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Changes in the Competitive Advantages of Finnish Exporters in the Former USSR after the Abolition of the Clearing Payment System

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The opinions expressed in this paper are those of the authors and do not necessarily reflect the views of the Bank of Finland.

# Changes in the Competitive Advantages of Finnish Exporters in the Former USSR after the Abolition of the Clearing Payment System

## 1 Introduction

Finnish exports to the former USSR have fallen drastically since the end of 1990, when the bilateral clearing payment system was terminated. Exports had already started to decline in 1986 but in 1991, after the abolition of the clearing payment system, the decline was particularly sharp about 65 % from the level of 1990. The share of Finnish exports to the former USSR in total Finnish exports peaked in 1982 at about 28 %. The share fell to 13 % in 1990, to 5 % in 1991 and is expected to fall further in 1992 (see figure 1). At the same time the market share of Finnish exports in the total western imports of the former USSR has plummeted from about 15 % as late as in 1986 to about 2 % in 1991 (see figure 2).

This development has naturally caused concern among Finnish companies. However, there have not been many studies concerning the obvious question of the competitiveness of Finnish companies in these markets. The aim of this article to throw some light on the competitive advantages of Finnish companies in the former USSR and changes in these advantages since the bilateral clearing payment system was abolished.

Developments in Finnish exports and the special features of the bilateral trade arrangement with the former USSR have been analyzed by several writers. They are quite unanimous in agreeing that Finnish exporters enjoyed certain competitive advantages, which were lost when the clearing system was abolished. However, the specific characteristics of these advantages have not been analyzed in any great detail.

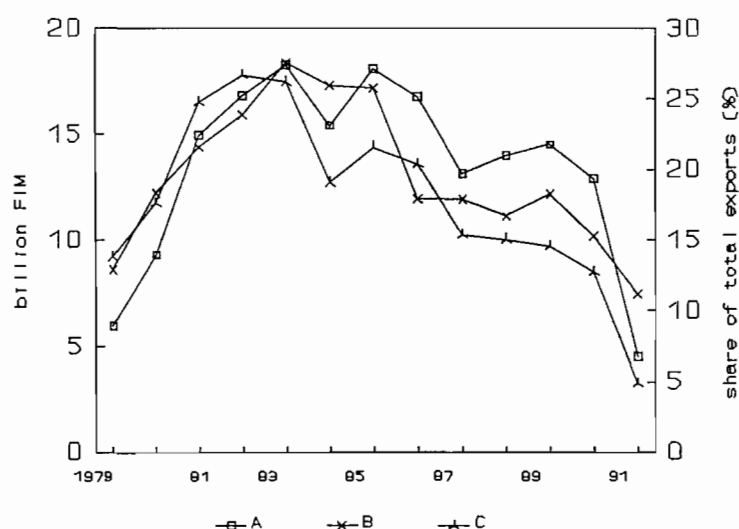
There are somewhat contradictory results concerning the profitability of Finnish exports to the former USSR and the competitiveness of the export industries, however. Most studies on export prices and profitability point towards higher prices and profitability for exports to the USSR than for those to western markets.

## 2 Salient features of Finnish exports to the USSR and competitive advantages

In macroeconomic studies the impact of the bilateral trade with the USSR on the Finnish economy has generally been found to be positive (Alho & al. , 1986, p. 168, Gabrisch, 1990, p. 125 and Oblath and Pete, 1985, p. 191). Especially after the dramatic increases in the oil price, Finland was able to pay the higher import bill by expanding exports to the USSR more easily than it would have been the case in other markets. Volk has also argued that bilateralism guaranteed a higher level of trade than would otherwise have been possible (Volk 1985, p.403). Holopainen has pointed out that the bilateral trading system was operated in a way which tended to increase the level of trade rather than limit it of the minimum possible level, which was usually the level of Finnish imports from the USSR (Holopainen, 1987, p. 25).

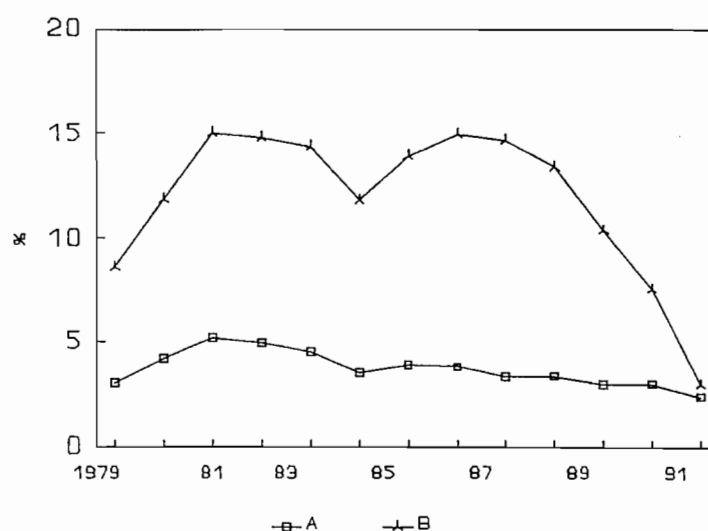
Figure 1

Trade between Finland and the USSR in 1979-91



- A Finnish exports
- B Finnish imports
- C The share of exports to the USSR of total Finnish exports

Figure 2

**The share of Finnish imports in Soviet foreign trade**

A Total imports

B Imports from the western countries

The administration of the bilateral trading system between Finland and the former USSR has been analyzed by Salminen in several studies, which focus on intergovernmental relations between Finland and the CMEA countries (Salminen 1981) and linkages between economics, politics and public administration in Finland's trade with the USSR (Salminen, 1983, and Salminen and Haarala, 1986). He has paid particular attention to institutional relations and personal contacts between organizations in Finland and concludes that large Finnish exporting companies have benefited from the system whereas small- and medium-sized companies have remained outside. Linnainmaa has come to the same conclusion in studying the planned aspects of the Finnish-Soviet trade (Linnainmaa, 1988).

Oblath and Pete have contributed a foreign view to the analysis of the bilateral trading system and concluded that the economic efficiency of Finnish regulation of bilateral trade was doubtful, but possibly consistent with the entire Fenno-Soviet economic relationship, laden with political elements. Their critique was mainly directed to the way the rate of exchange for the clearing rouble was determined and not used as an instrument of trade policy (Oblath and Pete, 1983, pp. 76-102). Richter has joined Oblath and Pete in criticizing the bilateral trade systems between Finland, Austria (before 1971), Yugoslavia and Hungary, on the one hand, and the USSR, on the other hand. According to him the problems were connected with the special institutional arrangement which was necessary to connect clearing with the domestic market and which was concomitant with permanent state intervention, if not manipulation, of demand (Richter, 1990, p. 78).

Volk has analyzed the prices of Finnish exports to the USSR and found (Volk, 1985, p. 397) that prices of exports of light industry products to the USSR rose more rapidly than the corresponding exports to western markets, especially in 1981-83. Recently, Kajaste has studied the same phenomenon from 1970 until

1990 and found that the prices of exports to the USSR are on an average 9.5 per cent higher than the prices of exports to the market economies. However, there were significant differences among various product groups. While the prices of paper, textiles and engineering products were higher, prices of commodities such as chemicals and metals were lower (Kajaste, 1992, pp. 19-23).

Such findings are supported by Kivikari's study on the exports of Finnish light industries to the USSR, which were found to be more profitable than their exports to other markets in 1983 (Kivikari, 1984, p. 54). However, an earlier study by Liiketaloustieteellinen Tutkimuslaitos had concluded that there were no significant differences between the profitability of industries that exported significantly to the USSR and industries that exported to western markets between 1970 and 1980 (Suomen viennin..., 1981, p. 74). A later study by the East-West trade institute of the Turku School of Economics covering the years 1980-86 concluded that 183 exporting companies in the province of Turku and Pori had been able to benefit from a specific competitive advantage in their Soviet operations, because they were able to increase domestic sales as well as exports to other markets when the USSR market declined (Neuvostoliitonkaupan..., 1988).

