy and beginning the commercialisation of the State enterprises. The second stage stressed on the gradual liberalization of prices, the introduction of various forms of social security and the maintenance of the tight fiscal policies. Further structural reforms were to be completed in the third stage, while financial constraints would be eased as market conditions stabilized. In the final stage, the rouble would become fully convertible against other currencies within the Soviet Union and outside it. So far, restructuring of Soviet economy was


20 Ibid., p.135.
concerned, Soviet leader Gorbachev also took steps in restructuring Soviet agriculture in March 1986 by allowing farmers to sell their produce privately at market determined prices. He also introduced land leasing system in March 1989 by which land could be leased to individual, groups or families. Still there were lot of problems remained in this sector.

Gorbachev emphasized on several other elements of reform programme in his speeches of late 1990 and in 1991. But the economic situation got worsened in 1991 when people made a long queue to get their daily items. There were even shortages of drinking water. The ‘anti crisis’ programme could not bring any change in the economic situation of Soviet Union. Perestroika of Soviet economy was an successful for several reasons. It was hesitantly perused. Even after the 1987 Enterprise Act, the State-owned enterprises remained shackled by the system of state contracts, the reformers first perceived competition as the motivating force of any market economy at a later stage, price reform which was essential for the success of market economy in Soviet Union was deferred, agricultural reform, accompanied by the acceptance of private ownership of land was not ventured. Instead of receiving support, the cooperative system tended to be defamed. Larger private enterprises were not allowed. Had there been ten to twenty years time left, the shortcomings could have been gradually put right. But the essential pre-condition was missing as political system was not conducive to market reforms and the holders of power particularly ruling upper nomenklatura appointed by the party refused to support to reform rather they
turned to be breaking mechanism of perestroika Gorbachev complained about.21

5.3. Integrating to the Global Economy

As discussed, besides structural changes in the Soviet economy, Soviet Union during perestroika tried its best to ensure its economic security through integrating Soviet economy into the emerging new liberal international economic order. Soviet leader Gorbachev revised the traditional Soviet approach to the world economy through mutual friendship, economic cooperation and trade relationship. Thus, the world once divided between the two antagonistic blocs had suddenly become united.

Under perestroika, Soviet Union emphasized on the increasing exports of manufactured goods to become an economic force at the international level. For achieving this objective, Soviet Union developed warm economic relations with the West. The introduction of Western hard currency investment improved the quality of Soviet manufactured goods. About 70% of exports of the West was made up of four groups of commodities: motor cars, power plant, technical instrument and laboratory equipment, and railway rolling stock, with motor car making up 46% of this figure. In 1987, the proportion of manufactured good in Soviet exports rose to 21.5 per cent. Soviet exports to

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industrialized capitalist countries had grown by 5 per cent as opposed to 0.1 per cent for total exports.\textsuperscript{22}

Gorbachev’s sincere efforts and strong determination helped to convert Soviet Union from a ‘raw national appendage’ to the West (i.e. exporting its primary products for machinery that it cannot produce internally) to an export of high quality and internationally competitive manufactured goods.\textsuperscript{23}

Soviet Union expanded its trade under \textit{perestroika} and played a decisive role as a player in world economy. As mentioned, liberalization provided a conducive business environment for the traders of Soviet Union for developing healthy business relationship with developed and developing nations. From 1987 onwards, twenty ministries and seventy enterprises had been authorized to make direct deal with foreign partners and from April 1989, this right was extended to all internationally competitive business.\textsuperscript{24} By April 1, 1991, more than 30,000 Soviet organizations were registered for foreign trade activity.

This was the first time western companies dealt directly with the ultimate buyer of the Soviet Union by passing the bureaucratic rigidities. But this liberalization in the economic sphere had some problems. Foreign businessmen had to travel long distance to negotiate with their Soviet counterparts. Many Soviet businessmen also faced problems as they did not


\textsuperscript{23} Moskovskie Novosti, 1987.

\textsuperscript{24} Akio Kawato, op.cit., p. 129.
have skilled and experienced personnel to handle foreign trade. Firms were even not allowed to dispose of all their foreign income. For example, one quarter of the car manufacturer Volga's foreign currency income was left at the firm's own disposal; even then the permission of Foreign Economic Relations Ministry was needed. Another important problem during perestroika was the inability of Soviet businessmen to export more to meet the needs of the people as there was scarcities of materials. The drive to increase export at the expense of domestic consumption increased the dissatisfaction of the Soviet people. They complained that it had become difficult to have good things since things were exported.\footnote{25}{Exports of machinery and equipment, ores and metals, chemicals, timber and paper and consumer durables increased from 16.2%, 9.5%, 4%, 3.5%, 2.8% respectively of total exports in 1988 to 18.3, 11.2, 4.6, 3.7, 3.6 per cent respectively in 1990.}

