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Rumours and Reorganisation

Swedish-Soviet trade and Swedish trade promotion during perestroika

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Summary

This paper describes and analyses the development of Swedish exports to the Soviet Union during the *perestroika* period, both in general and with regard to the specific case of the coastal trade between these countries using the Uppsala model's concepts of learning, the liability of foreignness, and the liability of outsidership. During this period the Soviet foreign trade system went through a significant reorganisation, with foreign trade being decentralised and new actors being established, although the source material indicates that this decentralisation was less disruptive to the coastal trade than in general. It concludes that the different outcomes seen in these cases could be attributed to the coastal trade being less affected by the liability of outsidership than the general case. With regard to learning, it concludes that experiential knowledge, both from personal experience and network sources, is necessary in order to evaluate objective knowledge, as this can also be seen in the source material.

Key words: Uppsala model, perestroika, Swedish-Soviet trade

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1.1 Introduction

There have been few cases of a change in government having such dramatic effect as Mikhail Gorbachev's assumption of the leadership of Soviet Union in 1985. After taking power he began to implement a wide-ranging series of economic reforms under the heading of *perestroika* (restructuring) with the intent of halting the stagnation that had afflicted the Soviet economy since the seventies. The economic reforms included (but were not limited to) an overhaul of the organisations responsible for foreign trade, with the Ministry of Foreign Trade losing its monopoly on foreign trade rights and the adoption of legislation that allowed for the creation of joint ventures with foreign partners. This attempt to reform the Soviet economy, accompanied by the new policy of *glasnost* (openness), would eventually lead to the collapse of the Soviet Union, and the transition from a command economy to a capitalist one.

The *perestroika* period is therefore an interesting one to study in order to understand the role factors such as networks, knowledge, and institutions play in firms adapting to extreme changes in foreign markets that increase market uncertainty and risk. The reorganisation of Soviet foreign trade led to new actors entering the market, and forced firms and foreign state actors to build networks with these newcomers. Despite the uncertainties and considerable difficulties there was interest in the West in entering the Soviet market, as it was large and had high demand for quality goods and services.¹ Sweden was no exception, and there were significant efforts made by Swedish state actors to increase the Swedish share of the Soviet market.² While Swedish trade overall to the USSR decreased during this period, the share of Swedish goods exported as part of the bilateral coastal trade through the Soviet trade organisation Lenfintorg, responsible for regional trade in north-western part of the USSR (including all three Baltic republics), showed instead a positive development.

The internationalisation process of a firm as described by the revised Uppsala model contains a number of concepts involving learning and networking that affect whether or not the process of entering a foreign market is successful, although this model has been criticised for emphasising networking at the cost of other institutional factors. This paper applies these concepts to Swedish export promotion to the Soviet Union during the *perestroika* period, conducting a comparative case analysis using concepts from the Uppsala model, with Swedish exports to the USSR as a whole as the general case and the coastal trade as a specific subset of this, in order to understand why the two show such different outcomes. Swedish export

¹ Leonard Geron, *Soviet Foreign Economic Policy Under Perestroika*, London, The Royal Institute of International Affairs/ Pinter, 1990, p 41.

² Anders Åslund, "Hur kommer perestrojkan att påverka Sveriges handel med Sovjetunionen?" from *Öst och väst: 7 experter om ekonomi, handel och vetenskap i perestrojkans tid*, Stockholm, Bonnier, 1989, p 71.

promotion with regard to the Soviet Union is presented shows how state actors in a capitalist economy tried to increase their exports to a much riskier market that was nevertheless deemed to have great potential. Trade relations between Sweden and the Soviet Union have previously been studied by others; however, the *perestroika* period remains relatively unexplored. This paper attempts to fill that gap, focusing on the effects of the reorganisation of the Soviet foreign trade system and their impact on both the general and the coastal trade, and presenting an explanation for the differences in outcome seen in these two cases.

1.2 Previous research

This paper builds on research from a number of fields; these include Swedish trade and foreign policy, internationalisation and trade promotion, and *perestroika* and its effect on the Soviet economy, particularly with regard to foreign trade. While, as noted above, little has been written on Swedish-Soviet trade relations during *perestroika*, work has been done on other periods. Helene Carlbäck has written on the attempt to establish trade relations between Sweden and the Soviet Union in the immediate post-Revolutionary period, while Birgit Karlsson has studied Swedish trade with Poland and the Soviet Union during the period following the Second World War, arguing that Swedish foreign policy, particularly with regard to the USA, influenced and limited Swedish trade with the Eastern bloc.³

There is also research on Swedish trade with other countries; this includes such work as Ahmad Hussein's dissertation on Swedish trade promotion with regard to Lebanon, which argues that Swedish trade promotion followed the establishment chain proposed by the Uppsala model.⁴ Hussein's dissertation provides the basis for the method used in this paper, as I have also used the Uppsala model as an analytical framework. More generally, the effects of the transitional period on Swedish foreign policy with regard to the Soviet Union/Russian Federation has been studied by Fredrik Doeser in the article *Sovjetunionens upplösning och utrikespolitisk förändring i Sverige*, although the primary focus is on Swedish security policy as opposed to trade.⁵ There is some Russian research on the Soviet relationship with Sweden and other Nordic countries, such as Vitalij Repnevskij's dissertation *Evoljucija politiki*

³ Helene Carlbäck, *Att byta erkännande mot handel: svensk-ryska förhandlingar 1921-1924*, Uppsala: Uppsala University, 1997, and Birgit Karlsson. *Handelspolitik eller politisk handling: Sveriges handel med öststaterna 1946-1952*, Göteborg: Göteborg University, 1992.

⁴ Ahmad Hussein, *Vägen till Beirut: Svenska handelsfrämjande åtgärder i Libanon 1920-1975*, Umeå: Umeå University 2012.

⁵ Fredrik Doeser, 'Sovjetunionens upplösning och utrikespolitisk förändring i Sverige', *Nordisk Østforum*, vol. 24/no. 2, 2010, pp. 149-166.

SSSR/RF v otnoshenii Filandii, Norvegii i Shvecii, which provides a Russian perspective on the Soviet Union's relationship with Finland, Sweden and Norway from the seventies onwards.⁶ He looks at several different aspects of the relationships between these countries and the USSR, including economic ties between them.

While the effects of *perestroika* on Soviet foreign trade has not attracted as much attention as its effects on the domestic economy, there is still a sizeable body of literature on the subject. Anders Åslund's book *Gorbachev's Struggle for Economic Reform* includes a section on foreign trade, while Leonard Geron's *Soviet Foreign Economic Policy under Perestroika* focuses exclusively on this topic.⁷ Both are written around the time of the collapse of the Soviet Union (in the case of Geron's monograph, before it). A more recent addition to the literature on the Soviet economy in general is Philip Hanson's *The Rise and Fall of the Soviet Economy*, which covers the whole of the post-war period.⁸ There is also literature from the Soviet Union on the subject, such as Gorjachev and Korljugov's book *Vneshnjaja Torgovlja Socialisticheskikh Stran: Problemi Upravlenija i Effektivnost'*, published in 1988 and which describes the organisation of Soviet foreign trade, existing problems, and potential future developments, which provides a contemporaneous Soviet perspective.⁹ As a whole this literature is used in order to provide background on the role of trade in the Soviet economy and to describe the extent of the reforms brought in as part of *perestroika*.

1.3 Theory and method

Any firm looking to expand internationally is going to be faced with risks and uncertainties, more so in some markets than others. In the revised Uppsala internationalisation model, firms handle these market uncertainties by forming networks that can provide them with the information they need to identify opportunities and build trust and commitment. An increase in market uncertainty will increase the firm's risk; this can happen as a result of any number of events, including but not limited to, changes in government.¹⁰

The method used in this paper is based off of that used by Hussein in his similar work on

⁶ Vitaly Andrejevič Repnevsky, *Evoljucija politiki SSSR/RF v otnoshenii Filandii, Norvegii i Shvecii*, Moscow, MGU 2006.

⁷ Anders Åslund, *Gorbachev's Struggle for Economic Reform*, London: Pinter, 1991, and Leonard Geron, *Soviet Foreign Economic Policy under Perestroika*, London: The Royal Institute of International Affairs/ Pinter, 1990).

⁸ Philip Hanson, *The Rise and Fall of the Soviet Economy: An Economic History of the USSR from 1945*, Harlow: Longman, 2003.

⁹ Andrej A. Gorjachev and Jurij J. Korljugov, *Vneshnjaja Torgovlja Socialisticheskikh Stran: Problemi Upravlenija i Effektivnost'*, Mezhdunarodnye otnoshenija, Moskva, 1988.

¹⁰ F. Figueira-de-Lemos, J. Johanson, Jan-Erik Vahlne, et al, 'Risk Management in the Internationalization Process of the Firm: A Note on the Uppsala Model', *Journal of World Business*, vol. 46/no. 2, 2011, p 148.

Swedish trade in Lebanon. He also uses the Uppsala internationalisation model as a way to describe government actors' trade promotion efforts. The model is originally intended to describe how private companies establish themselves abroad; Hussein, however, argues that as Swedish firms' entry into difficult Middle Eastern markets meant close cooperation with Swedish government agencies, the knowledge and assistance they required will be reflected in the work of those government agencies.¹¹ I would make a similar argument: that expanding into the Soviet market also often required assistance from government bodies, and as such the Uppsala model can be applied in manner similar to that used in Hussein's dissertation, although where he used the establishment chain to describe the internationalisation of Swedish actors in Lebanon, I am more interested in using and applying the model's concepts of knowledge, learning, the liability of foreignness, and the liability of outsidership to the behaviour of Swedish state actors in the Soviet Union. The use of this model to analyse the behaviour of state actors could be problematic given that it was developed with private firms in mind. State actors can have different motives and opportunities, and private firms can be seen as being far more vulnerable to market forces. In the case of Swedish trade promotion in the USSR, the state intended that these efforts be largely self-financed (that is, firms would pay for using the services offered). As such it could be said that Swedish state actors were sufficiently reactive to market forces to make the use of the Uppsala model suitable in this case.

In the Uppsala internationalization model as developed by Vahlne and Johansson during the seventies and later revised, firms pass through several stages as part of their internationalization process, called the establishment chain (the revised model places less of an emphasis on this concept than it originally did). This process is itself influenced by firms' knowledge of the market into which they are expanding, with greater market knowledge leading to a potentially greater commitment of resources. Lack of market knowledge, where a firm's psychic distance (those factors that make understanding a foreign environment difficult, such as language, laws, and customs) results in what Vahlne and Johanson describe as the liability of foreignness.¹² This concept, as described by Vahlne and Johanson, has been used in tandem with concepts taken from institutional theory, as aspects of the liability of foreignness such as local laws and customs can be connected to the concept of formal and informal institutions as developed by Douglass North. Institutions, as described by North, are the rules

¹¹ Hussein, 2012, p 30.

¹² Jan Johanson and Jan-Erik Vahlne, 'The Uppsala Internationalization Process Model Revisited: From Liability of Foreignness to Liability of Outsidership', *Journal of International Business Studies*, vol. 40, no. 9, 2009, p 1411-31.

governing human interaction and provide a framework that reduces unpredictability and, therefore, transaction costs.¹³ One article that connects the Uppsala model with institutional theory is Kao and Johansson's *Emerging market entry and institutional change*.¹⁴ It notes that changes in the institutional environment impact the performance of foreign firms as they complicate the process of obtaining market knowledge. Institutional change can both benefit and harm firms' internationalisation: markets that were previously closed can open up to foreign firms and vice versa.¹⁵

In their updated model, this has been updated to reflect research on the role of networks in the internationalization process, and now includes the concept of liability of outsidership, which comes from a firm trying to enter a market without having a relevant network, and the lack of knowledge of the business environment. This new concept replaces to a certain extent that which was previously described by the liability of foreignness. In the revised model, networks make up a firm's environment, which in turn affects how firms learn about the market and identify opportunities. In the Soviet context, the environment would not only consist of Soviet state bodies (such as the Ministry of Foreign Trade and the various trade organisations under it) and foreign firms, but also Western state actors. The reorganisation of Soviet trade brought about by *perestroika* reforms would have disrupted established networks as new actors entered the market. Swedish firms would have to be able to identify these new networks in order not to fall victim to the liability of outsidership; as such knowledge about new actors in the Soviet market would be of great importance. As noted previously, the liability of foreignness has to a certain extent been replaced by the liability of outsidership; this could be interpreted as reducing the importance of institutional factors vis-a-vis that of networking.

The replacement of the liability of foreignness has attracted some criticism by Forsgren, particularly in his paper *A Note on the Revisited Uppsala Internationalization Process Model* arguing that the concept of the liability of outsidership does not adequately cover the particular issues pertaining to internationalisation, as it does not necessarily distinguish between domestic and foreign networks, and as such is too general to be applied.¹⁶ It is the question of whether the liability of outsidership is sufficient to explain the results of Swedish trade

¹³ Douglass C. North, *Institutions, Institutional Change and Economic Performance*, Cambridge, Cambridge University Press, 1990. p 25

¹⁴ Martin Johanson, Pao Kao, 'Emerging Market Entry and Institutional Change - Three Swedish Manufacturing Firms in China between 1980 and 2010', *Management & Organizational History*, vol. 10/no. 2, 2015, pp. 189-208. pp. 189-208

¹⁵ Johanson and Kao, 2015, p 191

¹⁶ Mats Forsgren, 'A Note on the Revisited Uppsala Internationalization Process Model – the Implications of Business Networks and Entrepreneurship', *Journal of International Business Studies*, vol. 47/no. 9, 2016, pp 1144

promotion efforts with regards to the USSR, or whether it is necessary to take into account the liability of foreignness (and, therefore, institutional factors) that is of interest to this paper.

Identifying and operationalising these two concepts is therefore of central importance to understanding how they affected Swedish-Soviet trade. This has been achieved by searching the source material for instances in which Swedish actors described the difficulties arising from trading with Soviet actors, such as during annual trade consultations, and categorising these difficulties as falling under the liability of foreignness or the liability of outsidership. Hussein uses a similar method when identifying psychic distance in his dissertation on Swedish trade with the Lebanon; for example, a Swedish actors' assertion that an unfamiliarity with the language and the background of those they met was a reason why firms' representatives were usually unsuccessful when on business trips is interpreted as a problem that requires knowledge of the language and culture to overcome, and thus as an example of psychic distance.¹⁷

There are, of course, issues arising in trade relations that are connected to factors unrelated to either the liability of foreignness or the liability of outsidership. Edgar Hibbert discusses a number of concepts connected with trade promotion in his 1998 article *Evaluating government export promotion*.¹⁸ He describes the primary objective behind government sponsored trade promotion as being to increase export revenues by motivating firms to become more export-oriented, and that this achieved by their having strong contacts and representation in foreign markets.¹⁹ However, this does not necessarily mean that an increase or decrease in exports is the direct result of the success or lack thereof of a trade promotion programme. External factors beyond the control of individual governments can have a considerable effect. Hibbert divides these external factors into two groups; those affecting what he calls "the general trading environment" such as changes in the world prices of particular goods, and those that specifically affect one particular country, such as changes in the currency exchange rate.²⁰ This has been used here to create a third category of difficulties encountered in Swedish-Soviet trade, outside of the liability of foreignness or outsidership, namely: external factors.

In this paper the different types of issues raised by Swedish exporters are therefore divided into three categories: those falling under the liability of foreignness, here covering

¹⁷ Hussein, 2012, p 152.

¹⁸ Edgar Hibbert, "Evaluating Government Export Promotion: Some Conceptual and Empirical Approaches." *The International Trade Journal*, vol. 12, no. 4, 1998, pp. 465-483

¹⁹ Hibbert, 1998, p 466

²⁰ Ibid, p 467

both formal and informal institutional factors, those falling under the liability of outsidership, which covers factors relating to organisations and their place in Soviet business networks, and external factors, which covers factors outside of immediate control of the Swedish or Soviet governments. These three categories can be compared when looking at Swedish export promotion, both in general and when concerning the coastal trade, over the course of the *perestroika* period, in order to see if there are any differences that can explain the outcomes seen.

The original Uppsala model's description of learning divided knowledge into that gained through actors' personal experience, and what the authors called "objective knowledge." This second category was described as being easier to acquire than experiential knowledge; it was "that which could be taught."²¹ Experiential knowledge, however, was of particular importance to the internationalisation process. To these two categories, Vahlne and Johanson have added the concept of relationship-specific knowledge to describe knowledge that comes from the interaction between two partners, and includes not only knowledge of each other's capabilities and resources, but also more general knowledge about developing relationships internationally.²²

Knowledge and networking are therefore linked in the revised model, in which internationalisation is seen as the result of a firm's attempts to strengthen its position in a network of different actors. Internationalisation is based on whether a firm has network relationships with committed partners either at home or abroad, and is more likely to occur if the firm's partners have established themselves in the relevant networks.²³ State trade organisations that provide such information and assistance to exporters trying to establish themselves in foreign networks could be seen as filling this role of 'committed partner' in firms' internationalisation process, and as such would mean that the success of export promotion efforts would depend on how well state actors had established themselves in the relevant networks in the Soviet Union.