From a slightly different perspective, Tolonen has investigated to what extent exports to the USSR supported uncompetitive industries in Finland and found some support for such an argument. In the statistical analysis, which covered the years 1966-81, 23 per cent of the export product groups represented industries for whom trade with the USSR offered protection from multilateral competition. He also investigated to what extent Finnish exporters had been able to use the Soviet market as an extension of the home market, in other words as a stepping stone to multilateral markets. He found only one industry the shipbuilding industry, which qualified for inclusion in this category (Tolonen, 1985, p. 302).

In a study of microeconomic orientation Sutela has analyzed the various sources of exceptional profitability of exporting companies. In addition to prepayments in the shipbuilding industry, low transportation costs and economies of scale, he drew attention to the fact that the clearing rouble appreciated in Finland by about 30 % between 1980 and late 1982. This was due to the appreciation of the dollar, which accounted for 42 % of the basket of currencies on which the State Bank of the USSR determined the rouble exchange rates (Sutela, 1991, p. 309-311). Oksanen has described the mechanisms through which the exchange rate of the clearing rouble against the Finnish markka was determined on the basis of the rouble/dollar quotations of the State Bank of the USSR. He has also pointed out that Finnish exporters had no way of covering themselves against the risk that the State Bank would change the rouble/dollar exchange rate. Therefore the export prices of Finnish exporters had to accommodate for this risk as well (Oksanen 1986, pp. 13-14).

Common to many other, more recent studies of bilateral trade is the observation that Finland has lost a significant competitive advantage as a result of the abolition of the clearing payment system (see Sinko & Sutela (eds.), 1991, pp. 111-112, Leppänen (ed.), 1991, p. 14, Suomen Kaupunkiliitto 1989, p. 44, and Kivikari 1989, p. 12).

When analyzing the possible new framework for trade between Finland and the Soviet Union, Kivilahti and Rautava state that in the past the clearing system gave Finnish companies a competitive advantage relative to their counterparts in other western countries as regards marketing, financing and pricing (Kivilahti & Rautava 1991, p. 8). They conclude that even though the analysis of such a

competitive advantage is highly speculative owing to great difficulties in obtaining relevant information from the Soviet side, the change in the trading system has undoubtedly weakened Finland's future competitiveness in the USSR.

Based on a survey of 40 exporting companies carried out in 1989, Koivumaa and Valtonen have analyzed the chances of Finnish exporting industries to compete with western competitors in the USSR (Koivumaa and Valtonen 1990, pp. 27-29). According to their findings the vast majority of the companies considered their competitiveness to be good (48 %) or average (32 %) and only 20 % considered it poor. Among the most important competitive advantages the companies cited were trade traditions and knowledge of the USSR as well as geographic proximity. On the other hand, among the listed competitive disadvantages cited were the domestic content requirement, the high price level and the possibilities of western competitors to provide credit. However, the clearing payment system was not considered important among the advantages or disadvantages cited.

### 3 Assessment of the competitive advantages and disadvantages of Finnish exporters in the Soviet markets

In the following sections we focus on the competitive advantages of Finnish companies in the USSR. First, the competitive advantages and strengths and weaknesses will be assessed on the basis of interviews carried out among exporters in 1991.

Secondly, the significance of various marketing means and their relation to competitive advantages will be analyzed using the results of Vientiprojekti, 1981, as a reference point for the views expressed in 1991.

Thirdly, discrepancies between the Finnish profile of competitive advantages and the significance of various marketing means will be assessed and analyzed in light of the opportunities and threats which the company representatives perceived in the former USSR in the middle of 1991.

Finally, the role of competition among exporters in trade with the former USSR will be discussed. The degree of competition is linked with the competitiveness and attraction of the exporting industries.

#### 3.1 The research method and the companies interviewed

The analysis is based upon structured interviews carried out among Finnish exporters to the USSR. The interviews were carried out during the spring and summer of 1991. The method of structured personal interviews was chosen because it allows the researcher to restate the questions if it turns out that the question is not understood or not relevant for the company in its original formulation. The validity of the information received can thus be checked by restating the question or by asking additional questions.

The Finnish companies interviewed were chosen so that they provided a representative cross section of the most important industries that have been involved in exporting to the USSR. These industries are as follows: metal and engineering, wood processing, chemical, construction and consumer goods industries. In addition, trading companies were included in the study. Exports of the companies that were interviewed in 1991 accounted for approximately 70 % of total Finnish exports to the USSR in 1990. Measured in this way, the sample of companies is highly representative of the population of Finnish exporters to the USSR.

During the spring and summer of 1991 I personally interviewed 47 company officials. Two thirds of the persons interviewed were directors responsible for exports to the USSR, one-third were general managers with wider responsibilities. In smaller companies it was usually the general manager who was best informed about trade and strategy formation in the USSR market. In large companies it was normally the export manager responsible for the USSR market, who was best informed. In addition, seven other specialists representing various industrial and trade organizations, involved in trade with the USSR were interviewed.



The companies included in the study represented the following industries (companies or units of bigger concerns):

Metal and engineering industry	22
Woodprocessing industry and their marketing agencies	6
Construction industry	6
Chemical industry	4
Clothing, textile and footwear industry	4
Trading houses	5
<hr/>	
Total	47

The total value of exports to the USSR of all the units included in the study amounted to FIM 14 billion in 1990. This figure includes double counting caused by the inclusion of several units of a single company as well as by the inclusion of trading houses and selling agencies used mainly by smaller exporters and pulp and paper industries. When adjusted for this double counting, the exports of the companies included in the study amounted to approximately FIM 10.0 billion. When this figure is compared to the trade statistics for 1990, another adjustment has to be made for the construction industry because approximately half of the sector's exports consist of services and are not therefore included in the trade figures. If half of the value of construction exports is deducted a figure comparable with the trade statistics would be approximately FIM 9.6 billion, which accounts for 74 % of exports to the USSR in 1990.

Table 1 shows that the sample of companies is quite representative of the population of Finnish exporters to the USSR in both 1990 and 1991, because the match between the structure of sample exports, the number of persons interviewed in each industry and the structure of trade statistics is relatively close.

For the metal and engineering industry the share of exports of the sample companies and the number of persons interviewed coincide well with the share of metal and engineering products in the trade statistics for 1990. In the pulp and paper industry the export share is slightly over and the number of persons interviewed clearly below the share in the 1990 trade statistics. This also reflects the special traits of this business, which is, to a large extent, bulk business carried out by a small number of people. For chemical products the fit between the sample and trade statistics is fairly good in 1990, but in 1991 the share of chemical products clearly exceeded the share of persons interviewed in that industry.

Table 1

**The exports of the sample companies to the USSR and the number of persons interviewed compared to the trade statistics for 1990 and 1991**

Product group	Share of sample exports(%), total FIM 20.9 bill.	Share of persons (%) interviewed N=47	Share of Finnish exports (%)	
			in 1990, total FIM 12.9 bill.	in 1991, total FIM 4.5 bill.
metals, machinery & equipment	49.4	46.8	48.7	42.9
pulp & paper products	21.9	12.8	19.8	10.2
chemical products	5.5	8.5	7.6	14.3
Other products, including construction companies for the sample figures	23.2	31.9	23.9	32.7
Total	100.0	100.0	100.0	100.0

For the other productgroups the comparison is more difficult to make owing to the presence of construction companies, whose export products include labour services. The persons interviewed in these other sectors also include representatives of trading houses, which export many different types of products ranging from textiles and clothing, footwear and many other finished products to partial or even small turnkey projects.

From 1990 to 1991 Finnish exports to the former USSR dropped by 65 % on an average. Paper exports declined most drastically, by 82 %. Chemical exports were least affected and fell by only 34 %. For actual exports in 1991, exporters of chemical and "other" products are somewhat underrepresented in the sample.