The final years of Soviet power also saw the growth of complex and difficult system of export licensing, which proved highly vulnerable to hijacking by populist leaders eager to jump on the bandwagon of 'export nothing that we need ourselves' and departmental bosses seeking to neutralize the competition.\footnote{26}{The co-operation in the form of joint ventures was one of the important steps taken by Soviet leaders to strengthen the economic security. It included the following: attracting investment capital; acquisition of technological know-

\footnote{25}{Ibid., p. 130.}
how; acquisition of organizational know-how; learning sales marketing through free sales in both the Soviet market and in world market; and multiple function through the "oil slick effect" of the joint venture company on the Soviet farms co-operating with it.27

The joint ventures law of 1987 permitted foreign ownership of equity in the Soviet Union for the first time. The maximum foreign share in a joint venture was initially restricted to 49% but in 1988s it was raised to 80 per cent and subsequently 100 per cent foreign ownership was permitted. In principle, joint ventures were subject to both profit tax and repatriation tax, but with a tax holiday for foreign partners from the date on which profits were first generated. In practice, joint ventures were regulated by the laws of the republics and regions as the authorities and even lower level authorities tried to assert their sovereignty by promulgating their own rules and regulations. Individual foreign firms started negotiating the best deal they could with Soviet, republic or local governments, as the case might be. By the middle of 1991 more than 3,000 joint ventures had been agreed with foreign partners, most of them from western countries. Since the disintegration of Soviet Union, there have been no changes in principle except republics replacing the Union, at least one level of legal confusion over joint ventures has been removed.28

The measures taken in the year 1986-87 failed to revitalize the pattern of foreign trade of Soviet Union. The disappearance of Soviet Union even did

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28 David Dyker, op.cit., p. 189.
not produce any change in the situation. Though the number of joint ventures increased impressively in the last years of USSR, but the amount of capital and volume of business was not satisfactory. Joint ventures had attracted just 1.5 billion dollars of international equity capital by February 1990 and that figure had not increased much by 1991. They did not play any significant role for technology transfer into Soviet economy or as major stimulators of Soviet exports. The latest available figure shows that the net effect of joint ventures on the Soviet balance of trade was negative.\(^{29}\) It was due to unattractive tax regime, uncertain repatriation of profits and the question of converting roubles into hard currency confused for everyone involved in foreign trade. Though in principle joint ventures were autonomous of state organs but in practice their activities were obstructed by state organs.

The position of Soviet trading enterprises was even not up to the mark. The administrative set up rather than market mechanism was responsible for this. It is important that Boris Yeltsin's Russian government is still continuing the same regulations by giving priority to state orders. The general absence of joint ventures activity in 1992 was largely a function of uncertainty over political prospects and anxieties about the international payment position rather than about the planning regimes.\(^{30}\)

There was discussion of Special Economic Zones (SEZ) after seeing its success in China. The Soviet SEZ was thought up for strengthening its

\(^{29}\) Ibid., p. 190.

\(^{30}\) Ibid., p. 190.
economic position based on the market principles and hard currency settlement and allowing for private property. The one proposed SEZ that was actually set up before the disintegration of Soviet Union was at Nakhodka, in the Soviet Far East. But there was war of laws between Russia and local government of the Maritime Province where Nakhodka is situated. By the end of 1992 Kalingrad had joined Nakhodka as a functioning special Economic Zone. The SEZ were also in operation in a number of other Russian Far Eastern region. But they had failed to match their Chinese counterparts.

Soviet Union expressed its desire to become a member of GATT as it would have a good effect on the external economic transformation of USSR by inducing to adjust to the new rules of the game in the world market. Soviet Union’s decision to adhere to a multilateral trade system based on GATT rules and principles was to strengthen its stagnant economy and stabilize the political climate. Other important reasons to become a member of GATT were the expansion of manufactured goods export and acquisition of Most Favoured Nation (MFN) status which membership would offer and which would make its export less vulnerable to arbitrary import restrictions.

Though some CMEA countries were the members of GATT during perestroika period, but the case of Soviet Union was little bit different and of course more problematic from the point of view of the GATT than those of the

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31 The Baltic Independent (Riga) 28 February-5 March 1992, p. 2.
small socialist countries. This was due to economic weight of Soviet Union.\textsuperscript{34} Its desire to become a member of GATT remain unfulfilled as it was disintegrated on December 1991.

As for IMF Soviet Union became an associate member of IMF on 24\textsuperscript{th} June 1991. The desire to become a member of IMF was to overcome the crisis ridden economy. Though there was no legal provision for an associate member to get IMF loan, yet it was a step forward for entry into IMF. Russia's entry to full membership of IMF in April 1992 could have important medium term implication.