The model's concepts of learning and knowledge have also been criticised by Forsgren. In his paper *The concept of learning in the Uppsala internationalization process model* he argues that the Uppsala model's description of how firms learn is too narrow, almost exclusively

²¹ Jan Johanson and Jan-Erik Vahlne, 'The Internationalization Process of the Firm--A Model of Knowledge Development and Increasing Foreign Market Commitments', *Journal of International Business Studies (Pre-1986)*, vol. 8, no. 1, 1977, p 28.

²² Johanson and Vahlne, 2009, pp. 1412-16

²³ *Ibid*, pp 1417

focused on experiential learning, and should be expanded to include other aspects of organisational learning, such as imitation and the firm's incorporation of more experienced units.²⁴ Forsgren argues that this has certain implications for the model's description of learning in the internationalisation process. One is that the internationalisation process is driven by those on the ground in the foreign market, as it is their experiences that form the basis of the firm's knowledge. As such, Forsgren describes the Uppsala model as having a 'bottom-up' perspective.²⁵ In the case of Swedish trade promotion, this could be seen in whether it was driven primarily by those in close contact with the Soviet market (in this case: embassy personnel and the like) or not. Forsgren also argues in a later paper that the Uppsala model does not take into account that firms can expand into new markets without experiential knowledge, if they perceive that the cost of not expanding is higher than the risk of investing; that the model links low knowledge and high perceived risk of investing, while it might also be the case that low knowledge is linked to a high perceived risk of not investing. Forsgren writes that this might be the case particularly when it comes to the opportunity to be the first mover in a foreign market.²⁶

Aside from the concepts of the liability of foreignness and outsidership, the revised Uppsala model also makes explicit what was implicit in the original model's concept of knowledge; that is, it makes explicit the emotional dimensions present there, such as trust. Trust is necessary for a firm to learn and develop new knowledge; it can also act as a substitute for knowledge, as in cases where expansion abroad is left in the hands of a trusted and established actor in the new market. The revised model also links trust and commitment, by designating trust as a prerequisite for commitment. Increased knowledge of the market can have both a positive and a negative effect on trust and commitment. The level of commitment and trust can be signalled by a firm's willingness to make long-term arrangements with another party, as these expose firms to a higher level of risk than short-term or one-off arrangements.²⁷

In this paper the different types of knowledge as described by the Uppsala model are divided into three categories depending on their source: first-hand knowledge gained from the author's own personal experience and second-hand knowledge gained from network sources' experience, which can be seen in the source material in personal interpretations and

²⁴ M. Forsgren, 'The Concept of Learning in the Uppsala Internationalization Process Model: A Critical Review', *International Business Review*, vol. 11/no. 3, (2002), pp. 257-277.

²⁵ Forsgren, 2002, pp 268-9

²⁶ Forsgren, 2002, p 271

²⁷ Johanson and Vahlne, 2009, pp. 1417

descriptions of events, ideas, people, and similar. The third category, “objective knowledge,” covers everything not learned from experience, which here includes sources such as newspapers, official decrees and the like.

The categorisation used here is based on that used by Susana Costa e Silva et al in an article entitled *The Importance of Second-Hand Knowledge in the Revised Uppsala Model* which uses a Portuguese clothing firm (A&H) and its expansion into the Chinese market as a case study, and in which knowledge from the firm's own experience is classified as first-hand knowledge, and knowledge from a network source is classified as second-hand knowledge, as it is based on the partner's experience, an example of the latter being how A&H made contact with a Chinese consultant through a network source.²⁸

A “network source” is here defined as either a person or an organisation that has a long-term relationship with Swedish state actors. This definition is based on the view of markets from a network perspective as used by Blankenburg et al in their case study on the role of insidership in Swedish firm Elektra's expansion into China, as “systems of long-term relationships.”²⁹ This definition therefore does not include any people or organisations that are encountered on a one-off basis. It is also possible to show how different sources of information are compared in terms of their reliability, which in turn is taken as an indication of how Swedish officials actually gathered information on the Soviet market. Almost all archival material is in either Swedish or Russian. Any translations in this paper are my own.

The analysis in the paper is based on categorisation, and as always there is an element of subjectivity in deciding which category the issues raised and ways of learning found in the source material fall into. The distinction between “objective” and “experiential” knowledge, and that between the liabilities of outsidership and foreignness is not always clear-cut. In order to deal with this problem I have tried to make the criteria for the different categories as clear as possible.

This paper also uses statistical material, both from the SCB and from the Soviet trade organisation Lenfintorg reproduced in the documentation from the Swedish Ministry of Foreign Affairs. The Swedish SCB data is used to describe the development of Swedish exports to the Soviet Union during the period 1980-1991, in order to provide context for the

²⁸ Susana Costa e Silva, Eugénia Pacheco, Raquel Meneses, et al. “The Importance of Second-Hand Knowledge in the Revised Uppsala Model: Can European Textiles Producers Export to China?”, *Journal of Global Marketing*, vol. 25/no. 3, (2012),, p 157.

²⁹ Desirée Blankenburg Holm, Martin Johanson, Pao T. Kao, et al. “From Outsider to Insider: Opportunity Development in Foreign Market Networks”, *Journal of International Entrepreneurship*, vol. 13/no. 3, (2015), p. 340.

later discussion of the role of networks in Swedish trade promotion. This section looks at exports both by value (in current prices) and by volume, and both as a whole, and for different industries. The Soviet data is used to describe the development of the coastal trade over the period 1984-1988 and is taken from Swedish embassy reports. All the data for the value of exports has been deflated using yearly CPI data available for the period from the SCB.

1.4 Aim and research questions

The aim of this paper is to examine Swedish-Soviet trade relations during the *perestroika* period using the Uppsala model's concepts of learning, the liability of foreignness – difficulties encountered as result of operating in a foreign environment – and the liability of outsidership – difficulties caused by being outside of relevant business networks. It specifically compares the difficulties that arose as a result of the reorganisation of the Soviet foreign trade system on Swedish exports both in general and as part of the coastal trade between Sweden and the Soviet Union during this period.

The primary research questions to be answered are:

- In what ways did Swedish state actors learn about the Soviet market during the *perestroika* period and how did this influence export promotion? How do these ways of learning relate to those proposed by the Uppsala model?
- How did different factors such as the liability of foreignness and the liability of outsidership impact export promotion with regard to Swedish exports in general, and as part of the coastal trade, and can this explain the different results obtained in these two cases?

In order to answer these questions it is necessary to answer more general background questions on the development and organisation of the coastal trade, the impact of the *perestroika* reforms on Soviet foreign trade, the history of Swedish-Soviet trade relations and the organisation of Swedish trade promotion.

1.5 Source materials

This paper draws on a number of different written sources, primarily official documentation from the Swedish Ministry of Foreign Affairs, which includes correspondence from the embassy in Moscow and the consulate in Leningrad. The documentation is made up of analytical reports and correspondence from 1985 to 1990, totalling around 200 separate

documents from almost exclusively from the H-series (on matters of trade) kept at the Swedish National Archives. These are H6 (general economic reports for 1975-1996), H10 (Chambers of commerce, societies and institutions for the promotion of trade and industry 1975-1996) and H114 (Diplomatic presentations, negotiations and agreements concerning trade and shipping 1975-1996). All the documentation used had to be approved for release due to the 40-year rule, and any material deemed sensitive removed, but only concerns a few documents. As far as the material the H114-series from is concerned, I specifically requested material concerning the coastal trade and Soviet trade organisations, and so have not gone through all the material in these volumes. One consequence of using official documentation as the main source material is that it places a great emphasis on the role of state actors as opposed to private firms; as larger firms such as IKEA did not require state assistance to promote their business in the USSR this may result in overemphasising the Swedish government's role. As this paper's focus is on Swedish state actors and their responses to the developments in the Soviet market, as opposed to private firms I do not believe that this is a serious problem.

It also draws on a published source: the *Marknad Sovjet* newsletter, which was published by the Swedish Trade Council from 1986 to 1991, after which time it was replaced by another newsletter that focused solely on the Russian market. The articles in *Marknad Sovjet* cover topics of interest to exporters: the development of new legislation governing foreign trade, trends in Soviet imports, and updates on competitors, and was also a way of contacting exporters. *Marknad Sovjet* is here used as a source of information regarding trade promotion activities, and as a source on developments after 1990. The reports from the National Export Credits Guarantee Agency (EKN) are also used as a source on developments after 1990.

Other sources include a guide to doing business in the Soviet Union, published as part of a series on foreign markets by the Swedish Trade Council, *Marknadsguide till Sovjetunionen* which describes the various services offered to Swedish firms by the trade office at the embassy in Moscow.³⁰ A another published source is *Öst och väst*, published in 1989, which is a collection of essays by various experts speculating on the effects of *perestroika* on, amongst other things, Swedish trade with the Soviet Union.³¹ The authors include the Soviet ambassador to Sweden at the time, Boris Pankin, as well as Anders Åslund, who spent several years at the Swedish embassy in Moscow, and who has written more generally on *perestroika* and its effects. Another source that sheds some light on Swedish trade policy are a series of

³⁰ *Marknadsguide till Sovjetunionen*. Sveriges exportråd, Stockholm, 1989.

³¹ *Öst Och Väst: 7 Experter Om Ekonomi, Handel Och Vetenskap i Perestrojkans Tid*. Bonnier, Stockholm, 1989

reports written by various Swedish government bodies (the Ministry of Foreign Affairs and the National Industrial Board) on the subject of export promotion and trade with Soviet Union. These include *Export och exportpolitik* and *Exportfrämjandets organisation*.³² There is also a later report on the state's roll in trade promotion: SOU 1991:3, *Statens roll vid främjande av export*.³³ While none of these reports go into any detail regarding Swedish trade policy with regard to the Soviet Union, they are be useful in describing in more general terms the aims and methods employed in trade promotion, and the development of Swedish trade promotion efforts over time. A source that provides considerable background on Swedish trade with the Eastern bloc is a report published by the National Industrial Board in 1990, *Sveriges handel med Östeuropa och Sovjetunionen*, which describes the general development of Swedish trade with the Eastern bloc, including the USSR, during the 1970s and 1980s.³⁴ These are used to provide the necessary background on the organisation of Swedish trade and its structure.

One potential source of information that is noticeably absent from this paper is archive material from the Swedish Trade Council, which played an important part in carrying out Swedish trade policy, and would have had close contact with firms seeking to establish themselves abroad. Sadly, despite efforts on my part, I have not been able to access their archives, although the archival documentation from the Ministry of Foreign Affairs does contain material produced by them. This is not necessarily a problem, as the focus of this paper is specifically at government level, which means that the material from the archives of the Ministry of Foreign Affairs should be sufficient.

There are statistics available from SCB for the period showing export and import volumes and values in current prices for trade between Sweden and the Soviet Union from 1977 to 1994, which are used to describe how trade between the two developed during the *perestroika* period. These statistics are compiled from information from the Swedish customs service. As such they record only direct exports to the Soviet Union, and not those that may have gone via a third country.

The data on the value of the border trade is for the most part compiled by the Soviet trade organisation Lenfintorg. This organisation had responsibility for providing statistics on the value of the coastal trade, as Swedish actors did not keep specific record of this trade in their

³² Sverige. Statens industriverk. *'Export och exportpolitik: en utredning'*, Volume 1984:9, Stockholm, Liber/Allmänna förl, 1984, and Sverige. Utrikesdepartementet and Handelsdepartementet., *'Exportfrämjandets organisation: en översyn: promemoria'*, Volume 1979:1, Stockholm, LiberFörlag/Allmänna förl, 1979.

³³ Exportfrämjandeutredningen, SOU 1991:3, *Statens roll vid främjande av export*, [Elektronisk resurs]: betänkande, Stockholm, Allmänna förl., 1991

³⁴ Sverige. Statens industriverk. *'Sveriges handel med Östeuropa och Sovjetunionen'*, Volume 1990:6, Stockholm, Liber/Allmänna förl, 1990.

own figures and claimed it was not possible for them to do so. While Soviet statistical data was generally regarded as being unreliable, with unfavourable and politically sensitive economic results being routinely concealed, the data from Lenfintorg regarding the development of the coastal trade seems to have been taken as reliable enough by Swedish officials to be used in their reports. However, Swedish officials do note in the minutes from a trade consultation that Soviet statistics concerning Swedish-Soviet trade differed significantly from Swedish ones; this is attributed to the use of different data sources. Swedish statistics are based on customs data for goods passing the border, whereas Soviet statistics were based on information from enterprises on contracts signed with Swedish firms. Soviet numbers are considerably higher than Swedish ones, which may mean that if the Lenfintorg data has been gathered in a similar way then the statistics presented here may be somewhat inflated, but without Swedish data on the coastal trade this is hard to tell.³⁵

The reorganisation of the border trade took place in 1987 and which saw the creation of independent trade organisations in the Baltic republics mean that the data for the value of the coastal trade in 1988 is only an approximation, as by this point there was no organisation that had a full overview of the total trade. Furthermore, as the Soviet data presented only gives figures for the coastal trade as a whole, and not by region or republic, it is not possible to know exactly how large a part of this trade was conducted with the Baltic republics (and thus as a result of the reorganisation was no longer conducted via Lenfintorg) without accessing the relevant archives in not only Russia, but also all three Baltic states, which is somewhat beyond my capabilities at this point.

2. Background

This section provides necessary background on Swedish and Soviet trade structure and organisation, focusing particularly on the 1980s. The role of trade in both countries' economies is described, as are their main export industries, leading into a description of Swedish-Soviet trade during the *perestroika* period which includes statistical background material on Swedish-Soviet trade. This section on Swedish-Soviet trade is divided into two parts, the first of which looks at this trade in general and the second which focuses on the coastal trade.

³⁵ UD, H114 Mål Er, vol. 222, Memo from UD, "Anteckningar från handelskonsultationer med Sovjetunionen 11-13/12 1989 i Stockholm," 23rd January 1990.

2.1. Swedish trade

Foreign trade has played a significant part in the development of the Swedish economy; Sweden has, as a smaller industrialised economy been very dependent on exports, which as Birgit Karlsson points out, is often the case for smaller countries. Swedish trade with Europe has been of great importance, particularly trade with the other Nordic countries. When it comes to trade with the USA and other economies outside of Europe, there was increase after the Second World War, but by 1971 had decreased. Swedish exports in the post-war period were increasingly been made up of manufactured goods, with increases in exports of machinery.³⁶

Sweden's most important export markets during the 1980s were the EG and EFTA, to whom it exported around 70 per cent of its total exports, while exports to the USA increased to almost 12 per cent in 1985, before falling again. The share of exports going to Eastern Europe declined from 4.8 in 1980 to 2.5 in 1987. The composition of Swedish exports did not vary greatly during the 80s, with machinery making up the largest share, totalling almost 40 per cent of Swedish exports in 1988. Swedish exports were dominated by a few large companies, particularly outside of the EG and EFTA regions, where the largest 100 firms often represented over 80 per cent of the total Swedish exports. In the case of Swedish exports to Eastern Europe the 100 largest firms represented a little over 75 per cent of total Swedish exports to the region.³⁷

The Swedish state has supported the promotion of trade efforts for some time, and a number of bodies play a role in facilitating different aspects of trade promotion. These include the National Export Credits Guarantee Board (EKN), the Swedish Trade Council and the Ministry for Foreign Affairs (UD) amongst others. The aim of Swedish state export promotion was not only to increase Swedish exports, but also to ensure a current account balance.³⁸

The EKN's primary role is to provide the state's guarantee that it will cover losses incurred in connection with exporting to and investing in other countries due to political and commercial risks. Its guarantees should be given based on whether payments can be covered by firm's insurance premiums; however, it has been claimed that high-risk deals with low premiums were in effect subsidised by high premiums on low-risk deals.³⁹ The EKN divides countries into different categories based on risk factors such as political instability and

³⁶ Karlsson, 1992, pp. 30-3

³⁷ SOU 1991:3, pp. 333-41

³⁸ Ibid, p. 393

³⁹ Sverige. Statens industriverk., *'Export Och Exportpolitik: En Utredning'*, Volume 1984:9, Stockholm, Liber/Allmänna förl, 1984. pp 43-44.

possibility of non-payment. During the 1980s the EKN's guidelines and rules for insurance premiums and guarantees have developed along lines similar to credit organisations in other countries.⁴⁰