The companies, accounting for the biggest share of Finnish exports to the USSR are typically big companies by Finnish standards. In the sample about one-third of the companies had more than 10 000 employees and sales exceeding FIM 5 billion. The value of exports of the largest single exporters in 1990 amounted to over FIM 1 billion. The four biggest exporters accounted for about one-quarter of all exports. This shows how the bulk of Soviet exports has been concentrated in the hands of a few companies in Finland. However, exports to the USSR were more concentrated than Finnish exports in general in 1990 (see Ulkomaankaupan keskittyminen v. 1991, Tullihallitus, although in 1989 this had still been the case (Sutela, 1992. p. 13). According to the foreign trade statistics, the five biggest exporters accounted for 28 % of exports to the USSR in 1990, but for only 16 % in 1991. On the buyer side, state monopoly organizations still dominated the scene, even though foreign trade had been decentralized in principle in early 1988.

The dependence of exporters on their exports to the USSR varied a

great deal among the companies. Measured by the share of Soviet exports in total sales, the dependence of sample companies varied from less than 1 % to 100 %. The average dependence of the sample was 19.8 %. The most dependent companies in the sample were the trading houses specializing in Soviet trade, and the least dependent were the chemical companies taken as a group. In the metal and engineering industry the average share of Soviet exports in total sales was approximately 11 %. However, certain units of large companies can be highly dependent on Soviet exports, which the average share does not reveal. In other industries the average dependence on Soviet exports was clearly higher than in the metal and engineering industry, which reflects the relatively higher number of companies specializing in Soviet exports.

Estimating the importance of the Soviet market in relation to other export markets of the exporting companies proved somewhat difficult, because large internationalized companies no longer differentiate between exports from Finland and other international activities in their reports. They only report gross sales by divisions and geographic regions. However, as most companies do not sell much to the USSR market from their divisions outside Finland, reasonably reliable estimates could be made. In the sample the highest share of exports to the USSR in the company's total exports was again recorded by the trading houses. The share was also relatively high (above 40 % on an average) in the chemical industry, construction industry and consumer goods industry. The share was smallest in the pulp and paper industry.

The pulp and paper industry and their trading agencies included in the sample were the most experienced as regards exporting to the Soviet markets. On average, their experience went back more than 30 years. In some cases trade relations dated back to the late 1800's. The metal and engineering industry ranked second with 20-30 years of experience, on an average, but in this sector there are many companies with traditions going back to the 1930's. The construction companies were the least experienced in the sample, with 10-20 years of experience on an average.

The companies in the sample and engineering companies, in particular, expected their exports to the USSR in 1991 to fall, by up to 50 % on an average. The most pessimistic were pulp and paper companies, who expected their exports to diminish by more than 50 %. The chemical industry, construction industry and trading houses expected a relatively small decline in their level of exports. As can now be verified, most companies foresaw the sharp drop in exports in 1991 at the time of the interviews. However, the final trade figures were even still gloomier than expected by the respondents on average.

Among the sample companies the largest number of employees engaged in Soviet exports was employed in the trading houses and construction companies, over 30 persons per company on an average. In the metal and engineering industry the average number of employees engaged in Soviet exports was 15. The smallest number of employees (1-2 persons) engaged in Soviet exports was found in the consumer goods industry, which used trading houses as their marketing channels.

### 3.2 The strategic importance of exports to the USSR

When the respondents were asked to assess the strategic importance of Soviet exports to their company, the vast majority 33 (70 %) thought that exports to the USSR formed an essential part of the overall operation of strategy of their companies. Soviet exports were judged to be most important in the chemical industry. This might be explained by the fact that the share of Soviet exports in total exports is relatively high in the chemical industry even though the share of Soviet exports in relation to total sales is low. The strategic importance of Soviet exports was lowest in pulp and paper industries, which exported the majority of their production to western markets.

The majority 26 (55 %) of the respondents also expected the strategic importance of Soviet exports to their company to remain the same in the future. Thirteen (28 %) thought that the significance of Soviet exports would increase for their company in the future, while seven (15 %) considered that its importance would decrease.

Differences in answers among the various industries were not very great. According to the respondents the strategic significance of Soviet exports would increase slightly in the construction and metal industries and for trading houses. Respondents among the textile, clothing and footwear industries thought it would decrease somewhat.

Table 2 illustrates the strategic importance attached to future Soviet trade among companies according to the share of Soviet exports in total sales. It is interesting to note that the strategic importance diminishes more among those companies for whom the share was high (above 20 %) and increases more among those companies for whom the share was below 5 %. This indicates that companies who had depended heavily on the USSR market were reorienting more towards other markets and those who did not depend so greatly on the USSR were focusing more on the USSR market than before.

Table 2                      **The future significance of exports to the USSR and the share of Soviet exports in total sales**

Share of exports to the USSR	Significance will in the future grow		will remain the same		will diminish	
	N	%	N	%	N	%
Below 5 %	10	76.9	15	55.6	1	14.3
From 5 to 20 %	3	23.1	5	18.5	2	28.6
Over 20 %	0	0.0	7	25.9	4	57.1
Total	13	100.0	27	100.0	7	100.0

Chi-square=10.04, df=4, P=0.0398

In conclusion, the companies considered in general that the importance of the Soviet market would decrease slightly in the future. However, the significance of the market is expected to decrease more among companies whose dependence on the market has been high than among companies whose dependence has been low.

### 3.3. Expectations and attitudes of the sample companies

In the course of the interviews the respondents were asked to read a number of statements concerning Finnish-Soviet trade and to indicate to what extent they agreed or disagreed with them. The statements are listed below in the order of average agreement with them.

Points were given from 1 to 5 (1=agree, 5=disagree, 3=indifferent)	Average points given	Standard deviation
The know-how associated with trading with the USSR will also be important for Finland in the future.	1.04	0.20
In the long term the USSR will be a huge market and it pays to stay there.	1.26	0.70
The importance of barter trade will increase in trade with the USSR.	1.81	1.06
Soviet traders don't know the rules of the market economy at all.	1.91	0.85
The economic situation in the USSR is much worse than reported.	1.94	0.88
Companies have to seek cooperation with other countries.	2.26	1.14
The "golden days" of Soviet trade are gone forever.	2.45	1.35
The state should continue to play an important role in trade relations.	2.66	1.14
Finland's competitors are much more active in the Soviet market.	2.89	1.13
The role of the state in Soviet trade should be reduced.	3.0	1.07
There is not enough information about changes in the organization of Soviet foreign trade.	3.0	1.29
The opportunities in the USSR are only now opening up for Finland.	3.23	1.06
In the short run it is not worthwhile to carry out marketing in the USSR at all.	3.87	1.10
The Finns are not competitive when trading in convertible currencies with the USSR.	3.89	1.02
The risks in the USSR are so great that there is good reason to withdraw from the market.	4.09	0.99
It is not worthwhile to study Russian.	4.15	0.87
Now companies should reorient themselves towards the more unified Europe and forget the USSR market entirely.	4.38	0.96

The respondents all agreed that the USSR market will be important for Finland in the long run and that it is profitable to stay there. They also agreed, to some extent, that the economic situation was bad in the USSR and that the golden days of trade were gone. The respondents were, on an average, indifferent as regards the role of the state in trade. However, they disagreed quite strongly with the views advocating withdrawal from the USSR market and concerning the uncompetitiveness of Finns when trading in convertible currencies.

There were not very big differences in the views of various industries. As nearly half of the companies represented metal and engineering industries their views coincided well with the average views of the sample. Among the other industries views differed mostly in regarding the interesting question of competitiveness in the USSR. Trading houses were the most pessimistic about Finnish competitiveness whereas the woodworking, chemical and construction industries were more optimistic than the average. Trading houses were the most optimistic about future opportunities in the USSR. This is probably explained by the fact that they can now trade with foreign goods, not only Finnish products as was the case under clearing.