The CMEA Secretariat and EC Commission adopted a joint declaration in June 1988. Soviet Union established official relations with EC. This was followed by signing of the first long term frame agreement in the year 1989 on trade, economic and commercial co-operation. EC also provided technical assistance to Soviet Union for utilizing country’s resources effectively. To fulfill these objectives the EC allocated 400 million ECU\textsuperscript{s} (European Currency Unit of the Common Market) in 1991; the same amount was proposed to be given in 1992.\textsuperscript{35} These allocations were for developing basic, priority sectors such as power, engineering, transport, the food processing industry, personnel training for state run private sectors, finance servicing. No doubt, EC's assistance was to encourage private investments into the Soviet Economy.


\textsuperscript{35} ECU – European Currency Unit of the Common Market, 1.0 ECU=$1.2 in early April 1993.
The 1989 agreement which came into force on April 1, 1990 served as a legal foundation of the USSR-EC relations. This agreement accorded each of the sides the MFN status and the waiving of fixed import quotas. It also defined the co-operation in trade and economic fields. USSR-EC Mixed Commission set up to observe the implementation of the agreements, to solve various problems and other important matters arising between two sides for strengthening their relations. Though it did not cover everything, but it was a positive step taken by both the sides.

As discussed, the situation in Europe and Soviet Union went on changing during this perestroika period. Hungary, Czechoslovakia concluded treaty with EC and other East European countries were in the process which forced Soviet Union to take steps to integrate itself into the new European space, otherwise it would lead to isolation and threaten the stability and security of Soviet Union in the continent. In December 1990, European Council proposed a grand agreement which would include political dialogue, comprehensive economic co-operation including cultural sphere between EC and Soviet Union. USSR responded positively. Though it covered a wide range of areas but the focus was on economic co-operation as it wanted to integrate Soviet Union into the European economic space. A protocol signed by both sides in June 1990 in this respect which covered wide range of fields including cooperation in information technology, environmental research, biotechnology, power production, nuclear power and engineering, materials

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and industrial technology etc. Though this proposed agreement did not materialize, yet it had a positive impact for strengthening the security of Europe and the world.

The establishment of official relations between Soviet Union and EC not only played a significant role for the Europe's construction but also cleared the way for bilateral trade and cooperation between individual CMEA countries and EC. Thus it strengthened the trade between East and West and their economic security. The first step taken by EC in this respect was the agreement concluded with Hungary in September 1988 which proposed to drop all national quantitative restriction of EC countries within ten years. Similar agreements were also proposed by EC to cover other East European countries. These developments were no doubt positive steps taken during this *perestroika* period towards closer relations with EC.

In 1990, a mixed commission of the EC and the CMEA discussed the scope of joint activities and identified subjects like Statistics, Forecast, Environment, Standardization, Science and Technology, Electrical and Nuclear Energy and Transport for discussion. During this *perestroika* phase, East-West trade mainly concentrated on the European Continent. Europe accounted for almost 9 per cent of the export and roughly 75 per cent of the imports of the CMEA from Western industrial countries. This clearly reflected the European character and interest in trade ties between West and East. In

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this respect EC took a lead over European Free Trade Association (EFTA). The EFTA accounted for 5 per cent of the CMEA's foreign trade and vice versa. Though the CMEA countries share in EC's foreign trade volume was less than 3 per cent, yet the EC was the primary partner of the COMECON/CMEA in its trade with the West. The community accounted for 15 per cent of its foreign trade that was three times share of trade with EFTA and for near about 60 per cent of its trade with the West.

The importance of European community for CMEA's foreign trade increased during Eighties. At the same time, individual CMEA members attained greater autonomy through Soviet perestroika. Due to differing pace of reforms in Eastern European countries and changes in their economic structures, CMEA showed the signs of disintegration and took interest to integrate with the EC and New International Economic order. In 1988, CMEA countries also decided to have a common market for free flow of goods and to strengthen the economy of Soviet Union and Socialist Bloc but the idea did not materialize as CMEA collapsed in September 1991.

Soviet Union took several measures as discussed above, it could not revitalize the Soviet economy. Soviet Union's borrowing in the financial market went on increasing. The Western banks responded positively to the request of Soviet Union for lending money. In 1988, the Soviet Union achieved a debt service ratio of 21 which was much more lower than the average of 42 for the other East European countries. At the end of 1988, the

40 Ibid, p. 278.
net debt in convertible currencies was about $23 billion which was more than the double of 1984 figure. At the end of 1991 (before the disintegration of Soviet Union), Soviet debt went up to $81.4 billion. The Central Bank Chief Gerashchenko also cited a figure of $80 billion for 'old' presumably pre-1992 debts. During this economic crisis, Soviet Union even began to issue bonds in Western market. In 1988 they issued bonds for 100 million Swiss Francs and 500 million Deutsche marks. But the foreign borrowing did not able to resuscitate Soviet dying economy as imported goods were wasted, imported plants were not operated effectively and some plants were over staffed in comparison to its western counterparts. Even Soviet administration used foreign currency to import consumer goods instead of using it for overcoming the economic crisis.