The Swedish Trade Council (Exportrådet) was created in 1972 as a result of discussions between the government and the private sector. It replaced a number of smaller trade bodies in order to coordinate trade promotion efforts by different governmental departments and private enterprises. It was to focus its export promotion efforts on small to medium-sized firms, and would consult with UD on the commercial activities at foreign postings. It was not intended to make decisions on trade policy, although it was to assist in carrying out the Swedish government's trade policy.⁴¹ Over the course of the eighties, the Swedish Trade Council was not only given greater responsibility for leading export promotion efforts, but also took on a greater variety of tasks. As a result of this its financing became more varied.⁴² Aside from assisting small and medium-sized firms that lacked export experience, the Swedish Trade Council also provided assistance to firms looking to export to “difficult” markets (meaning markets culturally, linguistically or geographically distant from Sweden), and larger firms seeking to introduce valuable products or methods of technical interest.⁴³

Swedish embassies and consulates have also played a vital role in promoting trade; they have traditionally been the primary actors when it comes to promoting trade with Sweden abroad. As many of Sweden's potential trading partners were countries where industrial production and trade was under state control, firms often needed to be in direct contact with the embassy in order to gain access to and influence foreign decision makers.⁴⁴ The embassy in Moscow offered a number of services to businesses looking to expand into the Soviet market, including, but not limited to: assistance in identifying potential customers, inviting relevant Soviet officials to company presentations, and arranging visits for Swedish business representatives to the relevant branch ministries and other Soviet organisations. All this was at the firm's expense. The embassy also had a technical/scientific attaché, who could provide firms with analysis of different branches of Soviet industry, in order to improve their market knowledge.⁴⁵

⁴⁰ Sverige. Statens industriverk., *'Export Och Exportpolitik: En Utredning'*, Volume 1984:9, Stockholm, Liber/Allmänna förl, 1984, p. 46

⁴¹ SOU 1991:3, pp. 101-2

⁴² Ibid, p. 43

⁴³ Ibid, p. 105

⁴⁴ *Exportfrämjandets Organisation: En översyn: Promemoria*, Volume 1979:1, p 36

⁴⁵ *Marknadsguide till Sovjetunionen*. Sveriges exportråd, Stockholm, 1989, pp. 50-1

2.2. Soviet foreign trade

The role of trade: the Soviet Union

Soviet foreign trade in the period immediately following the Second World War was largely restricted to bilateral agreements with its socialist allies, with limited economic connections to the West.⁴⁶ It was under Khrushchev's leadership that Soviet foreign trade grew to allow greater contact with countries outside of the Eastern bloc, particularly developing countries. Economic contact with the West was largely built on Soviet imports of technology and grain in order to compensate for Soviet systemic weakness in these areas.⁴⁷ The volume of Soviet trade grew considerably throughout the 1950s and 60s. Trade with the West (with the exception of Finland) was conducted in hard currency, while Soviet trade with other CMEA countries and developing economies was conducted through bilateral settlements. Trade with Finland was also on a bilateral basis as a result of both geographical and historical factors; this is why Finland was the only Western economy to have the distinction of importing Soviet nuclear reactors. Throughout most of this period the Soviet Union was running a deficit in its hard currency trade.⁴⁸

Soviet trade continued to expand into the 1970s in much the same way it had through the 50s and 60s: exporting natural resources and importing Western technology and produce. The tendency to run hard currency deficits also continued during this period, although oil price rises from 1973 onwards reduced the need to borrow.⁴⁹ While this greatly improved the Soviet Union's terms of trade, the benefits of this improvement were largely short-term. The USSR experienced a series of bad harvests that necessitated large imports of grain, there was a fall in Western import demand, and, following the invasion of Afghanistan in 1979, Western countries applied economic sanctions. Soviet financial caution meant that high grain imports led to cuts in imports of Western machinery.⁵⁰ This reduction in technology imports continued into the 1980s, as food imports were prioritised. The collapse in oil prices combined with Soviet production bottlenecks in the mid-1980s meant that a system that had become dependent on exporting oil in order to finance grain imports came under considerable strain.⁵¹

Soviet foreign trade has typically been described as under-developed, consisting for the most part of exports of raw materials and energy, particularly oil and gas. Compared with developed Western economies, the Soviet share of world trade has always been small relative

⁴⁶ Hanson, 2003, pp. 46-7

⁴⁷ Ibid p. 60

⁴⁸ Ibid pp. 81-3

⁴⁹ Ibid pp. 121-4

⁵⁰ Ibid pp. 154-6

⁵¹ Ibid pp. 175-6

to its size, accounting for 3.8-4.6 per cent of world exports between 1975 and 1989.⁵² Soviet trade relations were also used politically, both as a way of influencing non-aligned developing countries, providing aid (often in the form of arms exports) in exchange for political support and also to provide aid to political allies. Examples of this practice would be the 1989 purchase of 4.3 million tonnes of sugar from Cuba, for which the USSR paid 7 to 9 times the world market price, effectively providing about \$3.2 billion dollars in hidden aid, and a planned Mongolian chicken factory that would break even after 200 years.⁵³

Foreign trade was hampered by a lack of convertible currency, which meant that Soviet trade agreements were largely bilateral settlements whereby the USSR would offset imports with exports. These tended to be inefficient. Soviet trade with CMEA countries was further complicated by the need to set prices amongst themselves, with large variations in prices for goods traded between different CMEA countries. The USSR's lack of competitive goods for export on the world market meant that it was largely dependent on exports of raw materials such as oil and gas in order to obtain hard currency to finance imports.⁵⁴

Perestroika and foreign trade

As a term, *perestroika* covers a series of reforms of the Soviet economy and society. These include a reform and reorganisation of the foreign trade system. A significant goal of this reform was to improve Soviet exports, particularly of machinery and of industrial products. Soviet exports were not competitive on the world market and Soviet enterprises lacked incentives to produce for export. These reforms attempted to connect enterprises and branch ministries with trade, both to force an improvement in quality as a result of increased competition, and to increase interest in producing for the export market. There was also a push to reduce the bureaucracy that surrounded foreign trade, and to increase the efficacy of import allocation. The intention to reform the foreign trade system was initially announced by the Prime Minister, Nikolai Ryzhkov, at the 26th Party Congress in 1986, and was later part of a decree issued that same year which took effect in 1987.⁵⁵

Prior to these reforms, Soviet foreign trade had been administered by the Ministry of Foreign Trade. Under the ministry were a number of smaller specialist trade organisations, some of which administered trade in specific goods (examples of such associations would be Avtoeksport, Mashpriborintorg, and Tekmashimport), some of which serviced foreign trade

⁵² Geron, 1990, p. 28

⁵³ Ibid, p. 36

⁵⁴ Hanson, 2003, pp. 119-122.

⁵⁵ Åslund, 1991, pp 139-140

(i.e. Sovfrakht, Vneshtorgreklama), and some regional associations.⁵⁶ These administered trade in local products in specific regions without having to go via Moscow; a prime example here would be Lenfintorg, which had permission to trade with products from the European region north of Moscow. This region included the Baltic republics, Karelia, and the Kola Peninsula. It therefore had responsibility for the coastal trade conducted between Finland (and later Sweden) and the Soviet Union. As a result of the *perestroika* reforms, Lenfintorg would later be subsumed into the regional trade organisation Rosvneshtorg, which had responsibility for the whole of Russia.⁵⁷

The reforms began with the Ministry of Foreign Trade, which had become, in the words of Åslund, a “secluded caste”.⁵⁸ In 1987 the Ministry lost its monopoly over exports, although this mainly affected manufactured consumer goods; trade rights for raw materials and commodities remained under central control. A new supervisory body was created, the State Foreign Economic Commission, and the Ministry underwent significant staff changes, seeing a 30 per cent reduction in personnel. Further reorganisation was to come, as it was merged with the State Commission for Foreign Economic Relations in 1988 and became the Ministry of Foreign Economic Relations.⁵⁹ Foreign trade rights were granted from April 1st 1989 to all Soviet cooperatives, which to all points and purposes allowed private citizens to participate in foreign trade.⁶⁰ By 1990, almost 20 000 bodies had foreign trade rights. Decentralising foreign trade proved to be a complicated process, as the Ministry's loss of monopoly power led to branch ministries and regional authorities trying to assume a monopoly over the foreign trade rights of enterprises. The push from some of the republics (such as the three Baltic republics) for regional trade monopolies led to the creation of republican foreign trade enterprises.⁶¹

Another significant change in the Soviet foreign trade system was the 1987 adoption of decrees allowing for the creation of joint ventures with foreign business partners. Such partnerships had existed for some time in other CMEA countries, such as Hungary and Romania, but were now introduced in the USSR, allowing enterprises to form joint ventures with firms both from CMEA countries and from the West. They were required to be majority Soviet-owned, and had to have a Soviet CEO, amongst other things.⁶² By 1990 there were around 1830 joint venture agreements signed between Soviet enterprises and firms from both

⁵⁶ V. P. Gruzinov, and Edward A. Hewett. *The USSR's Management of Foreign Trade*. Macmillan, London, 1979. p 25

⁵⁷ *Marknadsguide till Sovjetunionen*. Sveriges exportråd, Stockholm, 1989, p 37

⁵⁸ Åslund, 1991, p 141.

⁵⁹ *Ibid.*

⁶⁰ Geron, 1990, pp 25-6.

⁶¹ Åslund, 1991, pp 141-142.

⁶² Hanson, 2003, p 200

the West and from Eastern Europe, but most of these were limited in scope.⁶³

One of the aims of this legislation was that these joint ventures would produce for the export market, and in so doing provide access to foreign currency, Soviet reserves of which had slumped as a result of falling oil and gas prices. Foreign businesses, however, were more interested in gaining access to the domestic Soviet market, which was large and had high demand for consumer goods and services. This mismatch in goals was caused by the low quality of Soviet-produced exports, which led Western businessmen to consider them to be uncompetitive on foreign markets. The non-convertibility of the rouble, however, meant any profits made from the domestic Soviet market were impossible to use outside the USSR. In some cases Western firms accepted payment in kind, as seen in the example of Western electronic firms that took payment in animal skins, which they then sold on to the Italian shoe industry.⁶⁴

While the Soviet Union had previously been hostile towards international trade organisations such as GATT and the IMF, with *perestroika* came a surge in interest in participating in such organisations. In 1986 the USSR announced its intention to join GATT, and was admitted as an observer in 1990,⁶⁵ while the IMF and the World Bank continued to be viewed with hostility.⁶⁶

Soviet culture and trade

Considerable cultural differences were well-known to exist between Western and Soviet actors. A 1973 article advising Western businessmen on living and working in the Soviet Union recommends that personnel must have “a steady temperament, infinite patience, a sense of humour, and a cheerful wife.”⁶⁷ Negotiations with Soviet actors were frequently described as being frustrating and drawn-out, with negotiations being able to take several years before reaching completion. This lengthiness is frequently attributed in articles on the subject of Soviet negotiating culture to a two-stage negotiating process: first the technical stage, in which technical requirements and specifications were discussed, followed by a commercial stage, which covered financial considerations. Soviet negotiators would apparently sometimes draw out the technical phase in order to gain as much information on Western technology as possible. Other factors named as causes of delay are internal communication problems,

⁶³ Geron, 1990, p 39

⁶⁴ Ibid, p 46

⁶⁵ Ibid, pp. 54-55

⁶⁶ Ibid, p. 59

⁶⁷ G.E. Hambleton, 'Company Presence in the U.S.S.R', *Columbia Journal of World Business*, vol. 8, no. 4, 1973, p 80.

ministerial conflicts, and multiple layers of decision-making, among others. Lengthy negotiations could also be used as to test a foreign firm's commitment. In addition, foreign firms could be frustrated by their Soviet counterparts' lack of familiarity with Western business practices and terms. Soviet negotiators were also generally described as being secretive and risk-averse, the latter seen as the result of their fear of the consequences of agreeing to unsuccessful contracts.⁶⁸ It was not only Western firms that had difficulty in obtaining information; Soviet negotiators could be extremely specialised to deal with specific issues, with necessary information being found at other levels in the Soviet hierarchy.⁶⁹ Others point to the necessity of having contacts among lower-level officials; these could help foreign firms to overcome difficulties arising in trade with the Soviet Union.⁷⁰

In a chapter on his experiences negotiating with Soviet actors during the 1950s in *Öst och väst*, a former Swedish ambassador, Carl-Henrik von Platen, describes a frequent lack of cooperation between individuals and between ministries. The Swedes were negotiating with bureaucrats who had little contact with producers of the goods under discussion, and who lacked information regarding aspects such as delivery times and prices, this being found elsewhere in the hierarchy.⁷¹

3. Swedish-Soviet trade

In the case of Swedish exports to the Eastern bloc, Sweden's most important partners have been the Soviet Union, Poland, Czechoslovakia, and East Germany. Trade with the Soviet Union during the post-war period until the seventies was made up of exports of machinery and products from the pulp and paper industries, with Sweden importing minerals in return.⁷² Swedish trade with the Soviet Union was restricted due to strategic interests. In 1950 an organisation known as CoCom was created in which Western European states agreed to a strategic embargo of the Soviet Union. This was done primarily in order to prevent the USSR from obtaining technology that would have allowed them to rearm, but over time came to include commodities used in building their economy. Sweden, as a neutral country, was not

⁶⁸ Mahesh N. Rajan and John L. Graham, "Nobody's Grandfather Was a Merchant: Understanding the Soviet Commercial Negotiation Process and Style", *California Management Review*, vol. 33, no. 3. 1991, pp 43-6.

⁶⁹ Andreas Wass von Czege, "Soviet negotiating tactics in trade with the West," *Soviet & Eastern European Foreign Trade*, vol. 19, no. 1, 1983, p 44.

⁷⁰ Charalambos A. Vlachoutsicos, "Where the ruble stops in Soviet trade," *Harvard Business Review*, vol. 64, no. 5, 1986, p 83.

⁷¹ Carl-Henrik von Platen, "Handelsförhandlingar i öst" from *Öst Och Väst: 7 Experter Om Ekonomi, Handel och Vetenskap i Perestrojkans Tid'*, Stockholm, Bonnier, 1989, p 53.

⁷² Karlsson, pp. 30-37

formally a member of CoCom, but did apply export controls to its exports to the Soviet Union due to pressure from the USA. This made it difficult for Sweden to increase its exports to the USSR.⁷³

Sweden's first trade agreement with the Soviet Union was signed in 1924, and it was this agreement that formed the basis of all further trade agreements, remaining in force until the fall of the USSR. It was updated in 1976, with the new agreement automatically extending itself every five years. This trade agreement did not have a set list of goods for export and import, with the Swedish government instead having the power to set limitations on the import of regulated Soviet imports. Representatives for both sides met annually to discuss the development of Swedish-Soviet trade and any problems that might have arisen. A long-term program for the development of Swedish-Soviet economic, industrial and scientific cooperation was signed in 1981, with the aim of doubling trade between the two countries between 1981 and 1990, and in 1985 an agreement was signed that finally granted Sweden access to the coastal trade.⁷⁴

Swedish trade with the Soviet Union during the 1980s was characterised by a deficit, as was the case with almost all Western European countries, although Sweden distinguished itself from other developed economies by having a relatively smaller share of its total exports going to the USSR. This share of Swedish total exports decreased by about a fifth throughout the whole *perestroika* period.⁷⁵ Even if Sweden on the whole did run a trade deficit with the Soviet Union as a result of its large imports of oil, some categories of goods showed a surplus instead: foodstuffs, manufactures, machinery and other finished goods.⁷⁶ The two graphs in Appendix 1 show the percentage composition of Swedish exports to the Soviet Union over the period 1980-1991. Foodstuffs and living animals make up the bulk of exports by volume, but when the value of those exports are considered, machinery and transport come to dominate Swedish exports towards the end of the period.