Among other categories of respondents some interesting differences could be discerned. The most experienced and active traders and least experienced companies differed in their attitude towards the competitiveness of Finnish companies and the activities of competitors. Table 3 shows that those companies who had established an office in Moscow and had more than 3 persons working there considered Finnish competitiveness better than those who had not established an office in Moscow. The same applied for companies employing more than 3 persons with experience of living in the USSR or whose representatives travelled more than average in the country. In addition, companies, which had established offices in Moscow disagreed most with the view that western competitors are more active than Finnish companies in the USSR.

Table 3 **Views on competitiveness of Finnish companies in the USSR among those companies who had an office in Moscow and among those who did not**

	Agreement with uncompetitiveness or indifferent		Disagreement with low competitiveness	
	N	%	N	%
Number of persons working in the Moscow office				
0 (no Moscow office)	9	60.0	3	9.4
1-2 persons	3	20.0	8	25.0
3 or more persons	3	20.0	21	65.6
Total	15	100.0	32	100.0
Chi-square=14.52, df=2 P=0007				

In conclusion, the attitudes of the respondents were quite favourable regarding the development of trade with the USSR. This is not in itself surprising, because all the respondents were specialists in the Soviet trade, and not therefore likely to downgrade their own field of activities. However, the more experienced and active traders the companies had, the more optimistic were their views about the competitiveness of Finnish companies in the USSR and the less they were concerned about the activities of western competitors in those markets.

It is impossible to judge how well founded the optimism of the experienced exporters was. There also exists the possibility that their views were biased because of the competition-limiting characteristics of the clearing payment system and limited experience in more competitive markets.

### 3 4. Competitive advantages of Finnish exporters in the USSR

During the four decades of bilateral trade between Finland and the USSR the competitive advantages of Finnish companies on Soviet markets were not subject to much public discussion. In the economic press allusions have often been made to these advantages, which have not been described in detail. This has created the impression that there is something mysterious or even mystic about them.

According to some respondents this aura of mystery was created by the keen competition between Finnish companies who were selling to the Soviet markets. No company was willing to reveal its own competitive advantages to competitors. The restrictions on the foreign content of exports also contributed to the mysticism, because they made it impossible for foreign companies to export through Finland or use Finland as a commercial gateway between East and West.

No doubt, the significant role of politics and politicians in trade relations also accounted for the mysterious atmosphere. Some respondents even commented that there was no need for Finnish companies to be competitive, because the trade flows of the former USSR were based on political expediency. However, as pointed out above, the general view in Finland was that Finnish companies had certain competitive advantages, which were related to marketing know-how, to good contacts and understanding of foreign trade system, pricing and financing.

In a rare piece of research (Vientiprojekti, 1981) concerning the competitive means and competitiveness of Finnish exports in both western and Soviet markets, one of the findings was that Finnish companies were slightly more competitive in Soviet markets than they were in western markets (Vientiprojekti 1981, p. 71). The study did not, however, investigate the competitiveness of Finnish companies on Soviet markets in comparison to competitors from other countries.

As part of the study carried out in 1991 the representatives of Finnish exporters were asked to choose from the following list of competitive advantages those which they thought had been lost as a result of the recent changes in the



Soviet foreign trade administration and in the bilateral trade:

- intimate knowledge of Soviet organizations
- understanding of trading customs and procedures
- understanding of Russian culture
- price competitiveness due to the bilateral clearing arrangement
- price competitiveness due to economies of scale created by large orders
- product quality and ability to adapt to Soviet standards
- close relations between foreign trade authorities of the two countries
- a wide network of trade agreements, long-term and annual protocols, and personal contacts in the foreign trade
- advantages created by the close geographic location (low transportation costs, etc.)
- good knowledge of the Russian language.

The vast majority (85 %) of the respondents "ticked" price competitiveness as a lost advantage. 42–46 % of the respondents also thought that the economies of scale created by large orders, good relations between foreign trade authorities and the significance of the trade agreements were also lost. In addition, a smaller group (19–29 %) of the respondents felt that knowledge of Soviet organizations and good contacts with key persons in these organizations had been lost, as well.

The remaining Finnish competitive advantages in the Soviet markets are, according to the respondents, knowledge of trade customs and procedures, understanding of Russian culture, quality of products, geographic proximity and good knowledge of the Russian language.

The question of price competitiveness is an intriguing one. According to Vientiprojekti (1981, P. 74), price competitiveness was the weakest feature of Finnish exporters in both western and Soviet markets. However, many respondents stated during the interview that their companies had been able to price Soviet exports sold under the bilateral clearing arrangement at a higher level than sales in other markets. On the other hand, some persons interviewed also pointed out that, even though their export prices had been the same in all markets, trade with the USSR was more profitable for other reasons, including favourable payment terms and lower transportation costs.

Favourable payment terms and financing were, no doubt, advantages which were directly connected with price competitiveness and which the clearing arrangement offered Finnish exporters. The banks in which the clearing accounts were kept in both countries provided financing within the credit limits of the clearing arrangement. Exporters were not even allowed to offer credit terms to Soviet buyers. These rules were changed in 1989, when the Bank of Finland allowed export credits to be used within the clearing system. Consequently, Finnish exporters already faced financing requirements to some extent before the abolition of the system. This requirement, in turn, created price pressures, because Soviet buyers and banks required and received – at that time – subsidized credit terms from many other countries and Finnish companies had to include part of the financing costs in the price of the goods in order to be competitive.

In contrast to the possibilities of pricing Soviet exports higher than those to other markets there existed the popular view about tough Soviet negotiators who managed to drive prices down. In Vientiprojekti of 1981 (p. 91) it was found, however, that the initial prices offered to Soviet buyers tended to be higher than

in exports to western markets, because there was a need to leave more room for the bargaining of Russian negotiators. This practice is indicative of the special characteristics of the Soviet markets which influenced the pricing of exports on those markets. These characteristics were not, however, specific to trade relations with Finland, as was the case with the bilateral clearing system and the way it was operated.

The most conspicuous characteristic of the Soviet markets for the foreign exporter was the total detachment of domestic prices from international ones. Domestic prices were fixed by the Soviet state planning committee for most products according to specific criteria, irrespective of their import prices. Because of this the Finnish exporter had no way of knowing at the time of price negotiations what the price for the end user would be in roubles.

Rouble prices were fixed with the help of so-called currency multipliers, which could differ from each product and country of origin of the imported goods. The multipliers were never public information so that exporters could not use them to calculate rouble prices. The use of currency multipliers was discontinued shortly before the clearing system was abolished. Since then payments have been effected mostly in US dollars. However the calculation of rouble prices continued to be difficult, because there were still several different rates of exchange (the official exchange rate, the commercial rate, tourist rate or the rate fixed at currency auctions) which could be applied to or have an influence on export deals. Consequently, the final domestic price of goods in roubles was still not evident and depended on the particular way in which the Soviet buyer acquired the currencies used for payment.

For the reasons described above, the value/price relationship of Finnish products on the Soviet market was very difficult to assess for both Finnish sellers and Soviet buyers. In addition, the negotiations with Soviet buyers were normally conducted in at least two separate rounds of negotiations, in which the buyer was represented by two different groups of specialists (see for example Salmi 1991, p. 85).

During the first round of discussions, product characteristics such as technical specifications and quality were discussed with specialists in those particular product areas. Soviet end users were included in these negotiations more and more often. The second or final round of negotiations was conducted with the commercial specialists of the foreign trade organization. The price was negotiated only during the second round, with buyers who did not have detailed knowledge of the needs of end users. Because the price was not discussed directly with end users, the value/price relation of the product was not subjected to a thorough assessment. In addition, the so-called soft budget constraint (see Kornai, 1984) had its influence on end users, who could count on financing from the state budget even though they did not meet their financial targets.

According to the respondents situations of this kind have often led to deals where the products finally bought were of a different type and quality than actually needed by the end user. In the case of Finnish exports of engineering products the quality of goods was often higher than what was actually needed by the end user. Therefore, the price paid for that excess quality has also been high and the value/price relationship incorrect for the Russian end user.