Thus, the mismanagement of Soviet economy and misutilization of foreign borrowing dragged Soviet Union into external debt trap by 1990, borrowing largely to service the debts. After the disintegration of Soviet Union, it is not clear how much of the new loan was assigned to each member of CIS, or whether Russia will take up the responsibility to repay, recovering somehow the dues from the latter. Russian debt at end-September 1992 ought to exceed $ 95 billion.

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43 Akio Kawato, op.cit., p,134.
Soviet Union took interest in pan-Pacific basin for its vast potential for economic development. It was clearly reflected from the speeches of Gorbachev delivered in Vladivostok in July 1986 and Krasnoyarsk in September 1988. As the economic centre shifted since 1970 towards Pacific, so it was expected that during 80's it would become the focus of economic activity.\textsuperscript{45} Soviet wanted to gain more political and economic influences from this region for which it took special interest to join PECC (Pacific Economic Cooperation Conference) and Asian Development Bank.

In August 1987, Soviet adopted a programme entitled 'The long-term State Programme for Complex Development of Production Capability in the Far East Area until 2000'. But it could not nationalize as the Soviet Far East lacked proper infrastructure, appropriate institutions and abundant labour force.\textsuperscript{46} Even Soviet themselves did not like to invest resources in that region. The capitalist economies in the Pacific basin also did not have any interest at that time to take up this project in Siberia. Japan government was also not so keen to support this Siberian project as the territorial dispute over Kurile Islands was not settled.

The country which took interest in this project was South Korea only when Gorbachev expressed his unwillingness and inability to continue supporting the economy and military of the North. So, it was a success of


Nord Politik of the South. Though this project step as it paved the way for Russia to become a participant in many of the regional institutions of the Asia-Pacific such as PECC, ARF, etc. Russia may also play an important role for enhancing the security of this region.

5. 4. The Problem of Convertibility

The most important problem of Soviet economy was the question of convertibility of rouble. Absence of unified formula for transacting export earning into domestic purchasing power obstructed the effective implementation of Soviet foreign trade reforms. A convertibility of rouble would have solved this problem easily. Soviet Union implemented several measures from 1988 to early 1991 to bring about convertible of its currency. In October 1989, a new tourist rate fixed at just 10 per cent of the old rate was introduced and old unrealistic parity of around one rouble to the pound sterling was dropped.

The first Soviet foreign exchange auction was held on 3rd November 1989. It generated rates of exchange two to three times lower than the new tourist rate. In 1990, both foreign exchange auction and black market rates inclined to the bottom rate of that range. In April 1991, Soviet authorities devalued the tourist rouble to a rate of around 30 to the pound sterling. The

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48 Ibid.
rate had gone to 50 to the pound by the end of June. In the meantime, in late 1990, a commercial rate, for business transactions was introduced at a rate of about three to the pound sterling. In early 1992, Yeltsin's Russian Federation government introduced system for convertibility of rouble. But the full internal convertibility is yet to be achieved.

5.5. Reinforcing the Council of Mutual Economic Assistance (CMEA)

Soviet Union tried its best to improve the efficiency of the CMEA, obviously to get economic benefits out of it. As 60 per cent of Soviet trade was with COMECON countries, so the concern was quite apparent. Soviet Union took efforts to strengthen the CMEA by intensifying the cooperation in the field of science and technology, the establishment of joint ventures; direct links between CMEA enterprises, joint exploitation of energy sources and convertibility of the transferable of rouble. But the COMECON countries were more interested to develop trade with the West as it could only provide them advanced machinery and technology. Their consent to improve the cooperation within CMEA was very formal and out of political obligation rather than economic benefits.

On 18th December, 1985, all the members of the CMEA signed the 'Complex Programme of Scientific and Technological Progress of the Member Countries of the CMEA upto the year 2000', but it did not yield any concrete

50 Ibid, p.182.
51 Akio Kawato, op.cit., p.137.
result. In this context, it was significant that the slow down in economic growth which occurred in all the CMEA countries during mid-70's went on declining further. Soviet relations among CMEA countries were hindered by the issue of price formation, the decision of Soviet Union to reduce oil supply, the economic crisis in Poland and lack of advanced telecommunications equipment.53

Again, the broader controversy emanated from growing economic incompatibilities in the region. Economic structures – some changed, some well organized and some partially reformed – were out of Sync; interaction within CMEA was obstructed for this domestic disparities.54 Even some CMEA members did not like to sell their commodities to their poorer friends as they did not get proper counter offers. Gorbachev's revision of a unified CMEA market could have solved this problem, but it did not materialise.