⁷³ Ibid, pp. 257-8

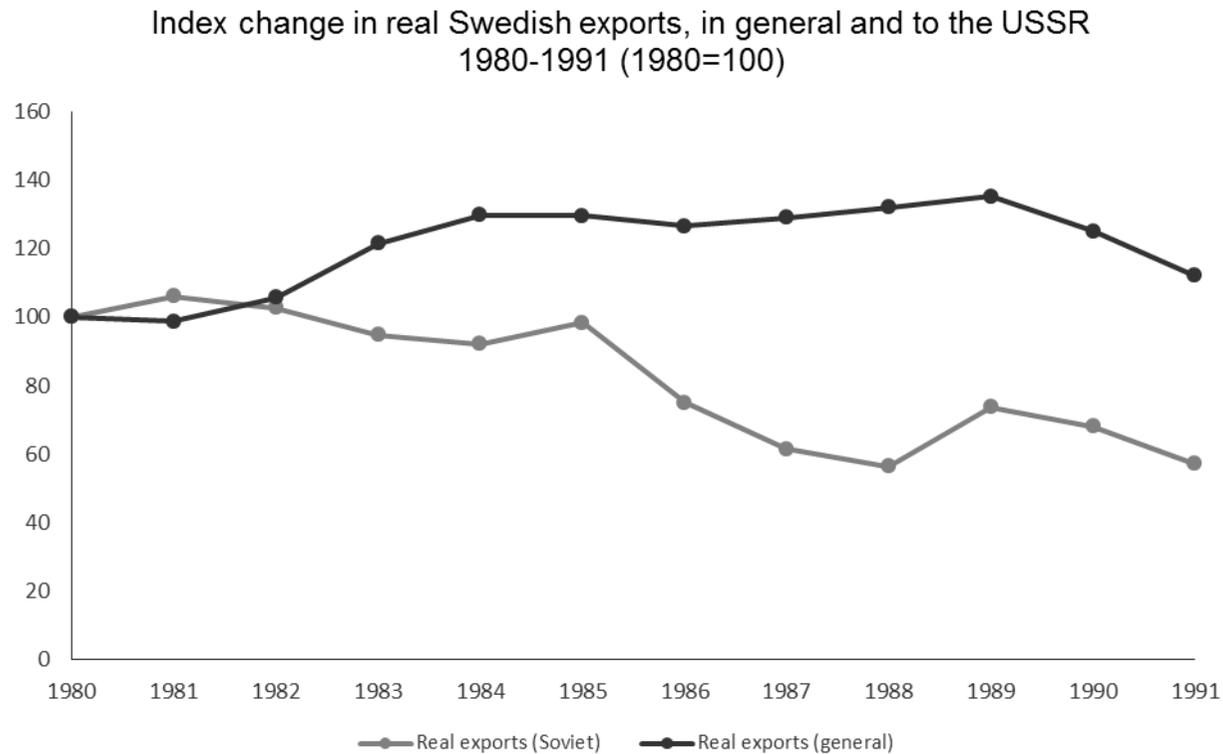
⁷⁴ UD, H114 Mål Er, vol. 218, Memo from UD, "Svensk-sovjetiska ekonomiska förbindelser," 12th January 1987.

⁷⁵ *Sveriges handel med Östeuropa och Sovjetunionen, 1990:6*, p 27-31

⁷⁶ Ibid, p 51

Below can be seen graphs showing the development of Sweden's exports to the Soviet Union during the period 1980 to 1991, which covers the whole of the *perestroika* period and the immediate period leading up to it. As a share of total Swedish exports, trade with the Soviet Union was not particularly significant. The graph below shows the index change in Swedish exports to the USSR developed from 1980 to 1991 compared to Swedish exports overall during the same time period.

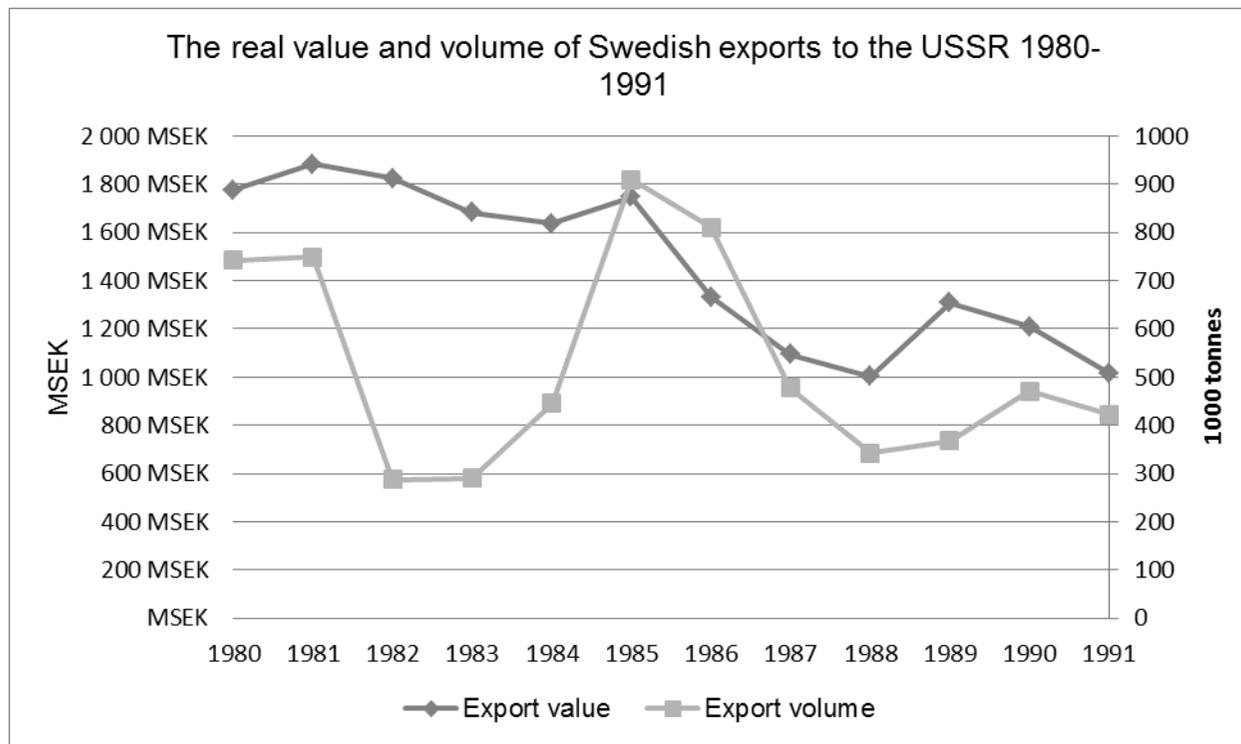
Graph 1: Index change of real Swedish exports to the Soviet Union compared with real total Swedish exports 1980-1991 (1980=100)



Source: SCB statistikdatabasen: [Elektronisk resurs] Statistical database, Varuimport och varuexport efter varugrupp SITC rev3 och handelspartner, total. År 1977-1994.

The graph below shows Swedish exports as a whole, by volume (in tonnes) and then real value (by million SEK). The low export volumes recorded in the early eighties (1982-83) are not reflected in any fall in the value of exports. The *perestroika* period from 1986-1991 is not associated with any particular growth in Swedish exports; after 1985, exports to the USSR slumped as a result of its worsening Terms of Trade, which can be seen both in volume exported and in real value. Some slight improvement is seen from 1988 to 1989, but this is not sustained, and by the end of the Soviet period there has been no recovery to the heights of the early eighties.

Graph 2: The value and volume of Swedish exports to the USSR from 1980 to 1991



Source: SCB statistikdatabasen: [Elektronisk resurs] Statistical database, Varuimport och varuexport efter varugrupp SITC rev3 och handelspartner, total. År 1977-1994.

The coastal trade

The coastal trade between the Soviet Union and Finland had existed since the 1950s and by the 1980s the value of this trade was around 200 to 300 million SEK in both directions. Sweden had long had an interest in gaining access to this trade, finally achieving this aim in the February of 1985. The trade agreement signed by Sweden allowed them to trade with Lenfintorg, the Soviet trade organisation that specialised in trade in goods from the north-western part of the country. Lenfintorg had the right to conduct trade in locally produced goods (often the result of short-term overproduction) without going via the centrally organised branch trade organisations.⁷⁷ The head of Lenfintorg during this period was Viktor Gladkov, who was in frequent contact with the Swedish consulate in Leningrad, and who had been educated in Helsinki, and who spoke both Swedish and Finnish well.⁷⁸ Statistics from Lenfintorg show a strong upward trend in Swedish exports from 1984 to 1988, the last year recorded. This can be seen in the graph below, comparing the development of the border trade to the development of Swedish exports in general during this period.

⁷⁷ UD, H114 Mål Er, vol. 217, Memo from UD, "Svensk-sovjetiska ekonomiska förbindelser," April 9th 1986.

⁷⁸ UD, H10 Mål Er, vol. 23, Letter from the consulate in Leningrad, "Rykten om Lenfintorgchefen," 4th November 1987.

Graph 3: The development of Swedish exports to the USSR as part of the coastal trade 1984-1988



Source: Data on the coastal trade from Lenfintorg, Estimpex, Interlatvia, and Litimpex reproduced in a report from UD H114 Er, vol. 222, "Den svensk-sovjetiska gränshandeln", 2nd May 1990

While this trade is referred to in the agreement in Swedish as the “border trade” and Russian as “coastal trade,” in practice the area covered by the agreement encompassed the entire of Sweden and the north-western part of the Soviet Union, which included all three Baltic republics, Karelia and Leningrad. The lists of goods that can be seen in the agreement show that the proposed exports on both sides were largely similar, with proposed Soviet exports tending to include more raw materials, and proposed Swedish exports more machinery. Swedish exporters seemed not to have attached much importance to this list, as there was some uncertainty as to whether the Soviet goods offered actually were available. Lenfintorg was responsible for ensuring that the trade was balanced, and for providing statistics showing its development.⁷⁹

As can be seen in the above graph, Swedish exports strongly increased through the period from 1984 to 1988. While there are no statistics for the years immediately following this, there are indications in the minutes of a meeting on the Swedish-Soviet coastal trade from September 1989 that suggest that this pattern continued at least into that year. The development of the coastal trade was described as extremely positive in both directions. The Swedes raised the possibility during the meeting of increased trade in services, but this was not met with any enthusiasm on the Soviet side.⁸⁰ An article in *Marknad Sovjet* on a seminar held in connection with a visit from a delegation from the RFSFR reports that Lenfintorg recorded an almost 200 per cent increase in the total coastal trade between Sweden and the Soviet Union for 1989.⁸¹

There is little to be found on the Swedish-Soviet coastal trade after mid-1990. It is possible that the positive trend continued despite the increasing economic chaos, but given the downturn in Swedish exports in general and the collapse of the Finnish trade with the USSR (a 54% decrease) it is also highly likely that Swedish exports in the context of the coastal trade also saw a similar downturn.⁸²

⁷⁹ UD, H114 Mål Er, vol. 217, Memo from UD, “Svensk-sovjetiska ekonomiska förbindelser,” 9th April 1986.

⁸⁰ UD, H114 Mål Er, vol. 221, Memo from UD, “Minnesanteckningar från expertmöte om den svensk-sovjetiska gränshandeln, Moskva 8-9 juni 1989,” 11th June 1989.

⁸¹ “Flera nyheter vid Rysslandsseminarium”, *Marknad Sovjet*, no. 1, January 1990.

⁸² “Finlands sovjethandel i traumatiskt tillstånd”, *Marknad Sovjet*, no. 4-5, May 1991.

4. Results

4.1. Factors impacting exports

This section examines factors impacting Swedish exports to the Soviet Union, sorted into three categories: external factors, factors covered by the liability of foreignness, and factors covered by the liability of outsidership.

External factors

External factors had an extremely significant impact on the development of Swedish exports to the Soviet Union. As the size of Soviet imports from the West was limited by size of their exports, any changes in the prices of exported Soviet goods had a knock-on effect, as this affected Soviet reserves of hard currency. From 1986 onwards the price of oil, the primary export of the USSR, is a recurring problem for Swedish export promotion raised in analyses of Swedish export prospects. In a report from the National Board of Trade (Kommerskollegium) ahead of the usual annual trade consultations, a 30 per cent decrease in Soviet imports from OECD countries is attributed to the fall in oil prices, although the report also notes that there are no indications that Swedish exporters would have been especially affected compared to exporters from other Western economies.⁸³ The ongoing problem of Sweden's trade deficit was eased somewhat by the fall in oil prices as this worsened the Soviet Terms of Trade, although as Swedish embassy personnel put it in a letter from 1986, they had hardly hoped to reduce their deficit through a general reduction in trade.⁸⁴ The fall in oil prices also impacted the coastal trade, which had shown a Soviet surplus since its inception, as this trade had become somewhat more balanced than had otherwise been feared, as a result of low oil prices.⁸⁵

This issue of low oil prices leading to a lack of Soviet hard currency would be raised repeatedly, and by 1987 regular imports of Western machinery were being broken off as a result. Swedish analysts suspected that Soviet industry was trying to use all available equipment to its fullest extent in order to avoid Western imports, even if that meant continuing to use worn-out parts or using substandard domestically produced replacements, concluding that the outlook was grim, but that withdrawing from the Soviet market was not an option. Exporters would simply have to weather the storm and hope for better times ahead.⁸⁶ Analysts

⁸³ UD, H114 Mål Er, vol. 218, Opinion from National Board of Trade, "Handelskonsultationer med Sovjetunionen," 8th December 1986.

⁸⁴ UD, H114 Mål Er, vol. 218, Letter from the embassy in Moscow, "Svensk-sovjetisk handel 1986 – på väg mot balans?" 23rd June 1986.

⁸⁵ UD, H114 Mål Er, vol. 218, Letter from the consulate in Leningrad. "Svensk-sovjetisk gränshandel 1986," 15th January 1987.

⁸⁶ UD, H114 Mål Er, vol. 218, Letter and memo from the embassy in Moscow, "Sovjetunionen i maj 1987 – turbulent

anticipated an increase in Soviet demands that Western imports be offset by Soviet exports as a way of getting around the currency problem. Previous Soviet demands for offset agreements had often been stymied by the inability of Soviet export producers to deliver their end of the agreement.⁸⁷

The ongoing issue of the Soviet lack of hard currency finally began to manifest itself in payment problems during 1990, as Swedish exporters began to experience delays in payments. The Swedish embassy tried to help exporters through their contact responsible for “Western trade” at the relevant Soviet ministry, but heard only that firms needed to show patience. The general atmosphere on the Soviet side at this meeting was one of general hopelessness, with the Soviet official described as sounding like “a worn-out answering machine.”⁸⁸ Payment problems would thereafter continue to be a significant issue for Swedish exporters. Firms such as Sunds Emba and Pedayo claimed to be facing bankruptcy as a result of payment disruptions, and Billeruds bruk was forced to lay off 170 employees in the short term. The total value of the delayed payments was reported to be 390 million SEK, the vast majority of which was not covered by guarantees from the EKN, which in November of the same year decided to freeze all long-term guarantees to the USSR.⁸⁹

While the issue of oil prices would fit neatly under Hibbert's description of external factors affecting the general trade environment, there are two further external factors that would instead fall under “country-specific factors”. These are the issue of Soviet harvests, and the existence of CoCom export controls. The first issue impacted Swedish grain exports to the USSR, as these, unsurprisingly, were dependent on the size of the Soviet harvest, but also affected the USSR's currency problems, as poor harvests meant that grain had to be imported, worsening currency shortages.⁹⁰ The second, the CoCom export controls that were to prevent the USSR from obtaining technology that could be used for military purposes, were also an obstacle to Swedish exporters. While Sweden was not a member of CoCom due to its neutrality, if Swedish firms wanted access to American technology they had to agree to follow the terms of the embargo. This could cause problems for firms wanting to export

stillastående,” 27th May 1987.

⁸⁷ UD, H114 Mål Er, vol. 219, Letter from the embassy in Moscow, “Utsikter för den svensk-sovjetiska handeln årsskiftet 1987/88,” 10th December 1987.

⁸⁸ UD, H114 Mål Er, vol. 222, Letter from the embassy in Moscow, “Sovjetiska betalningsförseningar,” 17th August 1990.

⁸⁹ UD, H114 Mål Er, vol. 224, Memo from UD. “Sovjetiska betalningsförseningar – läget i början på november.” 8th November 1990.

⁹⁰ UD, H114 Mål Er, vol. 218, Memo from UD, “Handelskonsultationer med Sovjetunionen,” 27th March 1987, and UD, H114 Mål Er, vol. 221, Letter from the embassy in Moscow, “Organisation av den exportfrämjandeverksamheten i Sovjetunionen,” 23rd May 1989.

manufacturing licences, machinery and equipment, such as SKF and ASEA.⁹¹ Although these external factors are only discussed in the material in the general context, they affected all trade with the Soviet Union, and as such would have affected the coastal trade equally.

The liability of foreignness

Institutional change in the Soviet Union

Issues raised by Swedish exporters concerning Soviet legislation fall under the liability of foreignness as factor related to formal institutions, and given the legislative turbulence of the *perestroika* period it is unsurprising that this caused difficulties for Swedish actors. While there had been an early intent on the part of the Soviet government to continue economic experiments begun in 1984, the Swedes did not believe that this would have any more than a marginal effect on foreign trade, with then-Ambassador Torsten Örn writing that there was no suggestion of any decentralisation of the Soviet foreign trade system.⁹² At the trade consultations in Moscow in January 1986 the only issue related to Soviet legislation raised concerns the effect of the Five-Year Plans on Soviet demand for Swedish exports; no mention is made of any planned significant legislative changes.⁹³

By the end of the year the situation was quite a different one: the problems caused by the announcement of a reorganisation of the foreign trade system and the introduction of joint ventures were raised frequently in written opinions from Swedish exporters' interest groups and state trade bodies sent in ahead of the 1987 trade consultations, with requests for more information regarding how the proposed new legislation was intended to function.⁹⁴ Aside from the decentralisation and entry of new actors into the Soviet foreign trade system, covered below in the section on the liability of outsidership, these changes included requirements for Soviet foreign trade organisations to become self-financing; that is, to earn the hard currency necessary to finance Western imports by exporting their own goods. In a report from January 1987 Mats Åberg writes that this would mean that Soviet trade organisations and enterprises would have to try to sell the goods they produced in exchange for the goods they hoped to purchase.⁹⁵ This requirement led to a noted increase in requests for offset deals, with a report

⁹¹ UD, H114 Mål Er, vol. 217, Memo from UD, "Handelskonsultationer med Sovjetunionen," 24th February 1986.