Another important characteristic of the Soviet market from the Finnish exporter's point of view was the fact that foreign trade organizations wanted to cover the needs of their domestic customers for an entire calendar year by means

of only one or two contracts. Thus, as far as Finnish exporters were concerned the deals were very big and were, in many cases, highly significant for the profitability of the whole company. This, in turn, had several interesting consequences for the pricing policies applied by Finnish exporters.

First of all, no price discrimination could be applied on Soviet markets, because there was only one monopoly buyer. The foreign trade organization was also very well informed about world market prices of the products falling within its responsibility. Soviet buyers also had very close contacts with other East European countries so that in many cases the prices quoted for the Soviet organizations had to be considered as prices quoted for the entire East European market. Additionally, the prices of exports to the USSR tended to be very stable, because the single buyer had a long memory and any temporary drops in prices in a competitive situation became reference prices for the longer term.

Secondly, exporters could not consider applying marginal pricing based on only variable costs because it would immediately have become the normal price level for the whole East European market. On the contrary, exporting companies had to apply full cost pricing because the deals were very large in comparison to their other activities. Moreover, marginal pricing would not have been relevant in these circumstances because in order to increase sales exporters would have had to make large additional investments. However, the clearing arrangement limited the USSR's scope for imports to the level attained by Soviet exports to Finland. On the other hand, owing to the large size of the Soviet orders, Finnish exporters could benefit from significant economies of scale.

Particularly for bulk products like paper and pulp there existed a clearly defined world market price and the price in clearing roubles could not depart significantly from that. Exporters of these products could, however, benefit from low transportation costs in comparison to their main competitors from Europe or North America.

The principle of strict specialization of Soviet foreign trade organizations, according to groups of products, also had an influence on exporters' pricing policies. For instance, bundling different products into a package with a single price was not possible, because the buyers of the different parts of the package would have been different organizations. Bundling was only possible in large turnkey projects, which included construction work and large deliveries of materials, machines and equipment.

On the bases of the above discussion it can be concluded that the special characteristics of the Soviet economy and foreign trade organizations, together with the bilateral clearing payment arrangement, had a great influence on the pricing policies of Finnish exporters in the USSR. The prices of Finnish products on Soviet markets were relatively high and stable and the pricing policies applied inflexible. The competitive advantage of Finnish exporters in pricing seems to have been linked with the clearing system, which made it possible for exporters to either sell at higher prices in the USSR or sell at prices which would have been uncompetitive in other markets, or to sell more expensive products than were actually needed by the end users. This, together with economies of scale and low transportation costs, meant that sometimes the Soviet trade was even more profitable for companies than domestic trade.

The decline in the competitive advantage in pricing seems to have started in the second half of the 1980's. It is not possible on the basis of the available information to judge how important this advantage was still at the end of 1990,

when the clearing arrangement was abolished, but apparently it was far smaller than in the "heydays" of the early 1980's.

The mechanisms through which this deterioration took place can be described briefly as follows. The level of exports in Finnish-Soviet bilateral trade was determined in practice by the level of oil and natural gas imports, if the role of financing is excluded. As long as exports accommodated to the framework set by imports, Finnish exporters did not have to face wider competition. In the second half of the 1980's, when imports declined, exports to the USSR also started to contract and competition among exporters increased. A number of Finnish companies also started to undertake additional sales to the USSR in convertible currencies via third countries and could not price their products differently in the two parallel channels of marketing.

Among the Finnish competitive advantages which according to the respondents remain intact, the "soft" characteristic, understanding of Russian trading culture, stood out as the most important. When asked to define this characteristic in more detail a surprisingly large number of respondents mentioned the patience and persistence of Finns in comparison to western competitors, who tend to expect quicker results from their negotiations with the Russians. An understanding of the Russian mentality was also claimed to be very important. It was pointed out that the mental threshold which Russians have to cross over in foreign trade negotiations is much lower when dealing with Finns than it is when dealing with other European nations.

Some respondents had, however, an opposing view and doubted, whether there really is a wide understanding of Russian culture and mentality among Finnish exporters. The bulk of the trade was in the hands of a few companies and the number of people involved in Soviet exports was relatively small. In such circumstances the understanding which develops through experience cannot be widely held. Some respondents also pointed out that a thorough understanding of the trading culture is not widespread even among experienced exporters, because it was not really something that was needed to conclude successful deals within the clearing arrangement.

On the other hand, the Finns' toughest competitors in this respect are probably the former CMEA countries and the Baltic states, because of their long and close economic relations with the USSR and much better knowledge of the Russian language than Finns, as some of the respondents pointed out.

### 3.5 Disadvantages of Finnish exporters

While the higher prices under the clearing arrangement were an advantage for some exporters, higher costs were certainly a disadvantage. The same mechanism which gave rise to higher export prices also caused the costs associated with such exports to rise. Under the clearing system the foreign content of exported goods could not exceed 20 % – for some products the maximum level was much lower than this. Exporter's choice of suppliers was therefore limited to Finnish producers, and these restrictions on free competition caused the prices of subdeliveries to rise. Those companies who used Soviet raw materials and components

in products made for export to the USSR also argued that the prices of these products followed a similar pattern.

With the lifting of the restriction on the foreign content of exported goods in connection with the abolition of the clearing arrangement, Finnish subcontractors have experienced serious difficulties and many have been forced out of business. Quite a few respondents pointed out that their company's sourcing has changed completely and most of it has gone to foreign suppliers. In fact 30 % of the respondents stated that the lifting of the domestic content requirement had helped their company considerably by opening up opportunities for cheaper sourcing. But even so, Finland's price level remains a major disadvantage, which is exacerbated by the impression persisting in the minds of Russian buyers that Finnish goods are expensive.

The financing arrangement built into the bilateral clearing arrangement was an advantage for exporting companies, because they did not need to arrange financing themselves. At the same time the system proved disadvantageous for exporters, when there was no room within the clearing limits. The system did not allow them to arrange financing for Russian buyers within the system in order to increase their sales. In addition, exporters lacked knowledge of customary financing terms and ways to arrange financing on other markets. Such financing was, however, needed, when they tried to sell in convertible currencies outside the clearing arrangement.

Another disadvantage related to the clearing system which Finnish exporters have to contend with in the USSR is the association of Finnish goods with those of former socialist countries, which had similar clearing arrangements with the USSR. Particularly Finnish producers of textiles and clothing suffered from this phenomenon according to the respondents.

## 4 Competitive advantages in relation to strengths and weaknesses of Finnish exporters

As part of the interviews carried out in 1991, 40 respondents were asked to describe their company's strengths and weaknesses in the Soviet trade. The answers are summarized in table 4.

The strengths of Finnish exporting companies cited by the persons interviewed closely resemble the above list of competitive advantages retained by Finnish companies on Soviet markets. High on the list of strengths are both good personal contacts and knowledge of markets gained by experience, which together account for nearly 50 % of the strengths mentioned by the respondents. If understanding of the culture and mentality of the people is added to these, their share rises to 57 %.

Table 4 **Strengths and weaknesses of Finnish exporters in the USSR (numbers indicate the number of persons who mentioned each characteristic)**

Strengths (N=69)			
Weaknesses (N=41)	%		%
Good relations	24.6	Cost and price level	22.0
Quality of products, technology	24.6	Limited resources	22.0
Experience and knowledge of markets	23.2	Limited financing possibilities	22.0
Image and name of the company	11.6	Product quality	12.2
Understanding of culture and mentality	8.7	Insufficient adaption to the market	7.3
Other strengths	7.3	Other weaknesses	14.5
Total	100.0		100.0

The role of product quality is very interesting in this analysis, because it is considered both a strength and a weakness. Owing to the fact that it is very easy to overestimate the strengths and underestimate the weaknesses, the list of weaknesses should be given relatively more attention. Those who criticized product quality pointed out that the quality was often too high for Soviet requirements, that the selection of goods offered for these markets was small and that market demand was not investigated in order to forecast the changes in demand that have taken place.

