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WP/90/28

INTERNATIONAL MONETARY FUND

European Department

Market-Oriented Reform of Foreign Trade
in Planned Economies

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April 1990

Abstract

This paper reviews the main features of market-oriented foreign trade reforms in planned economies. It considers reform initiatives aimed at expanding enterprise autonomy and breaking up the state monopoly of foreign trade, modifying the exchange rate system, and reforming the domestic price structure and ultimately the price system. The study emphasizes that the success of foreign trade reform, and therefore of a trade policy aimed at fundamental integration of planned economies into the world economic system, ultimately depends as well on the successful implementation of compatible reforms in the domestic economy as a whole.

JEL Classification Numbers:

027, 052, 431

*An earlier version of this paper was presented to a conference organized by the International Economic Association and the U.S.S.R. Academy of Sciences in Moscow, U.S.S.R., March 28-30, 1989. It will be published in O. Bogomolov (ed.) Market Forces in Planned Economies (London: Macmillan, in press). The author has benefited from comments on the earlier version from G. Bélanger, J. Boorman, A. Boote, A. Cicin-Sain, H.M. Flickenschild, P. de Fontenay, M. Nuti, U. Plowiec, J. Prust, G. Szapary, and M. Tardos. The views expressed herein, however, are his own and do not necessarily reflect those of the International Monetary Fund.

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Summary

The paper reviews certain features of foreign trade reforms in planned economies undertaking broader programs of market-oriented reform. In particular, the study considers, first, initiatives aimed at expanding enterprise autonomy and breaking up the institutional monopoly of foreign trade, second, modification of the exchange rate system, and third, the reform of the price structure and of the price system itself.

During the transition, reforms in these three areas have, as a practical matter, tended to be less than complete, although policymakers have made various institutional adaptations designed to promote increased openness of these economies. These adaptations include the elaboration of new supplementary financial incentives for exports and institutional innovations aimed at partially decentralizing the allocation of foreign exchange, such as retention accounts for exporting enterprises and officially sanctioned foreign currency auctions.

The paper stresses the inherent interconnectedness of the different reform elements. The success of foreign trade reform, and therefore of a trade policy aimed at fundamental integration of reforming planned economies into the world economic system, ultimately depends as well on the successful implementation of compatible reforms in the domestic economy as a whole. It is highly unlikely that a comprehensive, market-oriented foreign trade reform can successfully be grafted onto a basically traditional system of central planning. By the same token, the pace and even the extent of domestic economic reforms, including the scope for expanded competition and price liberalization, will generally also depend on the pace and degree of reform of the foreign trade and exchange systems.