⁹² UD, H6 Mål Er, vol. 160, Letter from the embassy in Moscow, "Ekonomiska experiment berör endast marginellt den sovjetiska utrikeshandeln," 15th August 1985.

⁹³ UD, H114 Mål Er, vol. 217, Memo from UD, "Handelskonsultationer med Sovjetunionen," 24th February 1986.

⁹⁴ UD, H114 Mål Er, vol. 218, Opinion from the National Board of Trade, "Handelskonsultationer med Sovjetunionen," 8th December 1986.

⁹⁵ UD, H114 Mål Er, vol. 218, Memo from the embassy in Moscow, "PM om den svensk-sovjetiska handeln," 23rd

noting that these caused considerable difficulty for Swedish exporters.⁹⁶ Part of the difficulty lay in finding Soviet goods for export that were competitive on the Swedish market, as well as the fact that Soviet enterprises often could not deliver on time, as can be seen, for example, in a complaint from the Federation of Swedish Commerce and Trade (Grossistförbundet) suggesting that Soviet suppliers lacked the discipline to supply on schedule.⁹⁷ It was with good reason that a 1988 report from Moscow noted that “it is at least as complicated to buy from the Soviet Union as it is to sell to it.”⁹⁸ The need to import from the Soviet Union in order to be able to export to it led to increased interest in the question of whether importing Soviet natural gas would be a way of increasing Swedish exports.⁹⁹ This had been previously discussed, with Swedish actors occasionally making the careful suggestion that imports of natural gas might assist in phasing out the use of nuclear power in Sweden.¹⁰⁰

The introduction of joint ventures was met, as with the reorganisation of the foreign trade system, with requests for more information on how this legislation would function.¹⁰¹ There was certainly a great deal of pressure on the Soviet side to show results, leading to an incorrect report from the Soviet news bureau TASS that Swedish firm Sandvik had been the first Western partner to sign a joint venture agreement. This was seen by Swedish actors as not necessarily deliberate misinformation as much as expressing a need to show some sort of concrete result. What was known was not particularly attractive to potential Western partners, being described by Mats Åberg as requiring them to invest money, technology, and prestige into projects that could not be effectively managed. There was a great need for information, with Åberg making suggestions as how to “support Western firms in their struggle to extract relevant details from unwilling foreign trade organisations.”¹⁰² Of particular concern was the requirement that joint venture produce for the export as opposed to the domestic Soviet market; as was pointed out at the 1987 trade consultations, Swedish firms needed to be convinced that they would not end up competing with themselves on world markets.¹⁰³ A

January 1987.

⁹⁶ UD, H114 Mål Er, vol. 219, Memo from UD, “De svensk-sovjetiska ekonomiska förbindelser,” 6th December 1987.

⁹⁷ UD, H114 Mål Er, vol. 220, Memo from UD, “Besök i Mosvka av statssekraterare Åberg och handelskonsultationer med Sovjetunionen 2-3 mars 1988,” 21st March 1988.

⁹⁸ UD, H6 Mål Er, vol. 162, Memo from the embassy in Moscow, “Landriskbedömning av Sovjetunionen,” 22nd September 1988.

⁹⁹ UD, H6 Mål Er, vol. 162, Memo from UD, “Sovjetunionen: aktuella handelsfrågor,” 22nd February 1989.

¹⁰⁰ UD, H114 Mål Er, vol. 219, Memo from UD, “Handelsfrågor inför Ryzjkovs besök,” 8th December 1987.

¹⁰¹ UD, H114 Mål Er, vol. 218, Opinion from the National Board of Trade, “Handelskonsultationer med Sovjetunionen,” 8th December 1986.

¹⁰² UD, H114 Mål Er, vol. 218, Letter from the embassy in Moscow, “Joint Ventures,” 19th December 1986.

¹⁰³ UD, H114 Mål Er, vol. 218, Memo from UD, “Handelskonsultationer med Sovjetunionen,” 27th March 1987.

degree of flexibility was promised by Soviet legislators; at a meeting with the Swedish Minister of Industry Peterson, Soviet Premier Ryzhkov stated that norms and rules could, if necessary, be adjusted.¹⁰⁴ The legislation concerning joint ventures did in fact become more flexible, but did not solve the central problems and Swedish exporters remained sceptical.¹⁰⁵

The legislative issues arising specific to the coastal trade were largely to do with the uncertain status of the Baltic republics from 1989 onwards. Increasing trade with the Baltic republics was of great interest to Swedish actors; legislation was due to be passed granting economic independence to these republics, which was expected to improve the outlook for Swedish economic ties to these regions. The primary issue raised concerning this new legislation was that Baltic access to hard currency was likely to be limited.¹⁰⁶ A report on the prospects for Soviet foreign trade in the 90s notes that this legislation was open to interpretation on a number of points, including with regard to their foreign trade, as the new legislation did not expressly give the Baltic republics the right to freely use hard currency earned through trade.¹⁰⁷ Adding to the uncertainty regarding the relationship between the Baltic republics and Moscow was an Estonian decision to introduce their own currency at the end of 1990, the Estonian kroon, which complicated pricing of goods and services. General consul in Leningrad D.S. Ahlander describes the situation as leading to foreign visitors having to deal with unreasonable pricing for Estonian goods and services, giving an example of a situation regarding a hotel that accepted only foreign currency with a restaurant across the road that accepted roubles, with the result that a pizza from the first cost the equivalent of 80 SEK, while the same at the second at tourist prices cost 5 SEK.¹⁰⁸

In a report on the Baltic situation a number of different potential developments in the relationship between the Baltic republics and Moscow were described, including both full independence and what was called the “Ragnarök scenario.” The authors of the report note that new Baltic legislation frequently contradicted Soviet legislation, and that while there was some increased local control over Baltic industry, most industry still fell under the central plan, including access to supplies of raw materials for production.¹⁰⁹ The situation with regard

¹⁰⁴ UD, H114 Mål Er, vol. 218, Letter from the embassy in Moscow, “Premiärminister Ryzjkov tar emot industriminister Thage G. Peterson,” 11th June 1987.

¹⁰⁵ UD, H114 Mål Er, vol. 221, Memo from UD, “Sovjetunionen: aktuella handelsfrågor,” 22nd February 1989.

¹⁰⁶ UD, H114 Mål Er, vol. 222, Memo from UD, “Aktuella handelsfrågor – Sovjetunionen,” 8th December 1989.

¹⁰⁷ UD, H6 Mål Er, vol. 163, Report from the embassy in Moscow, “Utsikter för den sovjetiska utrikeshandeln inför 90-talet,” 5th January 1990.

¹⁰⁸ UD, H6 Mål Er, vol. 163, Letter from the Leningrad consulate, “Den estniska ekonomin i ett övergångsskede,” 5th February 1990.

¹⁰⁹ UD, H6 Mål Er, vol. 163, Memo from UD, “Baltikumrapport”, 10th July 1990.

to the status of the Baltic republics grew more complicated through 1990, with the establishment of an Estonian customs border with Russia given as an example of the disruptions occurring in goods and capital flows between the republics. It is noted in the same report from October of that year that “each republic tends to try and isolate itself economically.”¹¹⁰

In its last country report before the USSR finally collapsed in 1991, the EKN described the situation after the failed coup attempt thusly: “the Soviet state has ceased to function in its earlier form.”¹¹¹ Two months later the country had not only ceased to function, but also ceased to exist.

Soviet business practices

Issues concerning informal institutions such as unwritten customs and behaviour also fall here under the liability of foreignness. This factor is one that arises repeatedly during the whole of the *perestroika* period as a result of the difficulty of doing business with Soviet actors who did not behave according to established Western business norms. Swedish firms frequently complained that their Soviet counterparts were too passive; unwilling to suggest prices or goods. To a certain extent this passivity can be explained by the uncertainty brought about by the great changes in the Soviet trade system, but as a rule Soviet businessmen had generally been considered extremely cautious in comparison to their Western counterparts due to lack of incentives and the heavy consequences of failed initiatives. An example of such behaviour can be seen in a complaint raised by the Association of Swedish Chemical Industries (Kemikontoret) in an appendix to the written opinion from the National Board of Trade in connection to Sweden's annual trade consultations with the USSR: one of its members, Swedstab AB, made an offer following a request from Sojuchimport; an offer that almost a year later had not been answered. The Association of Swedish Chemical Industries noted that it was normal business practice to reply to offers, regardless of whether they were to be accepted or not.¹¹²

Other complaints with regard to Soviet behaviour touch on a tendency to ignore or interpret agreements and international standards as it favoured them. Firms reported instances

¹¹⁰ UD, H6 Mål Er, vol. 163, Memo and letter from the embassy in Moscow, “Sovjetunionens ekonomi hösten 1990,” 18th October 1990.

¹¹¹ EKN, F1F- Landrapporter, Report from EKN, “Landrapport – Sovjetunionen,” 22nd October 1991.

¹¹² UD, H114 Mål Er, vol. 218, Opinion from the National Board of Trade, “Handelskonsultationer med Sovjetunionen,” Appendix 8: The Association of Swedish Chemical Industries' written opinion, 8th December 1986.

in which Soviet buyers tried to get around standard Incoterms by asking to receive the goods bought “ex works,” but which in practice turned out to mean that Swedish sellers were expected to carry liability for goods up to and including their being installed and brought into use.¹¹³

This type of behaviour was also seen as an obstacle to Swedish exports under the coastal trade agreement. This agreement established that this trade should be balanced, although from the outset the Swedes had a considerable deficit, although this was believed to be a temporary problem. What, exactly, “balance” in the coastal trade was supposed to mean turned out to be something of a matter of interpretation, with the Soviets tending to interpret balance as being on a case-to-case basis, with Swedish companies that imported Soviet goods having the right to export to the USSR, and the Swedes arguing that balance had been defined in the text of the agreement to mean the overall total between countries. This issue was one of the most prominent problems in the coastal trade, and was seen as a significant obstacle to its expansion.¹¹⁴ Furthermore, it had been the general practice that economic relations between Swedish firms and Soviet enterprises had to start with the Swedes importing Soviet goods. This effectively limited the number of Swedish exporters active in the coastal trade to a few trading companies.¹¹⁵

As a result of the decentralisation of Soviet foreign trade there was an influx of new and inexperienced actors into the foreign trade system. At a trade consultation in early 1990 a representative for the Swedish Trade Council noted that experienced personnel had moved to other organisations and that training replacements was time-consuming, and that the newly-created trade organisations lacked experience, which contributed to delays in decision-making.¹¹⁶

¹¹³ Incoterms is short for International Commercial Terms; these are internationally accepted definitions of common commercial terms published by the ICC in order to reduce difficulties arising from different interpretations of terms. They are not law. “Ex-works” means that the seller only has to make the goods available at a designated point; the buyer has maximum liability, with responsibility for transport, etc. UD, H114 Mål Er, vol. 218, Opinion from the National Board of Trade, “Handelskonsultationer med Sovjetunionen,” 8th December 1986.

¹¹⁴ Ibid.

¹¹⁵ UD, H114 Mål Er, vol. 220, Memo from UD, “Bakgrundspapper samt förslag till samtalspunkter om gränshandeln vid blandkommisionsmötet med Sovjetunionen v3 1989,” 28th December 1988.

¹¹⁶ UD, H114 Mål Er, vol. 222, Memo from UD. “Anteckningar från handelskonsultationer med Sovjetunionen 11-13/12 1989 i Stockholm”, Appendix 2: speaking notes, 23rd January 1990.

Teaching the Soviets to be businessmen

It was evident that solving the problem of Soviet business practices required educating what was to become a new breed of Soviet businessmen in Western management, marketing, and other relevant subjects. The interest in what could be learned from the Swedes was not one-sided. Soviet economists had previously shown an interest in Sweden's economic model, which was seen as combining capitalism and an extensive welfare state. In a letter from the State Secretary for the Ministry of Agriculture, Michael Sohlman, to his counterpart at the Swedish Ministry of Foreign Affairs, Sohlman describes Soviet interest in an exchange of ideas with Sweden as “palpable.” He suggests a number of topics that could be of interest in the future, including the role of the financial system in an economy, a subject he notes as one in which the Soviets had limited experience and competence in.¹¹⁷

Soviet interest in learning from Sweden could be found amongst some of the USSR's most influential economists. In a letter written after he had left the Swedish embassy for the Kennan Institute in Washington, Anders Åslund describes meetings with Aganbegyan, Bogomolov and Abalkin, noting that for Soviet reformers dissatisfied with the examples of Hungary and China, Sweden was of considerable interest. Abalkin in particular had been overflowing with praise for the Swedish model, with his only negative comment being that “he could not understand how the Swedes put up with such boring TV programmes.” Åslund recommended that the Swedish government take advantage of this interest and invite prominent Soviet economists and sociologists to Sweden.¹¹⁸

While these economists were primarily interested in the Swedish social model, others were looking to bridge the gap between Swedish and Soviet business culture. In a letter from Moscow on a visit to a number of different organisations in Tallinn (including Gosplan and the newly-formed foreign trade organisation Estimpex), embassy secretary Per Wallén noted that several times his Estonian hosts had described Estonia as being a potential source of knowledge and mediator between East and West as a result of its geographical position, and had suggested an exchange of knowledge, with the Swedes arranging seminars on i.e. Western marketing and management.¹¹⁹

The Soviet interest in Western business practices led to a suggested joint venture: an educational institute that would not only provide courses in marketing and management

¹¹⁷ UD, H6 Mål Er, vol. 161, Letter from Michael Sohlman to Carl-Johan Åberg. 7th September 1987.

¹¹⁸ UD, H6 Mål Er, vol. 161, Letter from Anders Åslund, “Den svenska modellen fascinerar ledande sovjetiska ekonomer,” 12th March 1988.

¹¹⁹ UD, H114, Mål Er, vol. 220, Letter from the embassy in Moscow, “Besök hos myndigheter och kommersiella organisationer i Tallinn 1988-12-08—09,” 15th December 1988.

techniques, but would also communicate a capitalist, market-based approach and methodology. In an appendix to a letter from Berit Rollén, the director of the Swedish state-owned educational service AMU, one of the proposal's originators argues that there were a number of conditions that made Swedish involvement particularly suitable, such as its political neutrality and geographical proximity.¹²⁰

This proposal had originated in the private sector, but the idea that Sweden was well-placed to help the Soviet reform efforts through education was to be found at the highest political levels. In connection with a conference in Moscow a draft proposal from the Ministry of Foreign Affairs describes the reform process taking place in the Soviet Union as being of crucial importance not only to the USSR itself, but also to its neighbours and to the world in general, noting that Swedish-Soviet relationships had developed positively. The proposal concerned an expansion of this cooperation, with the Swedish government being prepared to offer training courses and seminars on the Swedish market economy and management to lower-level administrators and managers. According to the proposal, each course would last from three to five weeks and have 25 participants, and it was also suggested that after a trial period up to ten courses could run every year. 50 per cent of the potential candidates should be from the regions involved in the coastal trade.¹²¹ A version of this proposal was later passed on in a confidential message from Swedish Prime Minister Ingvar Carlsson to the Soviet Chairman of the Council of Ministers Nikolai Ryzhkov.¹²² This proposal was met positively, with a report from May 1990 noting that a trial course in local administration was to be given in June of same year.¹²³ Education was clearly not only a matter of overcoming cultural difficulties encountered in business relations, but was also a means of supporting the ongoing reform process and as such was of great political importance.

¹²⁰ UD, H10 Mål Er, vol. 23, Letter from Berit Rollén concerning a proposed educational institute in the USSR, Appendix 3: Business concept, 4th July 1989.

¹²¹ UD, H114 Mål Er, vol. 222, Memo from UD. "Anteckningar från samrådsmöte 1989-09-06 ang utvidgade kontakter med Sovjetunionen samt om samordning av Östeuropa-verksamheten inom kanslihuset," Appendix 1: Re. utvidgade kontakter med Sovjetunionen – kursverksamhet, 6th September 1989.

¹²² UD, H114 Mål Er, vol. 222, UD. "Budskap från Sveriges Statsminister Ingvar Carlsson till ordföranden i Sovjetunionens ministerråd, Nikolaj J. Ryzhkov," 13th September 1989.

¹²³ UD, H114 Mål Er, vol. 222, Memo from UD, "Ekonomiskt erfarenhetsutbyte med Sovjetunionen," 7th May 1990.

