

The International System

The International System is conceived as a global system which encompasses all the communications which take place between its three sub-systems, i.e.

- The International Political System
- The International Economic System
- The International Socio-Cultural System.

It interacts permanently with the corresponding three sub-systems of the *National State System*..1)

The main emphasis of this paper is devoted to one of the three sub-systems of the International System, i.e. to the *International Economic System*.

The International System works basically through two channels, i.e.

- The International Inter-governmental System
- The International Non-governmental System.

The Soviet Union with its heavy emphasis on central planning and on the government apparatus has deliberately neglected the International Non-governmental System and preferred almost exclusively to cooperate with the rest of the world mainly through Inter-governmental channels.

The purpose of this paper is therefore to demonstrate the necessity for interaction within the dual character of the International System, governmental and non-governmental, and to consider how the new Russia may find ways and mechanisms to participate as effectively and as speedily as possible in the International Economic System.

Inter-governmental organisations can be traced back to the Congress of Vienna in 1815. Since the creation of the first true international institution in 1865, the International Telegraph Union, it took more than half of the century and a World War until in 1920 the League of Nations was founded in Geneva. The Soviet Union joined only 14 years later, i.e. in 1934.2) In 1945, the Soviet Union belonged already to the small group of countries (China, the United Kingdom, the United States, the USSR, France joined a far month later) which submitted proposals leading to the United Nations Conference on International Organization the conference convened of San Francisco, California and drafted the Charter of the United Nations.

From the outset the Soviet Union became a permanent member of the UN Security Council, the seat which is now occupied by Russia.

But although the political platform of the UN was uncontested, "neither the United States nor any of the other major actors who participated in the drafting of the Charta intended that the United Nations should be an important decision-making forum for economic policy."-^) Since the Soviet Union like the other socialist countries did not join the World Bank and the other Bretton Woods institutions it had not effective control over the multilateral economic world affairs.

Whereas the international cooperation of the former COMECON has had its main emphasis on intergovernmental relations, the western countries have developed in parallel to the intra-governmental cooperation a systematic network of non-governmental relations. This type of cooperation has become even more effective than the governmental network. For example, the international technological cooperation of the western industrialized countries takes place increasingly through mergers, joint ventures, consortia of companies or groups of companies. In 1990 less than 30% of the international trade with capital goods took place between multinational corporations or between companies which have joint organisational or capital interest. At the End of the Eighties more than 50% of technology-based capital goods took place between this category of companies.'*) The same phenomenon can be observed in the reciprocal flow of direct investments among the OECD countries and the increasing involvement of the newly industrializing Asian countries.

Russia is practically left out from this process. This is tragic and will have severe consequences for the international competitiveness of the world second largest industrialized country. Since the fastest flow of modern technology goes through international direct investments; Russia has to make all efforts to attract those. The ongoing privatization of important segments of key sectors of the Russian industry is an important move towards the transformation of the economy into a market economy. The simultaneously necessary modernisation process of the Russian industry needs, however, also international capital and international technological know how. At present it is alarming that important Russian discoveries cannot be protected by the filing of international patents because of absence of the necessary foreign currency to pay for the costs of patent application and patent filings.

It is estimated that in order not to widen the gap between Russia and the western part of Europe any further annual capital imports in the order of 150 Bill. US-\$ would be needed for Russia alone. 5) This figure although unrealistic today seems to be rather modest if compared with the 100 Bill. US-\$ which West-Germany channels annually since 1990 into East-Germany with its population of less than 10% of Russia.

II

First, Second and Third World

The egalitarian character of the UN organs which are concerned with economic issues has ultimately led to the result that their decisions were primarily recommendatory or symbolic in character. As a consequence, the "First World", that is to say the 24 industrialist countries of the OECD, used for the economic relations with the "Third World" institutions like the World Bank, the IMF, UNDP, and GATT as a coordinating mechanism for technical assistance to developing countries the Development Assistance Committee (DAC) within the OECD was created.