For the above reasons, the turnover of trade among CMEA members moved downwards. There was also a drastic fall in Soviet trade with the CMEA partners in 1990-91. Its export crashed to less than one-half; and import to almost a third. The turnover in hard currency fell by 13 per cent and barter trade by 19 per cent.55


55 Foreign Trade 1992/2, p.40; prepared by Goskomstat, with corrections by the Ministry of Foreign Economic Relations (MOFER).
As discussed, Soviet Union tried to play an important role in global economy by integrating itself into New Liberal International Economic Order. Though it did not succeed in overcoming the economic crisis, yet it was a positive step to revamp its economy. When a systemic change takes place in an economy, it always takes time and the transition period is always traumatic. So, it was quite obvious that Soviet Union faced problem to cope up with the New Economic Order. Of course, there were several problems those obstructed for an effective participation of Soviet Union in global economy. Though Western technology provided relief yet it was constrained by foreign currency reserve on the Coordinating Committee for Mutual Export Controls (COCOM) regulations restricted technology transfer. In such a situation it was too difficult on the part of the Soviet economy to involve seriously in international system. Even Western countries did not come forward to help perestroika by extending subsidized credits or allowing Soviet products to be sold in their market.

Several other factors as mentioned like the shortage of skilled and experienced executives to run things in a new way; the rigid bureaucratization, the imbalance between demand and supply of goods; the difficult system of export licensing; the problem relating to internal convertibility of rouble; and the constraints of getting financial help from international institutions stood on its way to engage actively in world economy. Further, the mismanagement of Soviet economy and misutilization of foreign borrowing coupled with the ineffectiveness of CMEA and problems of its CMEA partners pushed Soviet Union into economic crisis.
Whatever might be the consequences of economic reforms of Soviet Union. But to a certain extent, it incorporated into international economy and strengthened East-West relations which moved towards stabilization and rapprochement. This economic reforms also helped Soviet Union in various ways like exporting high quality of manufactured goods; improving trade with EC and West by enjoying MFN status, encouraging private investment in Soviet economy and also favouring the presence of MNCs in the Soviet Union.

The period of hesitation over new forms of organization of production, such as cooperatives, contracts, and lease holding was ended. For the first time, the idea of regional cost accounting was started and considerable positive changes were taken place. No doubt, this reforms also paved the way for new Russia to become a participant in various institutions like IMF, PECC, ARF, etc.

5. 6. Soviet Union's role in International Economic Security

With the introduction of science and technology, qualitative changes have taken place in world economy towards economic development and prosperity. The trend in the economic development of world economy is characterized by comprehensiveness and greater interdependence. This nature of comprehensiveness and interdependence leads to both conflict and cooperation in global economy. When cooperation strengthens economy, conflict impedes economic progress and creates instability and unpredictability in world economy.
The oil crisis of 1970s, the debt crisis of 1980s and 90s, the policy of economic sanction in violation of international law and several other economic problems pose threat to the smooth functioning of international economy.\textsuperscript{56} Despite various efforts and initiatives, those problems were not completely solved. Really this global economic problems call for global solution through worldwide cooperation in the interest of all countries. Several status including erstwhile Soviet Union took various measures to normalize the international economic relations by solving the international problems. From the 1920’s onwards, USSR came forward with various policies, proposals and measures particularly at the Geneva Conference, at the world economic conferences of 1927 and 1933, at the league of the nations and at the economic bodies of the UN in the post-war period for the solution of the international problems and improvement of the international economic environment.\textsuperscript{57}

But under \textit{perestroika}, Soviet Union put special emphasis on this international economic security which was enshrined in 27\textsuperscript{th} CPSU Congress. Soviet leader Gorbachev tried seriously for strengthening the international economic security by taking several proposals and various measures for the solution of the global problems. Further, his efforts were directed towards the removal of hostile attitudes and antagonistic relationship among various states and the establishment of a New World Economic Order based on mutual friendship and cooperation. In May 1985, during the visit of Willy Brand- the President of Socialist International, Gorbachev stressed on the


\textsuperscript{57} Ibid, p. 5.
questions of establishing equal international economic relations without any discrimination and of New International Economic Order, including the debt problem of developing countries. Later on, those ideas were converted to concrete proposals in the 27th Congress of Communist Party of Soviet Union (CPSU) that rejected all forms of discrimination and the use of trade, economic, scientific and technical contacts as a means of exerting pressure, and worked to ensure economic security of all states.

The Soviet Union also condemned the policy of economic blockades and sanctions and demanded the abolition of those heinous practices pursued by imperialist powers which aimed at the economic isolation of certain state or group of states. It endorsed the UN move that states could only use collective measures for the purpose of maintaining international peace and security and only by the decision of the UN Security Council in compliance with Article 27 of the UN Charter. In accordance with UN documents, during perestroika, the Soviet Union came forward with a draft resolution International Economic Security on the eve of the 40th Session of UN General Assembly. The resolution was adopted by majority of votes which reaffirmed one of the fundamental principles of international contacts and opened up new hope for UN activities in the economic domain. After all the solution of problems relating the elimination of disproportions in international economic relations faced the resistance of western power which did not like the UN's authority to deal with such problems. The Soviet Union believed that normalization of international economic relations could be possible through the development of

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58 Article 27 establishes the voting procedure at the UN Security Council.
those countries whose economic backwardness was the result of long colonial domination followed by the imperialist policy of neo-colonialism.\textsuperscript{59}