The liability of outsidership

Reorganisation in Moscow

The reorganisation of the foreign trade system was a source of great uncertainty, as Swedish exporters lacked knowledge of how the new system was supposed to work.¹²⁴ This reorganisation could fall both under the liability of foreignness and the liability of outsidership, as it included not only organisational changes, but also brought in new legislation regarding self-financing, as can be seen in the above section. This decentralisation led to conflicts in Moscow over who would have responsibility for foreign trade between different foreign trade organisations and powerful branch ministries – as is noted in the National Board of Trade's statement on the Swedish trade with the USSR for 1986, and which is described by the Swedish Trade Council in their written opinion as a “struggle for territory.”¹²⁵ The Federation of Swedish Commerce and Trade expressed a concern that established relationships would be disturbed by the entry of new and inexperienced actors into the Soviet foreign trade system.¹²⁶ This reorganisation was expected to be completed and ready to be brought into effect from January 1st 1987, but in a report from early 1987, Mats Åberg wrote that it would be more realistic to expect the chaotic situation to continue into the better part of the year, and that furthermore it was likely that the reorganisation would result in little change – and would perhaps even worsen the functioning of the foreign trade system.¹²⁷ The reorganisation was again described as “chaos” in a report from May 1987, with Åberg noting that a number of practical problems had arisen, including a lack of experienced Soviet personnel, resulting in an upswing of “hectic” training activities.¹²⁸ This uncertainty was expected to last for most of 1987, and indeed in a report from December 1987 it was noted that Swedish exporters were experiencing uncertainty over who their counterparts were in the new organisation, and that the same uncertainty could be seen on the Soviet side.¹²⁹

Further changes to the Soviet foreign trade system awaited, with an announcement in January creating a new Ministry of Foreign Economic Relations to replace the Ministry of Foreign Affairs.¹³⁰ Information regarding this reorganisation was not initially easy to come by,

¹²⁴ UD, H114 Mål Er, vol. 218, Memo from UD, “Handelskonsultationer med Sovjetunionen,” 27th March 1987.

¹²⁵ UD, H114 Mål Er, vol. 218, Opinion from the National Board of Trade, “Handelskonsultationer med Sovjetunionen,” Appendix 12: the Swedish Trade Council's written opinion, 8th December 1986.

¹²⁶ UD, H114 Mål Er, vol. 218, Opinion from the National Board of Trade, “Handelskonsultationer med Sovjetunionen,” Appendix 6: The Federation of Swedish Commerce and Trade's written opinion. 8th December 1986.

¹²⁷ UD, H114 Mål Er, vol. 218, Letter and memo from the embassy in Moscow, “PM om den svensk-sovjetiska handeln,” 23rd January 1987.

¹²⁸ UD, H114 Mål Er, vol. 218, Letter and memo from the embassy in Moscow, “Sovjetmarknaden i maj 1987 – turbulent stillastående,” 27th May 1987.

¹²⁹ UD, H114 Mål Er, vol. 219, Memo from UD, “De svensk-sovjetiska ekonomiska förbindelser,” 8th December 1987.

¹³⁰ UD, H10 Mål Er, vol. 23, Fax from the embassy in Moscow concerning changes in the Soviet foreign trade system,

with a proposed question ahead of a planned visit to this newly-established Ministry specifically asking about the impact this reorganisation would have on Swedish firms' contacts in the Soviet Union.¹³¹ Swedish exporters were still reporting problems related to the decentralisation in 1989, with a report on current issues in Swedish-Soviet trade stating that the reorganisation did make it easier to reach Soviet end-users, but had not yet achieved any concrete commercial result. Firms were experiencing drawn-out paralysis in Soviet decision-making, and that at best business was carrying on as it had done so prior to the organisational changes.¹³²

The coastal trade: the establishment of Baltic trade organisations

This decentralisation also had an effect on the coastal trade, as the Baltic republics demanded the establishment of independent foreign trade organisations. This process, while creating uncertainty for Swedish actors, was never described as being openly chaotic in the same manner as the decentralisation taking place in Moscow.

Early rumours of this time of a specialised trade office being opened in Estonia surfaced in 1986, although these seemed to be based on additional personnel being recruited to Lenfintorg's Tallinn offices, and did not refer to any actual planned changes to the organisation of the coastal trade.¹³³ These rumours that Baltic republics intended to establish their own trade organisations refused to go away, despite repeated denials on the part of Lenfintorg, with the Swedish consulate picking up on suggestions of such from both the Estonians and the Latvians.¹³⁴ More information was forthcoming from a Finnish source, who reported that an Estonian member of the Finnish-Soviet Coastal Trade Commission had claimed that every republic had the right to establish its own trade organisations, to the irritation of Lenfintorg's representatives. These organisations would, according to this Estonian, not be limited to the coastal trade, but were intended to have access to world markets.¹³⁵ Similar information was provided by the Lithuanian Minister for Trade, and the possibility was raised that goods

18th January 1988.

¹³¹ UD, H10 Mål Er, vol 23, Fax from the embassy in Moscow concerning changes in the Soviet foreign trade system's organisation, 21st January 1988, and UD, H10 Mål Er, vol. 23, Memo from UD, "Den sovjetiska utrikeshandelsorganisationen," 22nd January 1988.

¹³² UD, H114 Mål Er, vol. 221, Memo from UD, "Sovjetunionen – aktuella handelsfrågor," 22nd February 1989.

¹³³ UD, H114 Mål Er, vol. 218, Letter from the consulate in Leningrad, "Läget beträffande gränshandeln," 15th October 1986.

¹³⁴ UD, H114 Mål Er, vol. 218, Letter from the consulate in Leningrad, "Nya republikanska utrikeshandelsorganisationer?" 30th January 1987.

¹³⁵ UD, H114 Mål Er, vol. 218, Letter from the consulate in Leningrad, "Republikanska utrikehandelsorganisationer," 10th February 1987.

previously available via Lenfintorg would instead be traded through these new organisations.¹³⁶ A conversation with the head of the Ministry of Foreign Trade's Tallinn office suggested that Lenfintorg's offices in Tallinn would become a separate section within the new Estonian trade organisation specialising in the coastal trade.¹³⁷ Lenfintorg's role in the Baltic coastal trade remained unclear with Gladkov warning on several occasions against Swedish exporters focusing their efforts on the Baltic republics.¹³⁸ The speed with which Estimpex, as this new Estonian trade organisation was called, was established (making its debut at a Soviet trade convention in Helsinki in May 1987) was seen by Swedish actors as a sign of the Estonians' determination in this matter.¹³⁹ Estimpex took over not only Lenfintorg's Tallinn office, but also their contracts concerning coastal trade with Estonia.¹⁴⁰ Lenfintorg's local personnel was also transferred to the new trade organisations.¹⁴¹ Despite the great changes in the organisation of the coastal trade, at the end of 1987 Swedish state actors could claim that no practical consequences had been noted as a result.¹⁴²

This was the beginning of a general decentralisation of the coastal trade, as aside from Lenfintorg and the new Baltic foreign trade organisations, a number of Soviet industrial enterprises were also given the right to conduct coastal trade. This spread of coastal trade rights led to calls on the part of the Swedes for increased clarity with regards to which Soviet enterprises and organisations had the right to take part in the coastal trade and what products they would have the right to trade in. There was a suggestion made on the Soviet side to establish a special permanent Swedish-Soviet working group to discuss questions relevant to the coastal trade, but this was not considered necessary by the Swedes, who wanted to avoid creating a situation in which central control could be established over the newly-formed republican trade organisations.¹⁴³ The success of these new organisations was debatable; on a visit to Tallinn in late 1988, Moscow embassy secretary Per Wallén found that Estimpex was

¹³⁶ UD, H10 Mål Er, vol. 23, Letter from the consulate in Leningrad, "Litauisk utrikeshandelorganisation," 5th March 1987.

¹³⁷ UD, H10 Mål Er, vol. 23, Letter from the consulate in Leningrad, "Estnisk utrikeshandelsorganisation," 17th March 1987.

¹³⁸ UD, H10 Mål Er, vol. 23, Letter from the consulate in Leningrad, "Baltiska republikernas utrikeshandelsorganisationer," 16th April 1987.

¹³⁹ UD, H10 Mål Er, vol. 23, Letter from the consulate in Leningrad, "Det estniska utrikeshandelsföretaget bildat," 4th June 1987.

¹⁴⁰ UD, H10 Mål Er, vol. 23, Letter from the consulate in Leningrad, "Baltiska utrikeshandelsföretag, gränshandel mm," 8th October 1987.

¹⁴¹ UD, H114 Mål Er, vol. 218, Letter from the consulate in Leningrad, "Läget beträffande gränshandeln," 4th November 1987.

¹⁴² UD, H114 Mål Er, vol. 219, Memo from UD, "Handelsfrågor (utom gas), ekonomiskt och tekniskt-vetenskapligt samarbete," 15th December 1987.

¹⁴³ UD, H114 Mål Er, vol. 220, Memo from UD, "Bakgrundspapper samt förslag till samtalspunkter om gränshandeln vid blandkommisionsmötet med Sovjetunionen v3 1989," 28th December 1988.

not highly regarded by either other Soviet and Estonian organisations or by Western businessmen, noting that he had heard from a Swedish businessman with many years' experience in Tallinn that Estimpex was an inefficient organisation with a high personnel turnover.¹⁴⁴

By 1989 a total of six organisations had the right to conduct coastal trade, with separate organisations having been set up not only in the Baltic republics, but also in Leningrad and Murmansk. While the Baltic trade organisations now had full responsibility for their share of the coastal trade, it is not entirely clear from the documentation how large a share this actually was. It was clear to the Swedish representatives that a certain amount of coordination had taken place between the various organisations.¹⁴⁵ A report on a visit to Leningrad and Tallinn in 1989 describes a visit to Estimpex, whose total turnover (which includes its share of the coastal trade) for 1988 was estimated at 30 million roubles, of which 20 per cent was with Swedish firms; the vast majority of Estimpex's business was with Finland.¹⁴⁶ The coastal trade for 1989 was being described in positive terms in early 1990, but it was becoming increasingly difficult to maintain an overview of the total trade, and no estimate was given of its value. The coastal trade was of particular interest to the Baltic republics as it was barter trade, which allowed the republics a way to get around the problem of obtaining hard currency from Moscow.¹⁴⁷ In a report on the changing situation in the Baltic republics, it was noted that even though many enterprises and organisations had export rights, lack of experience meant that a large share of foreign trade was being conducted through the older trade organisations.¹⁴⁸

The coastal trade: the role of Lenfintorg

Initially, all coastal trade was to be conducted via the specialist trade organisation Lenfintorg, which had the right to conduct bilateral trade with locally produced products. In the revised Uppsala model, great emphasis is placed on whether a firm has established themselves in relevant networks, with partners in the foreign market placing a significant role. Lenfintorg, as a Soviet trade organisation that also provided information and assistance to exporters trying to

¹⁴⁴ UD, H114 Mål Er, vol. 220, Letter from the embassy in Moscow, "Besök i Tallinn 1988-12-08—09," 21st December 1988.

¹⁴⁵ UD, H114 Mål Er, vol. 221, Memo from UD, "Minnesanteckningar från expertmöt om den svensk-sovjetiska gränshandeln, Moskva 8-9 juni 1989," 11th June 1989.

¹⁴⁶ UD, H114 Mål Er, vol. 222, Memo from UD, "Anteckningar från statssekraterare Sohlmans besök i Leningrad och Tallinn 18-20 oktober 1989," Appendix 3: "Anteckningar från samtal i Tallinn 19-20/10 1989," 9th November 1989.

¹⁴⁷ UD, H114 Mål Er, vol. 222, Memo from UD, "Den svensk-sovjetiska gränshandeln," 2nd May 1990.

¹⁴⁸ UD, H6 Mål Er, vol. 163, Memo from UD, "Baltikumrapport," 11th June 1990.

establish themselves as part of the coastal trade could be seen as filling this role, although the decentralisation of this trade had a significant effect on its activities.

The coastal trade showed noticeable growth in both directions from the beginning, Swedish deficit notwithstanding, with a great deal of activity on both sides. From 1985 onwards Lenfintorg took part in a number of Swedish conventions and expositions.¹⁴⁹ 1986 also saw several Swedish delegations visiting the region covered by Lenfintorg, particularly the Baltic republics and Leningrad. These visits offered opportunities for Swedish firms and regional representatives looking to make contacts in the Soviet Union and present the goods they were interested in exporting, although while there seems to have been considerable activity there seem not to have been any concrete results.¹⁵⁰ The continued Swedish deficit in the coastal trade was blamed by the Soviets on a lack of knowledge of Swedish goods available for export, with the head of the organisation Viktor Gladkov proposing an exposition of Swedish products in Leningrad to rectify this. Lenfintorg continued to play a role in arranging symposiums with Swedish potential Swedish exporters, with an example being that of a Swedish symposium on textile machinery. Offers of assistance with regard to large-scale projects outside of the coastal trade (such as the Tosno project) were also made.¹⁵¹ Swedish state actors also worked to put Swedish firms (such as Tetra Pak) in contact with Lenfintorg.¹⁵²

The creation of trade organisations in the Baltic republics that would potentially take over the coastal trade meant that Lenfintorg's future was in doubt, which led Swedish diplomats at the consulate to believe that the coastal trade itself would be short-lived, with Hartelius speculating that neither it nor Lenfintorg had much more than a year and a half, given that no organisation existed or was planned to have the overarching responsibility for the coastal trade.¹⁵³ It finally became clear that responsibility for the coastal trade in the Baltic republics would pass to the newly formed trade organisations there, while Lenfintorg itself would fall under the aegis of Gosplan of the Russian Federal Republic (RFSFR). As the original 1985 agreement did not specify that the coastal trade had to be conducted via Lenfintorg it was felt that this reorganisation did not require that the agreement had to be updated. As far as Lenfintorg was concerned, this would mean significant changes in personnel, as well as losing direct contact with the Ministry of Foreign Trade, though as Bengt Åkerrén noted, the Ministry

¹⁴⁹ UD, H114 Mål Er, vol. 217, Memo from UD, "Handelskonsultationer med Sovjetunionen," 24th February 1986.

¹⁵⁰ UD, H114 Mål Er, vol. 218, Letter from the consulate in Leningrad, "Gränshandelsaktiviteter," 4th July 1986.

¹⁵¹ The Tosno project was a planned large-scale Soviet development that Swedish actors hoped to win contracts for; it ultimately came to nothing. Due to limited space I do not intend to go into further detail with regards to it.

¹⁵² UD, H114 Mål Er, vol. 218, Letter from the consulate in Leningrad, "Läget beträffande gränshandeln," 15th October 1986.

¹⁵³ UD, H10 Mål Er, vol. 23, Letter from the consulate in Leningrad, "Regionala utrikeshandelsorganisationer och gränshandeln," 29th April 1987.

would continue to have its Leningrad offices in the same building and on the same floor as Lenfintorg, and so the practical, albeit now informal, relationship would be maintained.¹⁵⁴ Lenfintorg continued to participate in activities in Sweden, with a planned visit from Viktor Gladkov in Stockholm in August 1987 in connection with a convention.¹⁵⁵

From January 1st 1988 a new trade organisation, Rosvneshtorg, became active in the entire of the RFSFR, with both Lenfintorg and Dalintorg¹⁵⁶ falling under it. The Swedes expected that Rosvneshtorg, based in Moscow, would absorb a fair amount of those who had previously worked for the Ministry of Foreign Trade who had been let go as a result of the reorganisation, also noting that without local contacts, Rosvneshtorg would not be able to operate effectively. Lenfintorg had also been made to cut staff; Gladkov complained to Bengt Åkerrén that as a result of the reforms he had been forced to let go around 10 per cent of his personnel.¹⁵⁷ As far as the reorganisation was concerned, the primary problem was seen as being administrative, as no Swedish or Soviet organisation had an overview of the total value traded, leading to difficulties in ensuring that a balance was maintained.¹⁵⁸ Lenfintorg's role may have been reduced, but they still had a part to play as late as 1989, with suggestions made that it would have responsibility for trade conducted as part of the central plan, although legislation was expected to be brought in in late 1989 that would further decentralise the coastal trade.¹⁵⁹ Viktor Gladkov maintained that the greatest difficulty lay in finding Swedish exports at sufficiently low prices for the Soviet market.¹⁶⁰ At a seminar held by the Swedish Trade Council in January 1990, Lenfintorg's role was described as being solely a mediator between Russian enterprises and others organisations, and that it did not have the resources to import goods itself; its total turnover with Swedish firms for 1989 is 68.8 million roubles, described as an almost 200% increase in the coastal trade through Lenfintorg from 1988.¹⁶¹ A 1990 report on the development of the coastal trade does not make any mention of new legislation or any plans to further decentralise this trade, and concludes by noting that activities between Swedish and Soviet actors with regard to the coastal trade were continuing to take place.¹⁶²

¹⁵⁴ UD, H10 Mål Er, vol. 23, Letter from the consulate in Leningrad, "Reorganisation av gränshandeln," 30th July 1987.

