The Integration of the Russian Economy in the International System

Address by Klaus-Heinrich Standke *)

on the occasion of the Honorary Doctorate Award Ceremony at the International University of Moscow

February 10, 1994

*) Prof. Dr. Drs. h. c. Klaus-Heinrich Standke, President, The Academy for East-West Economic Cooperation, Berlin former Counsellor, Directorate for Scientific Affairs, OECD, Paris former Director for Science and Technology, United Nations, New York former Principal Director, Science Sector, UNESCO, Paris
the International University is doing me today a great honour. Since I have devoted my entire life to the cause of international affairs and international cooperation, I am particularly sensitive to this gesture of recognition with its deep symbolic significance. The name of this new University is already its programme. The foundations you are laying here in the minds of the young student body are important for the future of the whole country. "International" ist the name of the game. The fact that some of the most prestigious names of contemporary Russia, President Boris Yeltsin as Chairman of the Board of Governors, Professor Gavriil Popov as President and Professor Gennady Yagodin as Rector, gives this new University from the outset an international prestige.

I am proud, as of today, to be counted among those who have personal strong bonds with the International University of Moscow.
The international system is conceived as a global system which encompasses all the communications that 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 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 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 a 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 (including China, the United Kingdom, the United States, and France, which joined a few month later) that submitted proposals leading to the United Nations Conference on International Organization, which convened in 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 that is now occupied by Russia.
The egalitarian character of the UN organs 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 industrialized countries of the Organisation for Economic Co-Operation and Development (OECD), used such institutions as the World Bank, the International Monetary Fund (IMF), The United Nations Development Programme (UNDP), and General Agreement on Tariffs and Trade (GATT) for economic relations with the "Third World". As a co-ordinating mechanism for technical assistance to developing countries, the Development Assistance Committee (DAC) within the OECD was created.

Within the group of Western industrialized countries, the Organisation for European Economic Cooperation (OEEC) 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. In consequence, the two Eastern European countries that had decided to join the Marshall Plan, Czechoslovakia and Poland, were compelled to withdraw.3) The OEEC, with the addition of the United States and Canada, and eventually six other nations, involved into the OECD and became a major vehicle for economic cooperation among the 24 member governments.

The "Eastern Bloc" or the "Second World" 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 to 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 1964.4) The Group of 77 comprised "Third World" or developing countries not formally allied with the capitalist or communist blocs.

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 terms of the combat for influence in the developing parts of the World.
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 Charter intended that the United Nations should be an important decision-making forum for economic policy."5)

Since the Soviet Union, like the other socialist countries, did not join the World Bank and the other Bretton Woods institutions, it had no effective input into multilateral economic world affairs. 6) The roots for this development are deeper:

It was the deliberate policy of Lenin and Stalin not to integrate the Soviet Economy into the World Economy.7) The principle of economic autarky was after World War II extended to the region of all COMECON countries.
40 years of industrialization within the "Comprehensive Programme" aiming at a high degree of specification of entire branches of industry within the intra-COMECON "socialist division of labour" have left the former member states as well as the new CIS countries stranded with oversized mostly technically desolate production facilities in certain branches of industry. In other branches there are no production facilities at all. This uneven distribution coupled with a severe spareparts shortage leads to dangerous breakdowns of entire segments of the economy.

Furthermore, 40 years of maximization of intra-COMECON trade have also meant that the concerned economies have been sheltered from international competition. The example of the integration of East German industry into the West German system and into the European Community has been an "eye opener" for many observers. The former GDR was 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 reunification also meant sudden exposure to Western competition, for which the East German economy was not prepared at all. Neither quality nor production costs were up to Western standards. Simultaneously with 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 high levels of unemployment and to migration of the labour force to West Germany which also finds it difficult to cope with the worldwide recession and with the real danger of a process of de-industrialization of East Germany. Only massive transfer payments in the order of US-$ 100 billion per year from West to East Germany, as earlier mentioned, have temporarily compensated for the breakdown of the industrial infrastructure.

By no means can the transformation of the East German economy serve as a model for other East European countries and yet, 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 dependent on foreign trade than smaller countries.