By sticking to various means like political maneuvering, unequal trade practices, conditions in trade and aid relations, capitalist countries retained their control over newly free states and started exploiting them both in political and economic sphere. This system of neo-colonialist exploitation made the developing countries with more than 2000 million population, a region of poverty.\textsuperscript{60} In 1980s, per capita consumption level in developing nations were one eleventh of those developed capitalist states. The problem of malnutrition, child mortality, epidemics, illiteracy made the situation even worse. Most of the third world countries were under debt trap. The total debt of the developing countries was estimated by experts at nearly one trillion dollar. Further the developing countries had to pay enormous sums by way of debt servicing, which were not covered by new loans and credits and were accompanied by further growth in indebtedness. According to official source in 1985 alone, developing countries net payment account to 31 billion dollars, even more than the new borrowings and subsidies they received.\textsuperscript{61}

This heavy burden shattered their economy and swallowed up their plans and hopes for overcoming of economic backwardness and poverty and the solution of the most acute social problems. In this context, Soviet Union supported the move taken by NAM, UN and Latin American countries in the

\begin{flushleft}
\textsuperscript{60} Ibid.
\textsuperscript{61} Sixth Ministerial Meeting of Group -77, PC/77(VI)/2, 8 April 1987, p. 10.
\end{flushleft}
Congress held in Havana in Summer 1985 to solve this debt problem in a proper way adhering to the principle of justice and equality. The Soviet Union along with socialist friends also expressed their concern for the debt problem and grave economic situation of South Africa and took a comprehensive view of the situation. In this connection, Warsaw Pact document mentioned: "The Warsaw Pact member states are for putting international currency and finance relations in order, for these relations not to be made a tool for political pressure and interference in internal affairs, and for a just settlement of the debt problem. They view the problem of developing countries' debt as a comprehensive one both for its sources and for its economic, political and social consequences." 62

Soviet leader Gorbachev favoured NAM appeal for an urgent action to ease the burden of the debt. His announcement of Soviet Union's readiness for a hundred year moratorium on third world debt and proposal for a summit between debtors and creditors to solve the debt problem clearly reflected his genuine interest in this direction. The Soviet Union believed that this problem could be solved only through the economic development of the Third World countries which would enable them to repay the loans taken from other nations and monetary organizations. Further, it could be lessened by the assistance of the developed and other nations to the debtors. Considering the NAM's concern about the grave situation in Sub-Saharan Africa, Soviet Union decided to render assistance to the least developed African countries in a

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62 Pravda, 10 June 1987.
particularly easy terms and it also entered to Africa Fund in 1987 for giving assistance to countries suffering from South Africa's discrimination.63

The Soviet Union supported the move of the Third World countries for the establishment of NIEO which aimed at creating cooperation among all states irrespective of their social and economic systems, correction of existing inequalities, elimination of widening gap between developed and developing countries and ensuring economic and social development and peace and justice for the coming generation.

During this perestroika phase, Soviet Union expressed its keen desire to cooperate UN and other organizations in order to remove discriminatory restrictions and other artificially created obstacles for international economic relations. In fact, Soviet Union and other socialist countries tried their best to develop equitable approach to international economic ties in their relations with each other and with third world countries and also made efforts for strengthening international economic security. It was clearly reflected from Soviet Union's positive response to the appeal of NAM to join the Common Fund for promoting the implementation of the Integrated Programme for Commodities, which was the key issue at UNCTAD VII. However, the West was bit skeptic about the genuine efforts and intention of Soviet Union but the document submitted by the Soviet delegation to 1987 Summer Session of the ECOSOC and UNCTAD VII contained an impressive overview of Soviet Union's cooperation with developing countries. The ECOSOC document stated that the Soviet Union had inter-governmental

63 Ernest Obminsky and Andrei Bugrov, op.cit., p. 93.
agreement on economic and technological cooperation with only 14 developing countries in 1960s which went up to 72 in 1987. During this year of friendship and cooperation with developing countries, 2100 projects of various kinds were also completed. Considering the external debt of Latin America and tropical African countries, Soviet organizations accepted an arrangement for the repayment of their debts which did not disrupt their balance of payment system, on the other hand, it helped in strengthening their economy by increasing the export capability and providing a stable supply of goods they needed. Thus, the principle of mutually advantageous cooperation was attained.64

The UNCTAD document pointed out that Soviet Union was a major economic partner of the developing countries during 1980s. It provided them various types of goods, including those essential for the development of their economy. The import-export relations between Soviet Union and developing countries had also a stabilizing effect in their economic situation.

As noted above, Soviet Union also tried to develop stable trade, economic, scientific and technical contacts with capitalist countries on equal terms. During perestroika, he not only brought structural changes in Soviet economy, but also tried sincerely for strengthening Soviet economy and International Economic Security by developing friendly economic relations with USA, Europe and Asian powers. The Soviet Union, other Socialist countries and member countries of Non-Aligned Movement considered the solution of international economic problems was very closely connected with

the termination of confrontation and arms race. The huge expenditure on
defence since the sixties led to lowering of living standards in the developed
and western countries and growth of backwardness in the developing world.

