Russia's ruble zone plan collapsing

by Adam K. East

In the face of the latest crisis gripping Moscow, where Russian President Boris Yeltsin is on a quest to become a modern-day, fruity version of Stalin, Russia's bold plan for a new ruble zone linking six former Soviet republics seems to be dead, finished, kaput, no more.

The problem is that Russia still considers most of the members of the Community of Independent States (CIS) to be Russian protectorates, rather than sovereign and independent nations. Only two months ago, on Sept. 7, Kazakhstan, Uzbekistan, Armenia, Tajikistan, and Belarus signed a treaty with Russia which was meant to clear the way for further bilateral treaties on a joint currency. But recent negotiations on formation of a new ruble zone held with some of the Central Asian republics failed, because of the unrealistic and outrageous conditions which Moscow had set as prerequistes for entry into the new currency system. Some officials in Central Asia have called the Russian demands "enslaving," while others have rightly argued that the conditions of the new ruble zone reveal the true nature of Russia's neo-imperial designs for the region. In the words of Russian Central Bank chairman Viktor Gerashchenko, under the new proposed policy, "republic central banks would become branch offices of the Russian Central Bank."

Demands on Uzbekistan

It is not difficult to see why the new ruble zone would be rejected if one looks closely at the case of Uzbekistan and the demands which were made on it by Russia. A few of the conditions included: 1) The money which Uzbekistan receives from Russia must be treated as a loan, at the corresponding rate of interest. 2) Half of the total loan must be backed by a hard currency pledge; in this case, Uzbekistan was told that it had to deposit over 40 tons of gold in the Russian Central Bank. 3) The rate of exchange of old bank notes, otherwise known as Soviet rubles or Soviet and Russian banknotes, which were issued from 1961 until 1992, for new ones, would be fixed at the black market rate of 3 to 1. And 4) the Central Bank of Uzbekistan must become a branch of the Central Bank of Russia.

Uzbek Deputy Prime Minister Bakhtiyar Hadimov harshly criticized the new conditions as "crushing and unacceptable." Hadimov expressed anger over the infusion into Uzbekistan and Kazakhstan of reportedly sackloads of cash in the form of the old rubles. He said that despite all efforts by customs agencies, the old money is buying up goods and seriously destabilizing the economy.

Russia, in a ruthless measure, withdrew the Soviet-era rubles (emblazoned with pictures of Vladimir Lenin) from circulation in July, in an attempt to seize the monetary initiative and force other states wanting to use its currency to follow its monetary line.

National currencies issued

Following weeks of frustrating and fruitless negotiations with Russia over entry into the new monetary union, Kazakhstan and Uzbekistan, which have the largest economies in the former Soviet Central Asia, finally announced that, starting Nov. 15, they would introduce their own currencies. The two countries, which are flooded with the almost worthless old ruble, stand to gain much from having their own national currencies, although in the initial stages they might face economic stagnation and encounter difficulties in mutual accounts with other CIS countries. Kazakhstan will issue its national currency, known as the tenge. Uzbekistan will introduce its own temporary currency, the som, which will circulate in tandem with the ruble.

Earlier, it was rumored that Uzbekistan and Kazakhstan would issue a joint currency. However, Russia is expected to frown upon any plans of economic integration between Kazakhs and Uzbeks, whose combined populations account for three-quarters of the region's total, and which complement each other in the economic and scientific spheres. Such cooperation would drastically reduce their dependence on Moscow.

Not long ago, Turkmenistan, another Central Asian republic, dumped the Soviet-era ruble and issued its own national currency, the manat. The new currency officially hit the streets on Nov. 1. Chances for the manat's success and convertibility are expected to be very good since Turkmenistan is one of the few states of the former Soviet Union which posts a significant trade surplus.

Kyrgyzstan was the first Central Asian state to issue its own national currency. But since then the impoverished republic has experienced grave difficulties. Foreign suppliers of raw materials to Kyrgyz industry have refused to accept the new money, which has resulted in depressing the economy. Tajikistan and Armenia are the only former Soviet republics, along with Russia itself, which still remain in the ruble zone.

Among the other republics which have already left the ruble zone are Georgia, Estonia, and Ukraine. The situation in Georgia and Ukraine doesn't look very promising. The temporary Ukrainian karbovanet trades at 31,000 to the dollar, and in Georgia, where the ruble was replaced with coupons, $1 equals 33,000 coupons. The tiny Baltic republic of Estonia is the only former Soviet state with a fully convertible currency. The Estonian kroon, which is pegged to the German mark, was introduced last year.