Whereas international cooperation by the former COMECON countries had its main emphasis on inter-governmental relations, the Western countries have developed in parallel to inter-governmental cooperation a systematic network of commercial and non-governmental relations.** This type of cooperation with its virtually millions of personal international interactions on what one might call "the micro-level" has become more effective than the governmental network. For example, international technological cooperation of the Western industrialized countries takes place increasingly through mergers, joint ventures, consortia of companies or groups of companies. 9)
In 1990 less than 30% of international trade in capital goods took place between multinational corporations or between companies which have joint organisational or capital interest. At the end of the 1980s, more than 50% of technology-based capital goods took place between this category of companies. 10) The same phenomenon can be observed in the reciprocal flow of direct investments among the OECD countries and the increasing development of the newly industrializing Asian countries.

There is also a multitude of international mechanisms in which national governments, international agencies and the private sector interact. Examples are the EUREKA formula launched by the EEC 10) or the many consortia in which various partners attempt "a la carte" to achieve common commercial, technological or scientific targets. 11)

Russia is practically left out of this process. This is tragic and will have severe consequences for the international competitiveness of the world's second largest industrialized country. Since the fastest flow of modern technology goes through international direct investments, Russia has to make greater efforts to attract such investments.

The ongoing privatization of important segments of key sectors of Russian industry is an important move towards the transformation of the economy into a market economy. The simultaneously necessary modernisation process of Russian industry also needs, however, international capital and international technological know-how. At present it is alarming that important Russian discoveries are very often not adequately protected by international patents because of absence of the necessary foreign currency to pay for the costs of patent application and patent filing.

It is estimated that in order not to further widen the gap between Russia and the Western part of Europe, annual capital imports in the order of US-$ 150 billion would be needed. 12) This figure, although unrealisable today, seems rather modest if compared with the US-$ 100 billion which the former West Germany has channeled annually since 1990 into the former East Germany, with its population of less than 10% of that of Russia.

Since international financial assistance and international technical assistance are of the essence for the economic rebirth of Russia, the country - unlike the Soviet Union - has become a member of the Bretton Woods Institutions (International Bank for Reconstruction and Development, International Monetary Fund and International Finance Co-operation). The Russian Federation is also a member of the European Bank for Reconstruction and Development.
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 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. 13)

There is also widespread agreement that such an enormous task cannot be achieved by Russia alone. There are many bilateral and multilateral activities under way. 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 success story.

In his speech at the American University in Washington on March 24, 1993, Foreign Minister Kosyrev in a sense echoed the famous speech which his earlier American colleague, Secretary of State Marshall, delivered in 1947 at another U.S. university, namely at Harvard.

What Foreign Minister Kosyrev suggested is a very pragmatic approach:

- the elaboration of a cooperation framework of 5 to 7 years between Russia and the Group of Seven (G-7) in various areas including finance, technology^ trade, economy and investment,
- the creation of a common mechanism for the coordination of such 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 ruble. 14)

Already two years earlier, i.e. in 1991, the Economic Commission for Europe (ECE) of the United Nations proposed - for the same reasons - the launching of a "Second European Recovery Programme". The ECE, like Minister Kosyrev, called for a comprehensive technical programme with well-defined targets and a limited time-frame. 15) The ECE initiative, like the proposal of Mr. Kosyrev or the idea to launch a Pan-European Recovery Agency similar to the OEEC16) received, unfortunately, little if any response.
Neither the discussions of President Yeltsin in December 1993 with the key representatives of the European Union in Brussels nor the visit of US President Clinton in January 1994 in Moscow have triggered off an internationally supported comprehensive transformation programme for the Russian economy.

Similar to the results of the G-7 summits in London, Munich and Tokyo, once again a mixture of bilateral and multilateral support measures were announced. There is no serious proposal for the elaboration of an international comprehensive support Programme (with a capital "P") for the economy of Russia.

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, nor are the priorities of inter-governmental agencies identical.

In 1947 all concerned countries unlike Russia today had market economy traditions. Furthermore, all OECD Countries had medium or small-sized economies, whereas Russia is by far the largest country in Europe.

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 within the international system.

Furthermore, the much higher number of actors today makes it even more important to have an international coordinating and cooperation mechanism in which Russia participates as an equal partner.