The 1987 UN International Conference on Inter-relationship
between Disarmament and Development recognized the relationship between
disarmament and development and took steps to divert the resources from
armaments to other developmental projects. In this context, the joint
statement of Warsaw Treaty Member States said:

".... there is a close relationship between disarmament and
development and the only disarmament can release vast additional
resources for overcoming economic backwardness, the Warsaw Treaty
member states stand with all resoluteness for concrete measures in the
field of disarmament to be accompanied by corresponding cuts in
military spending...... military, financial, human and scientific
resources released in this way should be used to expedite the
economic and social progress of the corresponding countries, as well
as to abolish economic backwardness in various parts of the world". 65

Gorbachev also released a statement on 15th January 1986, in
which he addressed the issue of connection between disarmament and
development. He also pointed out that without serious efforts to stop the arms
race, there could be no solution to this problem, which was a major menace to
mankind. He argued in favour of 'Disarmament for Development' instead of
armament against development. His efforts for nuclear disarmament clearly
reflected his concern for the improvement of the well being of the mankind.

As mentioned, in 27th CPSU Congress, there was a proposal in the economic
aspects of 'Comprehensive Universal Security' concerning the need to use

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65 Pravda, 10 June 1987.
part of the resources released as a result of military budget cuts to improve the living conditions of the people especially in the developing countries.\textsuperscript{66}

Soviet Union also raised this question in UN, other forums and in meetings with top leaders of the world. In September 1987, Gorbachev emphasised international security relating to the UN's role in disarmament for development. It was stated that Soviet Union stood for the creation of a Special UN Fund of humanitarian cooperation which could be established with voluntary state and private donations from the, funds released by defence cut.\textsuperscript{67}

Gorbachev and late Rajiv Gandhi, the then Prime Minister of India, also stressed on this aspect of security in November 1986 and November 1988. In this connection, their joint statement issued on November 20, 1988, said, "The resources saved as a result of disarmament should be transferred for development purpose. The decision taken by UN Conference on Disarmament and Development should be implemented". As discussed in December 7, 1988, Gorbachev's address to the 43\textsuperscript{rd} Session of UN General Assembly announced the unilateral reduction of armed forces and sizeable quantity of conventional weapons to be completed within two years. He also persuaded USA to cooperate in this regard. Leaders of both the countries took several measures in the direction of reducing armaments.


\textsuperscript{67} Ibid., p. 137.
In last part of his tenure, in November 1990, he signed a treaty with USA on the reduction of Conventional Forces in Europe (CFE) and started serious negotiations on reduction in nuclear weapons. Further, in July 1991, the Strategic Arms Reduction Talks (START), Treaty was signed in Moscow. This provided for significant reductions on the Soviet and American strategic nuclear arsenals (in 1993 START-II Treaty was signed by Russia and the United States) and exhibited his sincere efforts for a transition from the economics of armaments to the economics of disarmament. To materialize this objective, he took steps for cutting down defence budget and diverting resources spent on defence sectors to civilian sectors. A conversion plan was prepared within the framework of its economic reform and worked out for two or three defence enterprises during 89 on an experimental basis. He firmly believed that the conversion process was needed for strengthening the economy of a nation as it had lot of benefits and at the same time it could be helpful for the development of third world countries. He also stressed on the submission of similar plans particularly by the major military powers to the United Nations and to set up an ad hoc panel of scientists to study the problems relating to conversion both for a general point of view and individual countries and regions. His efforts not only brought a change in the Soviet Union but also, the entire world realized the futility of war and the need of disarmament.

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69 Nikolai Gnevushv, Disarmament for Development, op.cit., p. 171.
The 27th Congress, which dealt with security, contained a provision in its economic sphere concerning peaceful use of outer space and resolving global problems. On June 13, 1986, Soviet Union gave a proposal at the United Nations containing the reasonable alternative to an arms race in outer space – a stage by stage programme for international cooperation in the exploration of outer space for peaceful purposes. It also proposed UN to set up a World Space Organization, which could rationalize the efforts of states in this direction and help the developing countries to enter to rocket age. It stressed on the need of installing a type of an early warning system for the detection of the new problems facing the world economy.