The excessively high quality of products was already discussed in connection with pricing policies. It was pointed out that it was often a result of the trading

mechanisms, which hindered realistic price/value assessment. The level of costs and prices of Finnish exporters and limited financing possibilities which were cited as major weaknesses, also coincide with the above analysis of competitive disadvantages.

The other weaknesses listed above also include some of the same characteristics which many respondents considered to be strengths. They include knowledge of the Russian language and culture, which was mostly considered a strength. In addition, some respondents mentioned that Finns are inflexible and do not adapt well to the changed circumstances while others pointed out that Finns are even too compliant in carrying out the wishes of Soviet customers.

## 5 Competition, competitive advantages and significance of various marketing means in the USSR

In the following some of the results obtained from Vientiprojekti (1981) are compared with the opinions of the exporting companies in 1991 about the significance of various marketing means in the USSR. The aim of the analysis is to track possible changes in the significance of these means. After that the profile of significant marketing means is compared to the profile of strengths and weaknesses of exporters.

### 5.1 Comparison of the significance of various marketing means in 1991 and 1977

The respondents of the sample companies were asked to assess the significance of different marketing means on the USSR market. The list of marketing means used for this purpose was the same as that used in 1977, when data were collected for Vientiprojekti, 1981. The significance of the various marketing means in 1991 and 1977 is depicted in figure 3.

The significance of marketing means in general has increased since 1977 as indicated by the shift of the curve for 1991 to the right in the figure. However, the profile of the marketing mix as depicted by shape of the curve in figure 6.02 has remained fairly stable. This can be seen when the curve for 1991 is compared to that for 1977.

The most striking change in the Soviet marketing mix has occurred in the significance of payment and credit terms, which has increased considerably. The other notable changes are the increased significance of technical service and other means of competition, including good contacts.

In table 5 the 13 marketing mix components are listed in order of significance, as determined by the overall average number of points given for each component. The order of significance is then compared to that obtained in 1977.

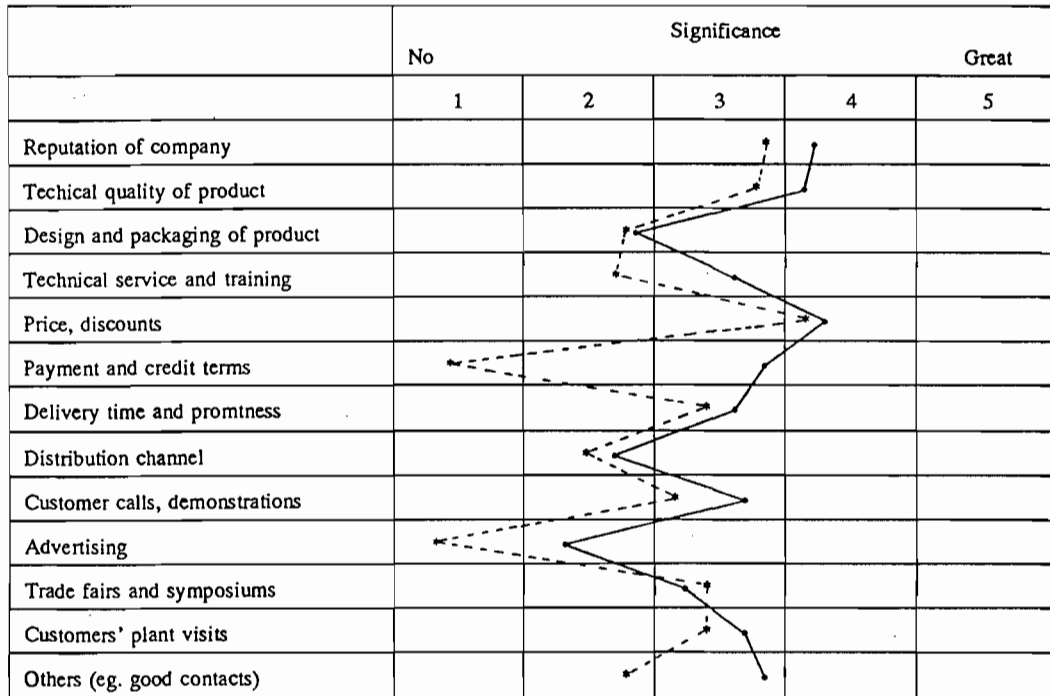
According to the results, the three most important components of the marketing mix have not changed in Finnish marketing on the Soviet market since 1977. Price remained the most important component of the marketing mix, but the quality of the product and reputation of the company came very close behind in importance.



Figure 3

# The significance of marketing mix components in 1991 and 1977

(survey of 1991 • — survey of 1977 \*----)



When the respondents were asked to name only the three most important components, the order of significance of the top three components changed. When they were asked to choose the single most important component, price came only third after quality of products and reputation of the company. As regards the second most important component, price was by far the most popular choice.

Table 5

**Relative significance of marketing mix components in  
Finnish exports to the USSR in 1991 and 1977**

Component of the marketing mix	Overall average of points 1991	Order of signifi- cance 1991	Order of signifi- cance 1977
Price, discounts	4.26	1	1
Reputation of the company	4.25	2	2
Technical quality of product	4.00	3	3
Others, eg good contacts	3.94	4	11
Customers' visits to plants	3.89	5	5
Payment and credit terms	3.89	6	12
Customer calls, demonstrations	3.87	7	6
Delivery time and ability to deliver promptly	3.55	8	4
Technical service and training	3.55	9	9
Trade fairs and exhibitions	3.21	10	7
Channel of distribution	2.79	11	10
Design and packaging of product	2.59	12	8
Advertising	2.26	13	13

The 1977 figures are derived from Vientiprojekti p. 74

Representatives of different industries also had different preferences. The relative importance of price was highest in the construction industry and lowest in the pulp and paper industry. For product quality the preferences of these two industries were reversed; the importance of technical quality was highest in the pulp and paper industry and lowest in the construction industry. The significance of the company's reputation, in turn, was highest in the metal and engineering industry and lowest in the chemical industry.

In summary, the order of significance among the three most significant components of marketing mix, price, technical quality of the product and the reputation of the company, cannot be determined without qualification. However, the main implication is clear - all three continue to be important in the USSR, according to the respondents. In this respect there is also a clear difference between marketing means which were important in the USSR and the west. In the 1977 survey only one of those three means, the quality of the product, was among the three most important marketing means in western markets. Delivery time and customer visits were judged more important than reputation of the company and price, which were in 4th and 5th place respectively in trade with western countries.

The significance of price as a key marketing means in the USSR is also confirmed by table 6, which shows a significant correlation between the importance of the USSR market for the company and price as a means of marketing.

Table 6

**Significance of price in relation to the strategic importance of the USSR market for exporting companies in 1991**

	Low or moderate significance		High significance of price	
	N	(%)	N	(%)
Exports to the USSR strategically important	14	53.8	19	90.5
Indifferent	6	23.1	2	9.5
Exports to the USSR not strategically important	6	23.1	0	0.0
Total	26	100.0	21	100.0

Chi-square=8.320, df=2, P=0.0156

Among the other components of the marketing mix, the position of payment and credit terms and good contacts had become more important in relation to the other components. Technical service was also considered more important in 1991 than in 1977, but its relative position among the other components was unchanged. The significance of credit terms was highest in the construction industry and lowest in the pulp and paper industry. Good contacts were considered to be the most important in the textile, clothing and construction industries and technical service in the metal and engineering industry.

The relative significance of delivery time, product design and packaging and trade fairs has fallen since 1977. However, delivery time together with the channel of distribution, was judged highly important by the paper and pulp industry, while trade fairs were important to the textile and clothing industries. Many respondents also noted that while the significance of trade fairs had diminished, symposiums for smaller target audiences had become more important.

Of the remaining components, customers calls, demonstrations and plant visits were most important in the construction industry. Advertising continued to be considered the least significant component. Even in the textile and clothing industries, where it had the highest significance, it was not considered very important.