There is, however, one serious obstacle of a political and thus psychological nature. Accepting international monetary assistance and even technical assistance means automatically accepting foreign conditions which may be construed as interference within national Russian economic affairs. There is no precedence in the history of the world that a gigantic country like Russia changes its entire economic system within a few months intervals from one extreme position - i.e. central planning - into the other extreme position - i.e. market economy as taught by the Chicago School of Economics. There is no international experience readily available to be copied to assist in this process in motion.

Similar to the experience of Post-War Germany with Ludwig Erhard's "social market economy", Russia has to develop its own concept for the transformation of its economy.
The "Grand Design" for the new Russian economy must therefore be, first and foremost, a Russian-based National Strategic Plan for Economic Transformation. The International System which I attempted briefly to describe can supply external counsel and assistance; it cannot substitute for the national will for the needed reforms. Therefore, in my opinion, two elements must be linked:

In addition to the proposed international mechanism, there should be a coordinating agency within Russia both overseeing governmental actions and encouraging increased 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 system that have 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 Community, is also of highest importance to the Russian economy. 19) Europe today means not only the Europe of the European Union, Europe means East and West together.

During his visit to the European Community on December 9, 1993, i.e. three days before the national elections in Russia, President Yeltsin has signed together with the Presidents of the European Council of Ministers and of the Commission of the European Union, Dehaeve and Delors, a Joint Political Declaration of Partnership between the Russian Federation and the European Union.20) This Declaration prepares the ground for a series of far-reaching cooperation measures with Russia. It does, however, not intend to prepare the way for an Association arrangement similar to the so-called "Europe Agreements" with the Central European countries. The agreements are intended to pave the way for the integration of the countries concerned into the European Union.

Internationalization means also creating networks among cities and regions (Moscow-Berlin and Oblast Moscow-Brandenburg are notable examples), as well as among universities, political parties, trade unions, chambers of commerce and employers associations.

Perhaps the International University could be entrusted, with national and international intellectual support, to draft a report aiming to launch efforts for establishing the proposed Russian coordinating agency for international integration.

A series of public lectures at the International University would, no doubt, attract attention to this issue and lay the ground for this new initiative. It may also find its way into the curricula of the International University.

It is encouraging to note in this context that both the German Foreign Minister Kinkel and the Russian Foreign Minister Kosyrev, in a widely noticed joint newspaper article, are calling for a new "strategy of partnership" of the democratic countries in East and West. They are highlighting the need for a common long-term vision.
They are underlining that one of the most important elements of such a strategy should be the reforms in Russia and in the countries of Eastern Europe. 21)

In order to create new partnerships for the purpose of increasing the effective use of international and national resources through worthy international projects and in order to facilitate the integration of CIS countries into the world economic system, a new non-governmental organisation was recently created in Kiev. The International Committee for Economic Reforms and Cooperation has started its activities on February 1, 1994, with headquarters in Bonn. Other non-governmental initiatives, no doubt, will follow. And yet, an inter-governmental apparatus is also necessary.

I am personally deeply convinced that on a national Russian scale a coordinating agency is urgently needed, and even more so on an international scale an institutionalised mechanism will be needed to make the multitude of well-meaning international efforts to support Russia more effectively.

The difficulties in putting such a proposal into action will be enormous. The problem is best illustrated in my own country. Almost each Federal Ministry of the Government supports financially or executes programmes of relevance for Eastern Europe in general and for Russia in particular. To oversee and to coordinate these efforts the Federal Chancellor has recently appointed a former Secretary of State, Mr. W. Kittel. In addition to these Federal cooperation activities there are 16 "Länder"-governments with their own ministries, many of them entertaining their own privileged relations with East European countries or regions. There are also twinning arrangements between cities and regions as for instance between Moscow and the Oblast Moscow and Berlin and the Land Brandenburg. As far as Russia and the other CIS countries are concerned, there is the TACIS programme administrated by the European Unions and strongly influenced by national competing interests. I am not attempting to list all international financial institutions or inter-governmental agencies which - although multilateral by appearance - are also reflecting the interest or priorities of the donor countries.

In short, the international system is polycentric. To make the best use of it, it needs special skills which have many symptoms of an occult science.

It is realized that the international community hates the idea of setting up new international bureaucracies. But the case of Russia is of such importance to the well-being of all others that special action is called for. A special task force with a fixed-term time horizon linked, for instance, within the OECD may be a good beginning.