Within the group of Western industrialised countries the Organisation for European Economic Cooperation was set up in 1948 by sixteen nations of Western Europe primarily to set into motion the American aid programme launched by General Marshall. One year earlier in 1947 a tripartite conference of the United Kingdom, France and the USSR to discuss European acceptance of the "Marshall Plan" broke up on Soviet charges of intended violation of national sovereignty: The two Eastern European countries which had decided to join such a programme, Czechoslovakia and Poland, withdrew. 6)

The "Eastern Bloc" came into being in 1949 with the creation of the Council for Mutual Economic Assistance (COMECON) in Moscow. As soon as COMECON had been formed the Eastern countries also withheld - from 1949-1953 - practical cooperation within the only pan-European economic agency, the United Nations Economic Commission for Europe (ECE), created in 1947.

For more than 40 years the two parts of Europe went into different directions in their political and economic development.

The distinction between "First", "Second" and "Third World" became apparent with the creation of the "Group of 77" at the first session of the United Nations' Conference on Trade and Development in 1964.⁷⁾

We are not dealing in this paper with the issues of developing countries, although in hindsight many of the East-West tensions can only be understood in the combat for influence in the developing parts of the World.

III

The Starting Point

Forty years of maximization of Intra-COMECON trade have meant that the concerned economies have been sheltered from international competition. The example of the integration of the East German industry into the West German system and into the European Community has been an "eye opener" for many observers. The former GDR has been for many years a main supplier of sophisticated machine tools, optical instruments and electronic goods for its former COMECON-partners. The sudden opening of the border after the reunification has also meant sudden exposure for Western competition for which the East German economy was not prepared at all. Neither quality nor production costs were up to the Western standard. Simultaneously to the Western competition came the sudden breakdown of the traditional East German export markets in the former COMECON countries. The result is a dangerous wave of company closures in East Germany leading to highlevel unemployment, to migration of the labour force to West Germany which also finds it difficult to cope with the worldwide recession and with the fear of a process of deindustrialisation of East Germany. Only massive transfer payments in the order of 100 Billion per year from West to East Germany can temporarily compensate for the break down of the industrial infrastucture.

The East German example is to a large extent symptomatic for all former COMECON countries in general and for the Russian economy in particular. On the other hand Russia is by the sheer size of its economy less dependant than smaller countries on foreign trade relations.

IV Management

Training

In a recent OECD analysing impediments for the Economic Integration of Eastern and Western Europe inadequate business skills were highlighted as a particular severe factor. The lack of experience in foreign trade and in working with market institutions were especially mentioned. The study noted "such notions as export market research, marketing strategy, consumer behaviour, product development, agents and distributions, project evaluation, stock exchange, etc. are meaningless for the majority of the exporters in one of the former Soviet Republics, to say nothing of the new-to-market entrepreneurs. "8)

It is for this reason that the OstWestWirtschaftsAkademie (The Academy for East-West Economic Cooperation) in Berlin has been created. The Academy is a collection effort of some 60 industrial enterprises, bank and consulting companies to provide management know-how for interested partners in Central and Eastern Europe. The academy in Berlin is one year older than the International University in Moscow. It is more than a symbolic gesture that the two institutions join forces.

Our experience with more than 3000 participants in our seminars and international conferences is available. It is realized that there are presently virtually no textbooks on management on the market which reflect the western experiences and adjust them to East European needs and conditions.

The Need for a Strategic Plan

The Russian Government and its many western advisors in the International Funding institutions and in the academic world are in basic agreement that a profound transformation of the entire economy is being called for. It is a process of extraordinary complexity as it involves at least four major tasks:

- The definition of a new national identity supported by a new state and administrative structure;
- the reform of the political system on all levels;
- the reorganization of the entire economy; and
- the reorientation of the foreign and security policy involving moving away from a highly militarized form of society.⁹⁾

There is also widespread agreement that such an enormous task cannot be achieved by Russia alone. There are many bilateral and multilateral actions. But there is no master plan, there is no overall concept, there is no overall coordination.

Perhaps the time has come to reconsider the formula which made the "European Recovery Programme" (ERP) such a legendary success story.

In his speech before the American University of Washington on March 24, 1993 Foreign Minister Kosyrew (?) in a sense the famous speech which his earlier American college Secretary of State Marshall delivered in 1947 at another W.S University, namely at Harvard.