The significance of credit terms and financing, which had increased most since 1977, was closely related with the importance attached to cooperation with third countries in the USSR market, as is illustrated by table 7. This can be attributed to the understanding of many companies that export credit agencies in other European countries offered them the best opportunities to arrange credits for their exports. This, in turn, required cooperation with enterprises in those countries.

Table 7

**Significance of credits and cooperation with other countries in the USSR market**

Cooperation with other countries	Credits of little or moderate importance		Credits highly important	
	N	%	N	%
Important	17	58.6	16	88.9
Indifferent	7	24.1	1	5.6
Not important	5	17.2	1	5.6
Total	29	100.0	18	100.0

Chi-square=4.890, df=2, P=0.0867

The role of credits was also considered highly important among companies for whom the Soviet market was strategically important and who planned to increase marketing activities there. It was equally important for those companies who were positively inclined towards developing cooperation and direct investments in the USSR. On the other hand the role of financing was not considered so important among those who advocated the continuation of the role of state authorities in trade relations. This view most likely reflects the wish that the state might continue to provide trade financing, as was the case under the clearing arrangement.

In conclusion, the comparison of the significance of various marketing means in the USSR in 1977 and 1990 shows that the importance of marketing means has increased in general, that the profile of the marketing mix has changed relatively little, with the exception of payment and credit terms, and that there are big differences among industries. In general, and contrary to western markets in 1977, price continues to be the most important means of marketing, closely followed by the quality of the product and the reputation of the company. Credits, which had risen most in importance, were especially significant for those companies who planned to increase their activities in the market.

## 5.2 Comparison of the marketing mix with the competitive advantages and strengths of Finnish exporters

When the interview results for the significance of various marketing means are compared to the competitive advantages and strengths of Finnish exporters discussed above, it is clear that there are major discrepancies in the two profiles. The significance of price as a key component of the marketing mix would call for good price competitiveness, but the reverse was found to be true when the strengths of exporting companies were analyzed. Referring to the discussion on

the role of the clearing arrangement in allowing the price level in bilateral trade to rise, one is led to suspect that the clearing arrangement concealed this discrepancy from Finnish exporters.

The quality of products was considered one of the key components of the marketing mix as well as one of the competitive strengths of Finnish exporters, which is a good fit in general. When examined more thoroughly, doubts arise about the right level of quality for market requirements. This problem is also closely related to the cost level of Finnish products.

The major advantages of Finnish exporters were found to be their knowledge of Russian trading culture and good contacts with Russian buyers. Good contacts did not rank among the most important in the order of significance of the marketing mix components, even though their relative significance has risen since 1977. This is a second major discrepancy in the profiles.

The questionnaire also contained a question about the use of market research in the USSR. About 43 % of the respondents had relied on information collected by their own employees and 15 % had used market research conducted either by Soviet organizations or western consultants. Most of these studies were based on published Soviet sources and concentrated on estimating demand and supply in various sectors of the economy. Apparently, very few studies have been made about the effectiveness of the marketing mix in the Soviet market.

In conclusion, there seems to have been a clear discrepancy between the weak price competitiveness of Finnish companies in the USSR and the high significance of price as a marketing criterion in that market. The second major discrepancy is between the strong competitiveness of Finnish exporters in "soft" marketing know-how and its rather low significance in the USSR as judged by the respondents.

### 5.3 Competitive advantages in relation to the opportunities and threats perceived by Finnish exporters in the USSR

Table 8 lists the opportunities and threats in the USSR which the respondents cited in 1991. Forty companies were interviewed for this question.

According to the respondents the biggest opportunities existed in those industries and sectors of the economy which badly needed investments and were high on the preference list of the Soviet authorities. Such industries were:

- communications infrastructure
- oil and gas technology
- utilization of natural resources, forests, mineral ores
- agriculture and food industry.

Table 8

**Opportunities and threats in the USSR as cited by Finnish exporters in 1991 (numbers indicate the number of persons who mentioned each characteristic)**

Opportunities (N=36)	%	Threats (N=41)	%
Large investment needs of the country	55.6	Political risks	70
Decentralization process in the country	25.0	Increased competition for cheap labour	20
Direct investments in Soviet industry	19.4	Financial problems	10
Total	100.0		100

All of these industries are capital-intensive industries with massive investment needs. Other opportunities cited were connected with the process of restructuring and decentralization of the economy. When the legal problems connected with this process are solved, many companies expected new opportunities to be created for direct investments.

The biggest threats cited by the companies on the Soviet markets, were political by nature. Other threats included increasing price competition from cheap labour countries and even local producers in the USSR, and limited, or even non-existent, financing opportunities connected with the limited opportunities for financial risk-taking.

When these opportunities and threats are compared to the strengths and weaknesses of the Finnish companies, there does not seem to be a strong basis for allowing utilization of the opportunities cited. The relatively high cost level, limited resources and limited financing opportunities of Finnish companies would most likely become the main obstacles.

## 6 Changes in the competitive forces influencing the exporting industries

Porter has developed a well-known framework for the analysis of industrial competition (Porter I, p. 4). According to his framework rivalry within an industry is influenced by four major factors: the negotiating power of both buyers and suppliers, entrance barriers for new entrants and substitute products. In practice the application of the model depends very much on the definition of the industry which is being studied.

In the following the framework will be used to analyze the competitive forces which influence competition within an industry that has been a major exporter to the USSR. An example of such an industry might be the Finnish textile industry, for which it would be fairly easy in practice to determine which companies belong to it. However, the following analysis is theoretical and partial, because the USSR has been only one – albeit important – market in addition to domestic and other exports markets for exporting companies. Therefore the forces at work in the Soviet market will have to be considered marginal forces influencing competition within the chosen industry. With all these qualifications, the partial analysis helps to increase our knowledge of the forces at work, and, what is more important for this study, of the changes that have occurred in these forces.

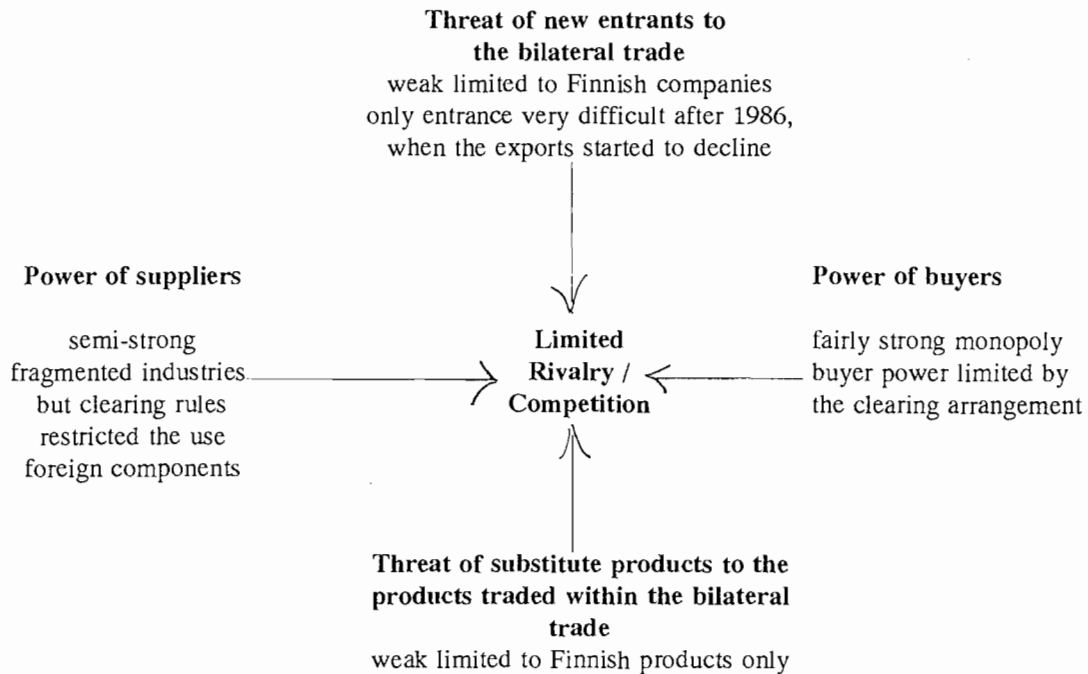
Figures 4 and 5 illustrate the marginal competitive forces influencing an exporting industry operating in the USSR up until 1990 and in 1991, after the clearing arrangement had been abolished.