The nucleus of the necessary secretariat support within the OECD in form of the "Centre for Co-operation with European Economies in Transition" does already exist.

The smooth integration of Russia into the international system is, in my opinion, as important for Russia as it is for the international system itself and its stability.22)
In a recent OECD report analysing impediments to the economic integration of Eastern and Western Europe, inadequate business skills were highlighted as a particularly severe factor. The lack of experience in foreign trade and in working with market institutions was especially mentioned. The study observed that "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 the former Soviet Republics, to say nothing of the new-to-market entrepreneurs. "23)

It is for this reason that in 1990 the OstWestWirtschaftsAkademie (Academy for East-West Economic Co-operation) in Berlin has been created. The Academy is a collective effort of some 60 industrial enterprises, banks and consulting companies to provide management know-how for interested partners in Central and Eastern Europe. The Academy in Berlin is three days older than the German re-unification and one year older than the International University in Moscow. It is more than a symbolic gesture that the two institutions join forces. Both could complement each other. Whereas we concentrate on the target group "senior management", the International University is focusing its efforts on the next generation. Both have to interact.

Our experience with more than 3000 participants in seminars and international conferences is available. It is realized that there are presently virtually no textbooks about management on the market reflecting Western experiences and adjusting them to East European needs and conditions.

Western case studies make certainly interesting reading for students of international management in Russia, but their applicability is rather limited. A special effort is needed to elaborate adequate teaching material.

Our own experience shows that the best result can be achieved if participants come from the same branches of the economy.

Let me give you a concrete example which is without precedence:

The Russian Ministry of Fuel and Energy has recently commissioned the Academy for East-West Economic Co-operation to train, within a time frame of the years 1994 - 1997, 3000 top managers from all four energy fields - coal, gas, oil and electricity.

The first seminar is scheduled to begin in April 1994.
Four main topics will be taught in 1994:

1. The transformation of the Russian energy sector through the creation of market-oriented competitive enterprises,
2. Organisation, management, innovation and capital as central issues of the enterprise structure after privatization,
3. Market orientation and competitiveness of products,
4. Personnel policy and personnel management, leadership, motivation, creativity, legal and social aspects.

I suggest that the International University would benefit in the next four years from this International Energy Management Programme and perhaps also offer its students a special course on the strategic issues of energy management.

The international faculty of this course could consist of the same experts who come to Moscow for this four-year training programme as faculty members.

As this ambitious energy management programme demonstrates, three main aspects of the integration of the Russian economy into the international system can be achieved simultaneously:

1. Provision of modern management thinking in a sector which is the most international of all, i.e. energy,
2. Provision of the motions for the technological modernisation of the energy sector,
3. International networking through personal connections of thousands of executives within a structured programme and defined time frame.

It is worthwhile to recall when referring to the internationalisation of the Russian energy sector in strict harmony with the priority transformation needs of the national economy that at the very beginning the engine of the West European economic integration as proposed by Jean Monnet was also energy: The nucleus of the present "European Community for Coal and Steel" in Luxembourg. "Coal" is today only one of the energy supplies and "Steel" can be seen today also in the larger framework of "materials" in general.

If successful, the formula of the above mentioned Energy Management Programme can be repeated for other multi-billion-dollar infrastructure sectors:

- environment,
- transportation,
- telecommunications,
- health,
- agriculture.
The integration of these key areas of the Russian economy into what we called the international system is the pre-condition for the functioning of the multitude of necessary interactions of the Russian economy with the economies of the OECD countries.

However, what is technically feasible and what is financially not out of reach hurts itself on one key barrier which cannot be quickly fixed by technology or by money. This may be called "the mentality problem in the transition process from centrally planned economy to market economy." 24)

What has been built up since the October Revolution in 1917 cannot change within two or three years. It will take the time span almost of a generation to change value systems. The introduction of a market economy calls for a particular "economic culture" not only for the decision-makers in the government and for the leaders of the economic sector, but for the entire population. This "culture change" takes time and must be well prepared. Perhaps the International University can play here its most important role. Your alumni will be the leaders of this country tomorrow.