Another important dimension in Soviet concept of 'Comprehensive Universal Security' was 'Ecological Security'. As discussed in the theoretical chapter, it is connected with people and nature rather than the States, peoples and individuals. The sensitive issues of nature protection and rational utilization of natural resources were raised in CPSU Congress before the introduction of perestroika. But during this period, new proposals and concrete decisions for the solution of these problems were taken which was highlighted in 27th Congress of CPSU. Considerable funds were also allocated for the protection of the environment – land, lakes, rivers, plants and the animal world. The 27th CPSU Congress contained a special section entitled, 'Environmental Protection and Rational Utilization of Natural Resources' which provided for the need to improve measures for nature protection by
introducing production process, and the use in production of natural resources that reduce the harmful effect of nature.\textsuperscript{70}

Special steps were taken for protecting water of Lake Baikal and the basins of Baltic, Caspian and Black Seas, and the Sea of Azov. At the same time, attention was paid to the measures for protecting the Arctic basin and the bodies of water in Soviet Central Asia Kazakhstan and improving the state of small rivers and reservoirs. Protective measures specially included the improvement of the operation of purification systems. For protecting air, special plans were taken to improve production process, equipment and transport facilities and quality of raw materials, faults and at the same time modern techniques were introduced for purifying industrial and other types of discharge.

Another major area of environmental protection where special attention was focussed was land protection. There was special provision in 12\textsuperscript{th} Five-Year Plan (1985-90) for proper utilization of land and its protection from corrosion, landslides, desiccation and salination. Works were undertaken for protection of forests and forest products and new harmless methods were also introduced for protection of crops from pests and diseases. Special measures were carried out to prevent the wastage minerals during their extraction and pressing and the protection of the environment of the economic zone and continental shelf of the Soviet Union.\textsuperscript{71} Other important area where attention was directed was the problem of energy resources. In this context,


\textsuperscript{71} Ibid., p. 147.
Gorbachev said, "If no arrangement for energy sources are made, the energy crisis will become a catastrophe of global proportions." In 1988, a new state committee on Environmental Protection, merging the responsibilities previously shared by nine different State Committees and seven ministers was created complete with tough powers to tackle the newly acknowledged environmental pollution crisis. A number of measures were planned out to improve the state environment and the use of natural resources effectively. Soviet Union laid emphasis on economic method rather than administrative in managing these activities. Soviet Union and other CMEA members also worked in this direction. Special bodies like – the Council for Environmental Protection and the Council for Improving the Environment were set up within the framework of CMEA to manage and work out measures for environmental protection. Soviet Union also took steps to make developed and developing nations involved for the solution of this issue. It took initiative for arranging symposiums, discussions and joint research on this issue. In this connection, the Indian National Academy of Sciences and USSR Academy of Sciences signed an agreement in New Delhi in April 1985.

Soviet Union and other socialist countries also helped United Nations Environment Programme (UNEP) and World Health Organisation (WHO)

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those have been working in the direction. It also gave a proposal to European countries to work out a programme jointly for the resolution of this problem. Though the environmental protection movement is very popular in the West, so many organizations and NGOs are working in this direction, yet the efforts of Soviet Union under perestroika can never be ignored. The efforts of Soviet Union would have been more effective had the regime not been subjected to complex pressure, together with heightened popular expectations for ‘solutions’ which in fact taxed the administrative mechanism.

As noted, the economic security of Soviet Union did not yield expected result but the economic aspects of comprehensive universal security (international economic security) helped positively in solving global problems to some extent. But Soviet efforts were not that effective in this direction as USA and other Western powers responded half-heartily being guided by their interest rather than purely humanitarian concern. Even they were not keen to take some benevolent measures like helping the poor nations and spending sizable amount of money for solution of the global problems. Of course, economic consideration determines their approach towards other nations, which also brought obstacles for complete implementation of some proposals. Complete disarmament was not possible, as it required attitudinal changes of international actors, which was too difficult.

It was a fact that Soviet Union did not able to play that much effective role as it was hard pressed with its own problems. Its sinking economy coupled with collapse of CMEA and resistance from Gorbachev opponents impeded in realizing Gorbachev's much-desired dream of a New World. For
the easy way of accepting the payment of debts and assistance to Third World countries during the early perestroika period aggravated the economic situation. Gorbachev even took some measures at the cost of the Soviet economy only to exhibit his noble desire for a peaceful world, which later on put him into problem. Really, it is difficult to bring a direct linkage between economic security during perestroika and the end of the Soviet system. In fact the collapse of the Soviet Union is attributed to various factors, which may not have been that harmful in separation but which are dangerous in sum total. The reasons for the decline of the Soviet system were the renunciation of forces both inward and outwardly as well as the encouragement of the secessionist movement in Soviet republic through glasnost.

However, there is a link between internal economic changes and Soviet Union's new policy during perestroika as far as, in Soviet leader Gorbachev's opinion, the success of economic reform needed openness of discussion (Glasnost), and a positive international environment. As discussed Gorbachev did not visualize properly the effects of internal and external freedom that were suppressed for a long time which ultimately led to fall of Soviet Union. Whatever might be the result of the economic security during perestroika, but the worst critic of Gorbachev must admit that he was not only a pragmatist, but benevolent statesman who genuinely tried to overcome Soviet economy stagnancy by taking several measures as mentioned, and at the same time worked sincerely for strengthening world economy and establishment of New Economic Order.