What Foreign Minister Kosyrew suggested is a very pragmatic approach:

- The elaboration of a cooperation framework of 5 to 7 years between Russia and the G-7 in various areas including Finance, Technology, Trade, Economy and Investment;
- the creation of a common mechanism for the coordination of such a cooperation;
- the elaboration of a time-frame to accept Russia as a full member of the G-7;
- arrangement for the repayment of debts and for provision of liquidity for the Fund to stabilize the Rubel.¹⁰⁾

Already two years earlier, i.e. in 1991 the Economic Commission for Europe (ECE) of the United Nations has proposed - for the same reasons - the launching of a "Second European Recovery Programme". The ECE like Minister Kosyrew called for a comprehensive technical Programme with well defined targets and a limited time-frame. 11) The ECE initiative similar to the proposal of Mr. Kosyrew or the idea to launch a Pan-European Recovery Agency similar to the OEEC had, unfortunately, little response.

Of course, the situation is in many ways different today. In 1947 there was only one donor country, today there are at least 24 plus 7 international organizations. The bilateral interests of the various donor countries are not the same, neither are the priorities of intergovernmental agencies identical.

But all this is one more compelling reason to create as a matter of urgency a strategic overall concept for the Economic Recovery of Russia and for its integration of the International System. There should be a coordinating agency within Russia overseeing both the governmental actions and encouraging increasing involvement of the non-governmental players, i.e. primarily industry, Banks, scientific and technological institutions. This agency should monitor the multitude of initiatives by the international systems with possible impacts on Russia. For example the white paper on "Growth, Competitiveness and Employment" issued by the commission of the European Community on December 5, 1993 in order to launch a sort of Economic Recovery Programme for the member states of the country is also of highest importance to the Russian economy. 12)

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- 2) L'Huillier, F. (Ed.) *Les Institutions Internationales et Transnationales*, Paris 1961, p. 10
- 3) Finkelstein, L.S., *Politics in the United Nations System*, Durham and London 1988, p. 121
- 4) cf. Kaser, M., *COMECON*, London, New York, Toronto 1965, p. 9
- 5) Saurant, K. P., *The Group of 77*, New York, London, Rome 1981
- 6) cf. OECD, *Economic Integration*, Paris 1993, p. 111
- 7) Gramatzki, H-E., Klinger, F. and Nutzinger, H. G. (Editors), *Wissenschaft, Technik und Arbeit: Innovationen in Ost und West*, Kassel 1990
- 8) Handler, H. and Steinherr, A., *Capital Needs and Investment, Financing in Eastern Countries*, Wifo working papers 55, 1992, p. 16, quoted in: Fink, G. and Barisitz, S., *Ein Kalender der Hoffnung - Fur eine Reorientierung der Osthilfe*, in: *Osteuropa Wirtschaft*, 3/93 September 1993, S. 220
- 9) Buchs, T. et al., *Central Europe, Russia and Ukraine, the Economic and Political Conditions for Foreign Direct Investment*, Programme for Strategic and International Security Studies, Geneva July 1993, p. 3
- 10) AP, 25.3.1993 as quoted in: Hohmann, H.-H. and Meier, C, *Unterstützungskonzepte auf dem Prüfstand*, *Berichte des Bundesinstituts für ostwissenschaftliche und Internationale Studien* Nr. 19 - 1993, p. 15
- 11) UN/ECE, *Economic Bulletin for Europe*, Vol. 43, 1991, pp. 1 - 12 cf. also Fink, G. and Barisitz, S., *Ein Kalender der Hoffnung - Fur eine Reorientierung der Osthilfe*, in: *Osteuropa Wirtschaft*, 3/93, September 1993, pp. 218 - 230
- 12) Weidenfeld, W. and Huterer, M., *Der Westen und die Stabilisierung der Demokratien- in Osteuropa*, in: *Europaarchiv*, Nr. 12, 25.6.1992, pp. 325 - 334
- 13) *Kommission der Europäischen Gemeinschaften, Weißbuch: Wachstum, Wettbewerbsfähigkeit, Beschäftigung, Herausforderungen der Gegenwart und Wege ins 21. Jahrhundert*, KOM (93) endg., Briissel 5.12.1993

- 14) cf. Bergedorfer Gesprächskreis, Wird der Westen den Zerfall des Ostens überleben? Politische und ökonomische Herausforderungen für Amerika und Europa, Protokoll Nr. 99, 1993
- 15) Quotation in: Nolden, H.-W., RuBland - Versuch einer Zwischenbilanz, Köln 1992, p. 28
- 16) Hilfe der USA an RuBland, in: Amerikadienst, U.S. Information Service, 20.1.1994