The change of values and of targets is not an issue for the leaders in government and in the state owned and privatised companies of Eastern Europe and of Russia alone. It is also of increasing concern in Western societies. In spite of the obvious common features in management approaches of marked economies, there are instinct differences in the leadership philosophy of the OECD countries. This is not only between the United States, Japan and Western Europe, it is also an interesting phenomenon between neighbouring countries like, for example, Germany, France and the United Kingdom. These differences because of their deep cultural (and often religious) roots habe also to be taken into account when we speak about the International System. 25)
VI

Conclusions

Let me conclude with 7 observations:

1. Russia, having been for more than 70 years part of the Soviet Union and therefore of the former "socialist bloc" or the "Second World", was deliberately locked out of developments in the industrialized OECD countries of the so-called "First World".

2. In its international relations, Russia almost exclusively used multilateral or bilateral governmental channels. Because of its non-existence the important private sector was left out. In the science and technology world system, Russia (or the USSR) entertained close relations with the scientific community, but on the equally important and perhaps more important technology side it was isolated. COCOM restrictions or secrecy related to military and space technology achievements prevented the free flow of information and of contacts.

3. To be fully integrated into the international economic system, Russia needs a "Grand Design". Monitoring of developments in the international agencies in which Russia is a member state should be done systematically. Monitoring of developments in agencies in which Russia is not - or not yet - a member (OECD, EEC, Council of Europe) is almost more important.

4. Completely undeveloped is the monitoring of developments in the NGO sector, for example: International Chamber of Commerce, UNICE, BIAC, EIRMA, IRI, ERT, Caux Round Table as well as developments in selected national confinements are of the essence.

   The participation of Russian leaders in the World Economic Forum in Davos is a positive and widely noticed development.

5. The expected invitation for Russia to join formally the G-7 to make it "G-8" is supported by President Clinton and by Chancellor Kohl.26)

   In a first step this invitation will presumably be extended to cover the political stewardship of the group. The economic dimension, no doubt, will follow at a later stage.
6. In order to coordinate the scattered international efforts to support Russia in its economic reforms the setting-up of a special international task force combining Russian expertise with international expertise, perhaps linked with the OECD, should be considered.

7. The role of education and of management training at all levels should have priority in all national and international action programmes. No monetary or fiscal measures can ever be effective, if the human factor is neglected.

This new International University has all the assets to set a new internationally geared thinking process into motion.

I wish you all success.

* * * *

* * * *

Moscow, February 10, 1994
References:

1) Knorr, K. and Sidney, V. (Editors), The International System, Princeton University, Press 1961, pp. 80 - 83


Standke, K.-H., Die multilateral© technische Zusammenarbeit im System der Vereinten Nationen, in: Vereinte Nationen, Nr. 2 / 84, April 1984, pp. 50 - 54


6) Gold, J.: Membership and non-membership in the International Monetary Fund: A study in international law and organization, Washington D.C.


9) cf. OECD, Economic Integration, Paris 1993, p. III

10) Riesenhuber, H., EUREKA ist ein offener Rahmen für Initiative aus Industrie und Wissenschaft, in: Gertoberens, K. and Hoffmeister, M (Editors) Forscher für Europa, Gutersloh / Munchen 1990, pp. 7 - 10
11) Standke, K.-H., Europa muß seine Forschung bundeln, in: Gertoberens, K. and Hoffmeister, M (Editors) op. cit., pp. 93 - 102


13) 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, Geneve July 1993, p. 3


17) Kein Marshallplan für Rußland, Der Tagesspiegel, 27.02.1994, p. 21


21) Kinkel, K., and Kosyrew, A.W., Strategic der Partnerschaft: RuBlands Große wird nicht von der Zahl seiner Soldaten bestimmt
in: Frankfurter Allgemeine Zeitung, 18.2.1994, p. 3.

22) Hilfe der USA an Rufiland,

23) OECD, Economic Integration, op. cit. P. 211

24) Gumpel, W., The Mentality Problem in the Transition Process from Centrally Planned Economy,
in: Schonfeld, R. (Editor), Transforming Economic Systems in East Central Europe, Munchen, 1993, pp. 191 - 197


26) Frankenberger, K.-D., G 7, G 8, G was?
in: Frankfurter Allgemeine Zeitung,
01.02.1994, S. 10.