¹⁵⁵ "Besök från Lenfintorg i augusti 1987", *Marknad Sovjet*, no. 6, August 1987.

¹⁵⁶ A Soviet trade organisation that was responsible for the coastal trade conducted in the Far East.

¹⁵⁷ UD, H10 Mål Er, vol. 23, Letter from the consulate in Leningrad, "Lenfintorg uppgår i Rosvneshtorg," 5th May 1988.

¹⁵⁸ UD, H114 Mål Er, vol. 220, Memo from UD, "Bakgrundspapper samt förslag till samtalspunkter om gränshandeln vid blandkommissionsmötet med Sovjetunionen v3 1989," 28th December 1988.

¹⁵⁹ UD, H6 Mål Er, vol. 162, Letter from the consulate in Leningrad, "Ekonomi- och handelsnotiser från det nordvästra hörnet av Sovjetunionen," 13th July 1989.

¹⁶⁰ UD, H114 Mål Er, vol. 222, Memo from UD, "Anteckningar från statssekreterare Sohlmans besök i Leningrad och Tallinn 18-20 oktober 1989," Appendix 2: "Anteckningar från samtal i Leningrad," 9th November 1989.

¹⁶¹ "Flera nyheter vid Rysslandsseminarium", *Marknad Sovjet*, no. 1, January 1990.

¹⁶² UD, H114 Mål Er, vol. 222, Memo from UD, "Den svensk-sovjetiska gränshandeln," 2nd May 1990.

4.2. Learning and knowledge

Amongst the documentation from the Swedish Ministry of Foreign Affairs are letters and faxes from the embassy in Moscow and the consulate in Leningrad. This correspondence frequently contains references to the sources embassy personnel have used to gain information. As a result, it has been possible to examine the different ways of learning and compare this result with the Uppsala model's descriptions of the role of learning in the internationalization process. One letter can often contain information obtained in different ways; these different sources of information can support or contradict each other. Given the difficulty of obtaining reliable information on the Soviet economy, this is not particularly surprising. The results are presented in sections describing the role played by different types of knowledge in how Swedish state actors learnt about the Soviet economy, and their connection to Swedish export promotion.

First-hand knowledge

The revised Uppsala model places great emphasis on first-person experience and its role in driving internationalization, and indeed the experiences of embassy personnel were an important source of information. It was not uncommon for embassy staff to describe private meetings they have had with others; in one letter from the embassy entitled “To buy dead souls or sell portraits of Lenin,” Anders Åslund describes running into a woman working for an agitprop organization whose sole *raison d’être* was producing and selling high quality portraits of Lenin to state farms. Demand for these paintings was inversely proportional to the farms' success, with the least successful farms buying the most. These portraits were frequently left in the boxes they had come in, their only purpose being to demonstrate political fidelity in order to compensate for economic failure. This letter illustrated not only the frequent absurdity of Soviet life, but also the lack of effect agricultural reforms were having.¹⁶³

Knowledge derived from personal experience is frequently described in tandem with knowledge obtained in other ways, such as second-hand knowledge gained through Swedish actors' networks. An example of this can be seen in a letter from Leningrad written by the consul Bengt Åkerrén, in which he describes a personal meeting with Gladkov, head of Lenfintorg. Åkerrén describes the atmosphere at the meeting, noting that Gladkov and his staff joked about his going on to a diplomatic post in Finland or Sweden. This personal experience is then strengthened by rumours heard from a Finnish source suggesting the same, with

¹⁶³ UD, H6 Mål Er, vol. 160, Letter from the embassy in Moscow, “Att köpa döda själar eller sälja Lenintavlor,” 8th April 1987.

Åkerrén writing that he otherwise would have dismissed this behaviour.¹⁶⁴ The information from the Finnish source that is used to substantiate the personal experience of the writer is second-hand knowledge that is available as a result of an established network.

Personal experience in the context of export promotion included trips to areas and enterprises interested in attracting Swedish investment. One such example would be that of diplomat Mats Åberg, describing in a 1989 letter from the consulate in Leningrad a visit to the north-western parts of the USSR, including Petrozavodsk and Murmansk, during which he met with different enterprises looking for Swedish business partners. These included a visit to a souvenir factory in Petrozavodsk, of which the most interesting point, according to Åberg, was the director's complaints about having to negotiate deliveries of raw materials which had previously been allotted to them automatically. In Murmansk he met with the head of the Kola Regional Association for Business Cooperation with Foreign Countries, a newly created organisation with local foreign trade rights. Åberg's letter includes his personal impressions of the various projects suggested to him, which ranged from "relatively realistic" to "not particularly well-developed."¹⁶⁵ Other sources of experience that provided information include the diplomats' own everyday life in the Soviet Union, as can be seen in a 1988 letter from Bengt Åkerrén on the food shortages in Leningrad, in which rumours heard in the queues of the local shops were passed on as information on which goods there were likely to be shortages in next.¹⁶⁶

Second-hand knowledge

Swedish state actors frequently made use of second-hand experiential knowledge. Swedish exporters reported on their experiences to the interest group representing their business sector or to the Swedish Trade Council ahead of the annual trade consultations, as can be seen in the statements from various statements referring both to general issues and specific problems requiring the assistance of state actors.¹⁶⁷ Requests for exporters to send in reports of their experiences in trading with the Soviet Union were sent out in *Marknad Sovjet*, the specialist newsletter put out by the Swedish Trade Council in order to provide information for firms

¹⁶⁴ UD, H10 Mål Er, vol. 23, Letter from the consulate in Leningrad, "Rykten om Lenfintorgchefen," 4th November 1987.

¹⁶⁵ UD, H6 Mål Er, vol. 162, Letter from the consulate in Leningrad, "Ekonomi- och handelsnotiser från det nordvästra hörnet av Sovjetunionen," 13th July 1989.

¹⁶⁶ UD, H6 Mål Er, vol. 162, Letter from the consulate in Leningrad, "Livsmedelssituationen i Leningrad," 24th May 1989.

¹⁶⁷ See for example: UD, H114 Mål Er, vol. 218, Opinion from the National Board of Trade, "Handelskonsultationer med Sovjetunionen," 8th December 1986.

interested in trading with the USSR. A request for input ahead of the 1988 trade consultations asks for information from exporters aware of any general or specific issues concerning trade with the USSR that had worsened during 1987, or who wished to ask for help or support in a particular matter.¹⁶⁸ These statements provided insights into the problems facing exporters, and were used as the basis for discussions with Soviet counterparts, as can be seen in the documentation from these consultations. Examples of such issues include problems obtaining Soviet visas, changes in the handling of bank documentation, and communication problems caused by a lack of telephone connections.¹⁶⁹ As such, second-hand knowledge was crucial to Swedish state actors' efforts to promote exports to the Soviet Union.

Aside from regular contact with Swedish exporters and those organisations representing them, Swedes also had regular contact with Finnish actors. These contacts, both from the public and private sectors, could also pass on their experiences dealing with Soviet actors, and as such were also a source of second-hand knowledge. An example of such second-hand knowledge can be seen in Mats Åberg's letter on the recently introduced joint ventures, which describes the experiences of Finnish businesses when attempting to establish joint ventures with Soviet enterprises at the request of Soviet actors, and which is used in the letter to demonstrate the Soviet need for concrete examples of functioning joint venture enterprises.¹⁷⁰ Other examples of second-hand knowledge from Finnish sources include a letter from the Swedish embassy in Helsinki on Soviet plans to establish economic free zones, which, aside from including a number of translated documents received from the Finnish Ministry of Foreign Affairs, also includes a description of a conversation with Erik Forsman, the head of the Finnish Central Federation for Industry, in which Forsman gives his impression of a meeting with Soviet representatives led by Sergey V. Lavrov to discuss the proposal, noting that there were no concrete suggestions made, saying of the Soviet participants that "they didn't bring a single paper," and stating that the visit had been a clear disappointment.¹⁷¹

Soviet sources of second-hand knowledge in the documentation were few, and it was clear that Swedish actors found them to be less open as sources of information. References to Soviet sources include conversations with Viktor Gladkov, head of Lenfintorg. These provide little in the way of direct second-hand knowledge on the development of the coastal trade, with Gladkov directly refusing on several occasions to speculate on the future of Lenfintorg, as can

¹⁶⁸ "Handelskonsultationerna 1988", *Marknad Sovjet*, no. 8, December 1987.

¹⁶⁹ UD, H114 Mål Er, vol. 220, Memo from UD, "Besök i Moskva av statssekraterare Åberg och handelskonsultationer med Sovjetunionen 2-3 mars 1988," 21st March 1988.

¹⁷⁰ UD, H114 Mål Er, vol. 218, Letter from the embassy in Moscow, "Joint Ventures," 19th December 1986.

¹⁷¹ UD, H114 Mål Er, vol. 221, Letter from the embassy in Helsinki, "Sovjetiska ekonomiska frizoner," Appendix 3: "Samtal med Erik Forsman, ICF," 11th April 1989.

be seen in a letter from Bengt Åkerrén, in which he writes that he tried to engage Gladkov on any future reorganisation of the coastal trade, but that he refused, on the grounds that he had found it impractical to take part in encouraging notions of possible reforms that had not been decided on, and that perhaps never would be.¹⁷² While this statement does not provide any direct information on the future of the coastal trade, it does give an indication of the uncertainties involved in the Soviet reform process, and is quite clearly based on Gladkov's own experience of it. A similar refusal on the part of Soviet actors to provide information can be seen in a letter from Dag Hartelius in Leningrad on a conversation with the Murmansk head of the planning committee, who, on being asked the expected result of discussions on the regional division of Soviet foreign trade, would only reply “that a decision will be taken.”¹⁷³

“Objective” knowledge

In the Uppsala model knowledge from sources other than personal experience or the experience of a network source is described as “objective” knowledge and is seen as a less important source of knowledge in the internationalization process. Nevertheless, objective knowledge is found throughout the Swedish correspondence: letters refer to articles in both the Soviet and foreign media, official statements made by the Soviet leadership and non-experiential knowledge from network sources.

The media is a frequent source of information on changes in the Soviet economic system; articles describe new legislation, changes in the organisation of the foreign trade system, and discussions of new economic ideas. Examples include an article on new management strategies in *Kommunist Estonii*, which are described as having a “modern Western ring” to them, an interview with the head of the newly-formed Rosvneshtorg, an official announcement on the creation of a new ministry to replace the Ministry of Foreign Trade, and a Hungarian article sent from Budapest on the state of the Soviet foreign trade system, which is described as being “noticeably free of the wishful thinking and the buzzword-filled euphemistic overtones that often characterise politicians’ and other officials’ statements on the same subject.”¹⁷⁴ As can be seen from the quotation, this kind of objective knowledge is often

¹⁷² UD, H114 Mål Er, vol. 218, Letter from the consulate in Leningrad, “Läget beträffande gränshandeln,” 4th November 1987.

¹⁷³ UD, H10 Mål Er, vol. 23, Letter from the consulate in Leningrad, “Baltiska utrikeshandelsföretag, gränshandel, mm,” 8th October 1987.

¹⁷⁴ UD, H10 Mål Er, vol. 23, Fax from the embassy in Moscow concerning changes in the Soviet foreign trade system, 18th January 1988; UD, H10 Mål Er, vol. 23, Letter from the consulate in Leningrad, “Lenfintorg uppgår i Rosvneshtorg,” 5th January 1988; UD, H6 Mål Er, vol. 161, Letter from the consulate in Leningrad, “Nya

evaluated using first-hand experiential knowledge – without an understanding and an experience of Soviet media culture and language, it would be easy to miss the qualities that make certain pieces worthy of interest. While media sources are mostly used as a source of information on Soviet activities, one example provides information on Swedish actors: an article from *Izvestiya* on a kolkhoz successfully engaged in foreign trade with (among others) a Swedish trading partner is the subject of a letter from the Leningrad consulate. The mention of both Sweden and furniture led Consul D.S. Ahlander to “guess that IKEA has been active here.”¹⁷⁵

Networks are also a source of objective knowledge, as can be seen in a letter from Mats Åberg at the embassy in which an unnamed Danish firm and Sandvik provide information on the proposed joint venture legislation. Both had received background information on this legislation from various Soviet ministries, although in the case of Sandvik Åberg writes that the relevant trade organisation had not heard of the new ideas presented in the paper, with the result that the following discussions with Sandvik were “somewhat confused.”¹⁷⁶

The Swedish Trade Council's proposal

In his critique of the Uppsala model's description of learning, Forsgren points to a number of other ways that actors can learn, with specific mention of imitation of others and incorporation of other, more experienced units. This can also be seen in the documentation. In their the budget proposal for 1989-1990 the Swedish Trade Council expressed a need not only for a new position at the Moscow office, but also for offices separate from the embassy. These proposals had previously been suggested in separate letters, in which the Trade Council anticipated an increase in demand for their services as a result of the reorganisation of the Soviet foreign trade system.¹⁷⁷ This proposal was criticised by the embassy on the grounds that their prognosis for the development of Soviet trade was not encouraging, noting that Sweden, along with other OECD economies, had seen a fall in their exports to the USSR. They described a number of problems that limited Soviet exports, noting that as the size of Soviet imports was dictated by the size of Soviet exports, any issues that limited the latter would

företagsledningsidéer i Estland,” 1st December 1986; and UD, H6 Mål Er, vol. 161, Letter from the embassy in Budapest, “Ungersk artikel om Sovjets ”utrikesekonomi”,” 4th February 1987.

¹⁷⁵ UD, H10 Mål Er, vol. 23, Letter from the consulate in Leningrad, “Gränshandelsföretag i Vitryssland,” 18th October 1989.

¹⁷⁶ UD, H114 Mål Er, vol. 218, Letter from the embassy in Moscow, “Joint Ventures,” 27th June 1986.

¹⁷⁷ UD, H114 Mål Er, vol. 221, Letter and memo from UD to the embassy in Moscow, “Organisation av den exportfrämjande verksamheten i Moskva,” 3rd May 1989.

impact on the size of the former. As such, the potential for an increase in Swedish exports to the USSR in the coming years was described as extremely limited. While there was considerable interest in the Soviet market, particularly from new Swedish firms with limited experience of the Soviet Union, the development of Soviet trade was “worse than ever before.” The Trade Council's proposal was based on their experiences in Prague and Budapest, which the embassy did not believe was applicable to the Soviet Union. In Hungary the largest Swedish exporters worked via the trade office, whereas the largest Swedish commercial actors in the Soviet Union had their own offices in Moscow. Of the around 100 members of the committee for the promotion of trade with the Soviet Union, only a handful actually used the services of the embassy's trade office, while the vast majority had their own networks and chose to manage their own affairs. The embassy did not however, rule out the need for increased activity in the Baltic republics.¹⁷⁸ In a letter the consulate in Leningrad expressed their opinion of the proposed changes, describing Swedish prospects in the Baltic; of the three Baltic republics Sweden had the most advanced contacts with Estonia, with contact with Lithuania and Latvia being less well developed.¹⁷⁹

A decision was made to find a candidate for the new position who had many years' experience of the Soviet market. As the Trade Council had difficulty finding such a person, the embassy agreed to assist in the search, and approached Nina Holmström, who had spent seven years as manager of KF-Procordia's Moscow office. In a letter from the embassy Commercial Councillor C-J Gunnarson described a conversation he had had with her regarding the proposed position. Having previously been positive to the proposal, after an in-depth discussion with a representative from the Trade Council, she not only turned down the position, but also expressed deep concern over the proposal. She described their plan as unacceptable, as it apparently consisted of actively encouraging small firms to enter the Soviet market, even if the outlook for their success was deemed beforehand to be bleak; the aim of the office would apparently be increasing its own income as opposed to increasing exports. Furthermore, she added that the Trade Council was deceiving itself not only itself, but also Swedish exporters, if they believed that the Soviet market was expanding at the current time.¹⁸⁰ The organisation of Swedish export promotion was raised in a parliamentary committee, as the proposed changes would have required government funding, but ultimately

¹⁷⁸ UD, H114 Mål Er, vol. 221, Letter and memo from the embassy in Moscow, “Organisation av den exportfrämjande verksamheten i Moskva,” 23rd May 1989.

¹⁷⁹ UD, H114 Mål Er, vol. 221, Letter from the consulate in Leningrad, “Organisation av den exportfrämjande verksamheten i Moskva,” 7th June 1989.