The first of the main forces, the negotiating power of Soviet buyers, was of great importance before the changes, because it represented the monopoly buyer of the state in each sector of foreign trade. Under the bilateral clearing arrangement, however, this power was, limited by the characteristic of bilateral clearing which required that all currencies earned from sales to Finland to be used for purchases from Finland.

The Soviet foreign trade organizations were required to request offers from three or more foreign suppliers for any major deal and to choose the cheapest offer. In case of Finland, all the potential suppliers were normally Finnish companies. There was probably quite strong competition between Finnish companies to win the first order, because Soviet orders were large and therefore affected the employment situation and profitability of the whole company. However, once companies had established themselves on these markets, and especially during the period of rising oil prices, competition weakened.

Figure 4

**The forces in bilateral trade between Finland and the USSR influencing competition within a Finnish exporting industry until the end of 1990**

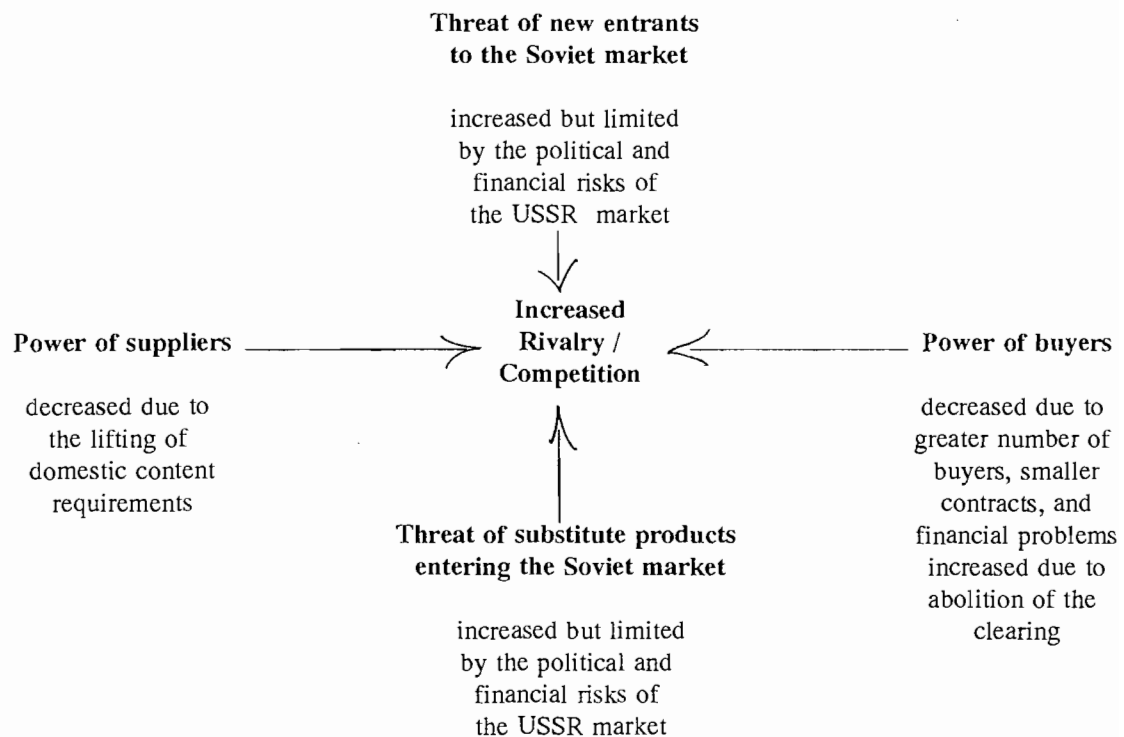


Following after the abolition of the clearing arrangement the bilateralism requirement no longer exists and the negotiating power of Soviet buyers has, in principle, increased accordingly. On the other hand, the decentralization of Soviet foreign trade has increased the number of potential buyers, reduced the average contract size and weakened the role of the specialized foreign trade organizations. In addition, the power of buyers has decreased as a result of the financial difficulties of the former USSR. In many cases the ultimate power has shifted into the hands of western banks and financial institutions.



Figure 5

**The forces in trade with the former USSR influencing competition in a Finnish exporting industry in 1991 after the abolition of the bilateral clearing arrangement**



The negotiating power of suppliers to Finnish exporting companies was quite weak as a group in bilateral trade, because they were generally small companies operating in rather fragmented industries and dependent in many cases on the contracts won from the large exporters. In some industries, especially in the textile and footwear industries, they were, however, in a relatively strong position, because the clearing rules restricted the use of foreign raw materials or components in Finnish exports to the USSR. After the abolition of the clearing system their negotiating power diminished considerably, because foreign suppliers could also be used.

The entrance barrier which both new companies and substitute products faced in bilateral trade was very high because the negotiating framework favoured those, usually big, companies which were already established on the markets. For the smaller Finnish companies entry to the Soviet markets became very difficult in the second half of the 1980's, when the exports were declining as a result of the fall in oil prices. In addition, the Soviet foreign trade system, based on specialized monopoly buyers, tended to favour large existing suppliers, because there was a limit to the number of negotiations which single buyers could and wanted to handle.

After the abolition of the clearing system the entrance barrier for Soviet Finnish trade has become lower for new entrants, small and medium-sized companies and products which are substitutes for traditional exports products. The

door to international competition is also wide open. Soviet foreign trade is becoming more decentralized, thus enhancing the opportunities for new entrants on these markets. On the other hand, the overall economic and political situation in the USSR has complicated the situation so that the perceived risk on these markets has increased considerably. Also, the financial problems faced by potential buyers have become more serious and the actual decision making powers have shifted into the hands of financial institutions. Consequently, the disappearance of the old entrance barriers has been replaced by the financial and political risks associated with these markets.

In conclusion, the marginal influence of bilateral trade on competition between Finnish companies in exporting industries was limited to the domestic rivalry of those exporting companies that had established themselves on the Soviet markets. From the beginning of 1991, Finnish exporters have faced increased international competition on these markets. According to many respondents in the 1991 interviews, increased competition had already reduced the costs of many industries and subsequently the prices of Finnish exports. This is mainly due to increased foreign competition in industries, which have acted as suppliers to large exporters.

A word of caution is necessary here, however. The above analysis has only taken into account those forces of rivalry the exporting industries that have arisen in the Soviet markets. Therefore it has to be stressed that, in addition to either weak or strong domestic competition within an exporting industry, the above analysis illustrates only the marginal impact which derived from the Soviet trade. The change that took place in 1991 points clearly towards the operation of increased competitive forces, while the attractiveness of the target market has decreased among exporters because of increased risks.

## 7 Exports to the USSR and the competitiveness of Finnish industries

Rivalry or the degree of competition within an industry is a key determinant of the competitiveness of the industry on the international scene. This was a major conclusion of Porter in an analysis of developments in the international competitiveness of major exporting industries of six western nations (Porter II, pp. 577–614). According to this analysis, the marginal effect of trade with the USSR on competition within Finnish exporting industries was rather limited. Consequently, following the logic of Porter, trade with the USSR has made a very limited contribution to the international competitiveness of Finnish exporting industries.

In fact, the competitiveness of Finnish companies in the USSR was heavily dependent on the special characteristics of bilateral trade, as discussed above, and was not a result of free competitive forces. However, because of the limited competition in bilateral trade, the profitability of Finnish exporters to the USSR was, at times, higher than the profitability of domestic sales. This fact may have blinded the companies and hindered an objective analysis of competitiveness.

In the future the competitiveness of Finnish companies in the former USSR will be determined by the level of international competition on these markets. The major question for the future concerns the price competitiveness of Finnish industries in the changed circumstances and the ability of companies to arrange financing.

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