¹⁸⁰ UD, H10 Mål R, vol. 5, Letter from the embassy in Moscow, “Förstärkning av den exportfrämjande organisationen i Moskva,” 27th June 1989.

it was decided that the economic development of the Soviet Union did not support the creation of an independent trade office in Moscow and that the embassy already had sufficient resources.¹⁸¹

5. Discussion

These results show that a variety of different factors impacted Swedish exports to the Soviet Union. External factors impacting the Soviet Union's access to hard currency to finance their imports, such as the fall in oil prices, had the most significant effect on Swedish exporters opportunities to sell to the USSR, both in general and with regard to the coastal trade. As these factors affected all the trade with the USSR, they are unlikely to be the reason behind the differing outcomes for Swedish exports in general and as part of the coastal trade.

The results indicate that the liability of foreignness also impacted both Sweden's coastal and general exports to the USSR. The revised Uppsala model places less of an emphasis on such factors as laws and customs (here divided into formal and informal institutional factors) than in the original model, but it can clearly be seen from the documentation that difficulties arising as result of these factors – not only those caused by large-scale institutional change, but also those arising from the cultural difference (in the original Uppsala model, the *psychic distance*) between Swedish and Soviet actors – play a significant role in restricting Swedish exports. The revised Uppsala model has been criticised by Forsgren for replacing the liability of foreignness with the liability of outsidership, and the results here do suggest that the liability of foreignness does still play a role in internationalisation.

Both Swedish and Soviet actors saw the solution to this psychic distance in education, with the Swedes seeing a role for themselves as aiding their Soviet counterparts in their reform efforts by providing access to training courses. Given the spread of Western business culture, it may well be that the liability of foreignness in this regard has less of an impact now than historically, which would allow for a greater role to be played by the liability of outsidership .

The reorganisation and decentralisation of the Soviet foreign trade system presents a clear example of the liability of outsidership, as both Swedish and Soviet actors struggled with a lack of network knowledge. The reorganisation process in Moscow is referred to several times in the source material as “chaotic” and a “power struggle” as the powerful branch ministries clashed over the opportunity to seize control over foreign trade. Swedish diplomats at the

¹⁸¹ Prop. 1990/91:100, *Proposition med förslag till stadsbudget för budgetåret 1991/92*, Stockholm 1990, p 205.

embassy in Moscow attribute at least some the downturn in Swedish-Soviet trade during the period to the organisational uncertainties caused by these changes. The personnel cuts forced on the Ministry of around 30 percent can be compared with Lenfintorg's ten per cent reduction in personnel; Lenfintorg was not a political target in the same way that the Ministry of Foreign Trade was.

The reorganisation of the coastal trade centres around the changing role of Lenfintorg, the specialised foreign trade organisation headed by Viktor Gladkov, which over the course of 1987 lost its monopoly over the coastal trade in the north-western part of the Soviet Union, with its offices, contracts, and personnel passed over to the new organisations being established in the Baltic republics. The existence of a single trade organisation responsible for the coastal trade may have allowed for a relatively speedy transfer of responsibility to the Baltic trade organisations, as these took over Lenfintorg's operations in these areas, which would have reduced the amount of organisational confusion. It is also likely that even after this transfer most of the coastal trade continued to be conducted via Lenfintorg, at least until 1990. The extent of this transfer is difficult to estimate without data showing the size of the share of Swedish exports going to the Baltic republics through Lenfintorg, but there are indications in the source material suggesting that it was rather limited.

If the estimations given in the source material for the size of Lenfintorg's total turnover with regard to Sweden for 1989 – 68.5 million roubles, described as an almost 200 per cent increase from 1988. This would put Lenfintorg's share of the coastal trade for 1988 at over 23 million roubles. The total turnover for Estimpex (the most rapidly established of the Baltic trade organisations) for 1988 is given as 30 million roubles, 20 per cent of which is with Sweden; this makes 6 million roubles which includes, but is not limited to, the coastal trade. With Estimpex's share of the coastal trade being less than 6 million roubles for 1988, and Lenfintorg's for the same year being somewhat over 23 million, it would seem that despite the reorganisation, Lenfintorg managed to keep a significant share of the coastal trade, which totalled 41.6 million roubles for 1988.

This would support similar indications found in the text. While there seems to have been a great deal of interest in the Baltic republics from Swedish exporters, concrete results seem to have been rather limited. Swedish actors describe the changes as having limited practical effect, which would seem an unlikely description if they had entailed changes for significant proportion of Swedish exporters. The situation may have been simplified by the fact that the number of Swedish actors in the coastal trade was itself rather limited, being restricted primarily to a few Swedish firms, described as mostly being trading houses. This would

suggest that perhaps exporters in the coastal trade were less affected by the liability of outsidership than was the case generally. The revised Uppsala model argues that insidership leaves firms less liable to be affected by the liability of foreignness; if so, this could explain the differing outcomes seen between the general case of Swedish exports and the case of the coastal trade.

The revised Uppsala model sees successful internationalisation as being a matter of firms successfully establishing themselves in the relevant networks; in order to achieve this it is often necessary to have a “trusted partner” in the target market. Does Lenfintorg fit the definition of such a partner? To a certain extent, yes. Lenfintorg did provide support for Swedish trade promotion activities which allowed Swedish exporters to make contacts in the Soviet Union, while at the same time it was not always helpful in providing information to Swedish actors, as was often the case when dealing with Soviet organisations.

The results regarding different types of learning also fall along the lines suggested by the Uppsala model. Experiential knowledge would seem to be necessary for successful internationalisation, as can be seen in the outcome of the Swedish Trade Council's proposal. This proposal to establish an independent trade office shows examples of some of Forsgren's suggested alternatives to the Uppsala model's depiction of international expansion. Firstly, the stated primary motivation behind their proposal was based on experiences in other markets (Hungary and Czechoslovakia), as opposed to experiential knowledge gained in the Soviet market. To compensate for this, they hoped to fill the position with a person with many years' experience in the Soviet Union; to, in other words, incorporate a more experienced unit. It is worth noting, however, that this proposal never came to fruition, and was ultimately unsuccessful. It was criticised (in at least one case harshly) for not taking into account the economic conditions at that time in the Soviet Union. This suggests that, as Forsgren suggested, low knowledge can be connected with a high perceived risk of not investing. The revised Uppsala model allows that greater knowledge of the target market can affect market commitment both positively and negatively; here, knowledge of the state of the Soviet economy negatively affected Swedish actors' willingness to increase their commitment to the Soviet market, as can be seen in the scepticism faced by the Swedish Trade Council's proposed increased investment in new positions and new offices for their staff in Moscow.

The importance of experiential knowledge with regard to objective knowledge can be seen throughout the source material, with the one being used to evaluate the other. It is through this experiential knowledge that Swedish actors describe the changing atmosphere in the

Soviet Union during this period. Second-hand knowledge is also crucial to Swedish state actors, as without information on firms' experiences in the USSR it would not be possible for them to deal effectively with their Soviet counterparts when discussing issues arising in Swedish-Soviet trade. Other network sources are also frequently referred to, although as a result of Soviet secrecy these network sources are other Western, often Finnish, actors. The impression taken from the source material is that other Western actors in the USSR were to certain extent more important network sources than local Soviet actors when it came to information on developments in the Soviet economic system.

6. Conclusion

The *perestroika* period was one of great upheaval in the Soviet Union, upheaval that eventually would lead to the dissolution of the country. Nonetheless, this period was also of great interest to Western actors eager to gain a foothold in the changing Soviet economy. This paper has examined Swedish exports to the Soviet Union, both in general, and as part of the coastal trade, finding that the latter was far more successful than the former. When examining the difficulties encountered in both cases, it can be seen that both external factors and the liability of foreignness presented problems in both cases, while the liability of outsidership presented a far more serious problem to Swedish exporters when looking at Swedish trade in general, than to those active in coastal trade. The disruption to the coastal trade as a result of the decentralisation of Soviet trade seems to have been less severe than that seen in Moscow, as can be seen in indications in the source material that describe the situation in Moscow as chaotic, with the Ministry of Foreign Affairs facing far more aggressive staffing cuts than Lenfintorg. The role played by Lenfintorg can be seen as crucial in this regard, as a significant share of the coastal trade continued to be conducted through it, despite the reorganisation, which would explain why those involved were less affected by the liability of outsidership. This would indicate that Vahlne and Johanson are correct when they suggest that the liability of foreignness can be overcome through insidership in relevant business networks

The Uppsala model also describes how different types of knowledge are part of the internationalisation process. The importance of experiential learning, both first- and second-hand, can clearly be seen in the documentation, as it is used to evaluate objective knowledge on the Soviet economy. While there is an example of other forms of learning (in this case, imitation) being used in Swedish export promotion, it is also clear that the lack of success of this proposal was due to the fact that it was not based on knowledge obtained specifically from

the Soviet target market, and was heavily criticised by those who did have this experience. As such, this example does not contradict the Uppsala model's claim that experiential knowledge is essential to successful internationalisation, and instead stands as an example that increased market knowledge can negatively affect actors' willingness to commit to a foreign market.

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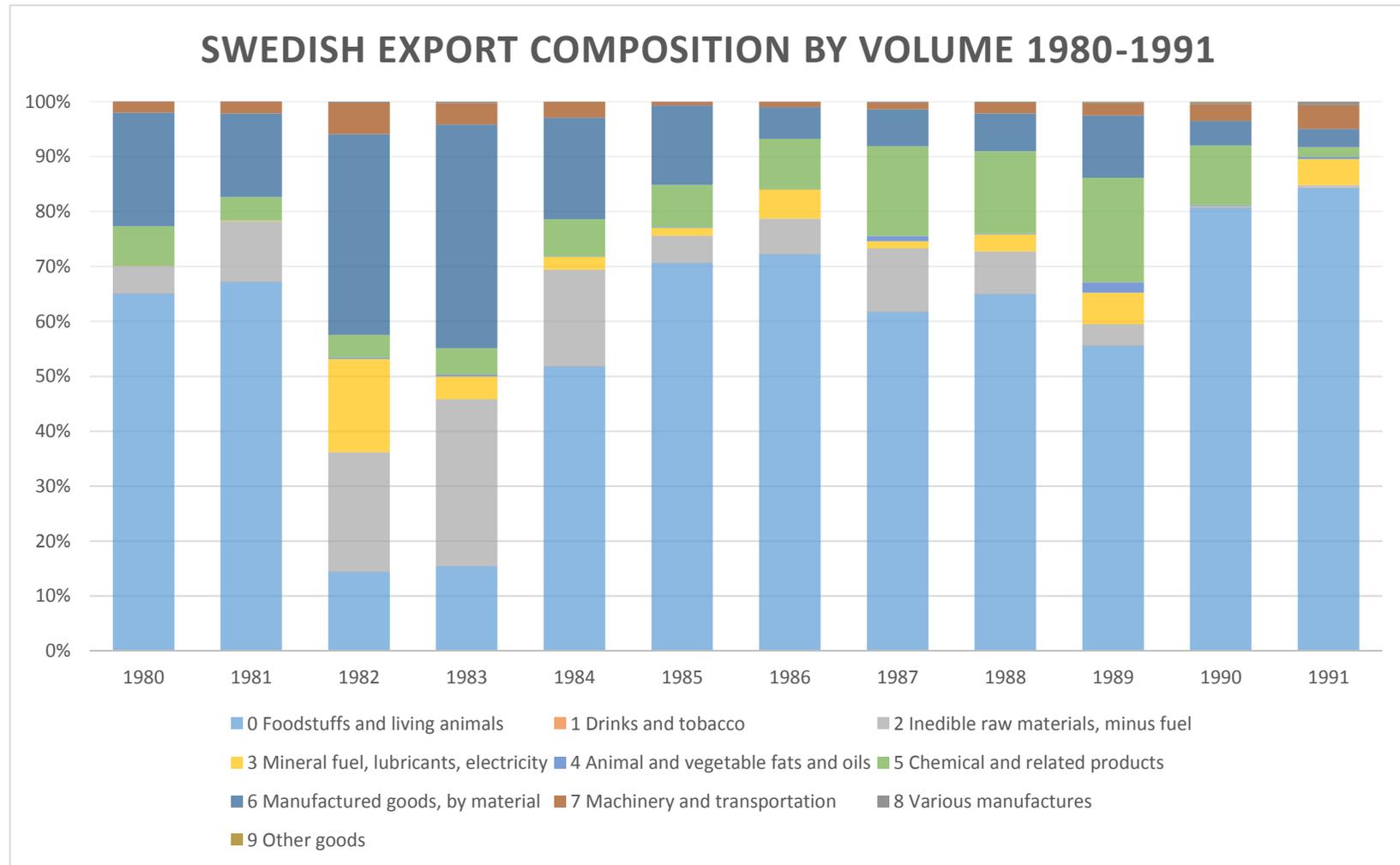
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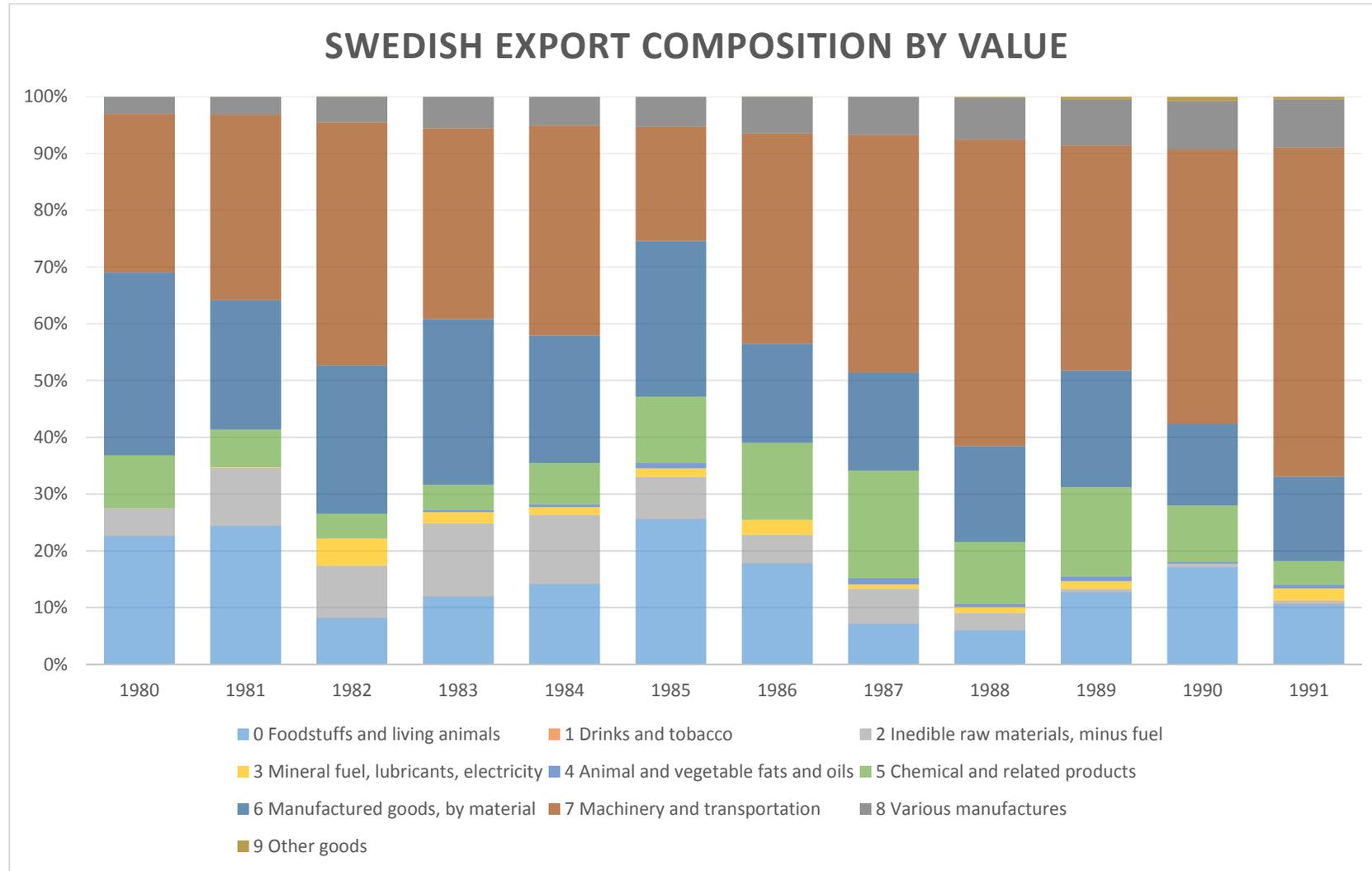
Appendix 1:

Graph 4: The composition of Swedish exports to the USSR by volume, 1980-1991



Source: SCB statistikdatabasen: [Elektronisk resurs] Statistical database, Varuimport och varuexport efter varugrupp SITC rev3 och handelspartner, total. År 1977-1994

Graph 5: The composition of Swedish exports to the USSR by value, 1980-1991



Source: SCB statistikdatabasen: [Elektronisk resurs] Statistical database, Varuimport och varuexport efter varugrupp SITC rev3 och handelspartner, total. År 1977-1994