POST SOCIALIST STATES IN THE SYSTEM OF GLOBAL CAPITALISM: A COMPARATIVE PERSPECTIVE

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David Held and Andrew McGrew, in a widely accepted definition, refer to globalisation as 'the historical process which transforms the spatial organisations of spatial relations and transactions, generating transcontinental or interregional networks of communication'[1]. One might distinguish between the economic dimension made up by transnational and international corporations[2] and the cultural ideological sphere embracing a market ideology and a consumerism ethic[3]. This paper is restricted to the economic dimension of global transformation of the countries of Eastern Europe and the former USSR, and comparisons are made with the advanced Western countries, Latin America and China. After outlining the role the state socialist countries played in the world system, I consider the place of the economies of the post-socialist countries in the world economy. The focus of the paper is on the extent of economic globalisation of countries and their economic corporations. Since 1989, important differences have developed between the post-socialist states with respect to economic penetration and exposure to the world market. Greater participation in the global economy is characteristic of the central European states and Estonia; whereas Russia has a hybrid social formation containing elements of state economic control, national capitalism and global capitalism. The outcomes have not fulfilled the expectations of those advocating entry into the world economy. There has been a decline in their relative economic and welfare positions, though some countries have fared worse than others. While there are important differences between the countries of CEE and Latin America, it is concluded that they have many common features distinguishing them from the core capitalist countries and China and Russia. It is contended that some countries of the ‘semi-periphery’ have possibilities for development without being part of the ‘core’ states of the world system. To substantiate these viewpoints, I evaluate the global presence of the former state socialist societies. I focus on the transnational companies in comparative perspective of the core capitalist countries. Transnational influences are also surveyed in terms of foreign investment dependency on foreign company affiliates. Innovation and economic advance is measured by the spending on research and development. Finally, are considered the effects of transformation on human development.

State Socialism and the World System

The world system orientation conceptualises the world economy in three main sectors: the hegemonic core (the dominant 'Western' capitalist countries), the periphery (developing countries of the South) and the semi-periphery - countries with industrial capacity and national capital outside the capitalist core. The semi-periphery is regarded as a transitionary formation.

State socialist countries were part of the semi-periphery. There were no 'socialist economies'. Wallerstein claims that the world capitalist economy included the 'entire world, including those states ideologically committed to socialism'[4]. State socialist systems, it is contended, were not socialist modes of production, but interacted with the capitalist world economy. The socialist state, which exhibited some features of socialism (e.g. employment security, comprehensive welfare provision) nevertheless became a major player in capitalist accumulation, which in turn provided a basis for reintegration into the world capitalist system[5] from around the 1970s. Following the Second World War, such writers argue that international capital had penetrated the socialist bloc and had undermined it[6]. This line of reasoning would lead to grouping the socialist states with those of the dependent countries of the South, such as Latin America. It also has the implication that the transformation itself was not a qualitative change from socialism to capitalism, but a shift between different forms of capitalism.

There are two main economic arguments put forward in support of the thesis of incorporation into the world economy. First, the increasing levels of imports, and consequent high levels of foreign debt, created dependency on the Western capitalist system. Second, the growth of communist transnational corporations - which led to an internal capitalist dynamic. I discuss these in turn and conclude that the Soviet bloc was not part of the world capitalist economy.

The socialist countries increased their trade from the 1950s to the 1985 at a higher rate than developed capitalist economies[7]. But these developments do not, as contended by world system theorists, involve a high level of dependency on the world capitalist market. If we disaggregate the trade by different blocs, we find that the state socialist societies were far from being included into the world economic system. Consider data for 1983, before Gorbachev's perestroika policy. By far the highest share of trade turnover was between the socialist countries themselves. Capitalist countries played a relatively minor role. Even for the highest traders with the capitalist world (Hungary, USSR, and the GDR) turnover was a third or under and for most

COMECON members it was under 20 per cent[8]. The scale of imports from capitalist countries, moreover, was not great. In 1984, imports from non-socialist countries constituted only 1.39 per cent of gross national product for the USSR, 4.2 per cent and 2.1 per cent for Hungary and Poland[9] - the largest importers. The dollar values of imports expressed as an average per capita of the population were only $97.7 for USSR, though a considerable $307.2 for Hungary[10].

A second development was the growth in debt to Western governments and financial institutions. By 1973, gross indebtedness was some $17.6 billion[11] and by 1985 had risen to $48.8 billion[12]. However, it was distributed very unevenly: of the total East European (excluding USSR) debt in convertible currency, Poland accounted for over half ($25.7 billion) and the second largest debtor country was Hungary; both financed their Western imports through loans from the West. Some scholars extrapolating from the example of these two countries come to quite the wrong conclusion. The Soviet block as a whole was not in any serious financial difficulty. East Europe and the USSR's total export earnings covered imports, with a large positive trade balance in 1984 and only a 2 per cent deficit in 1985[13].One could not argue that the Soviet bloc as a whole was in a financial crisis which precipitated the transformation entailed by perestroika. The Soviet block was a relatively independent autonomous economic entity.

A critical component in the globalisation of capitalism is the interpenetration of companies between nation states – the rise of international corporations. For globalisation in any significant way to be a component part of the former state socialist economies, one would expect to find the presence of global companies. Study of developments before 1985, however, shows that inflows and outflows of investment capital were not very significant on a world scale.

Outward investment from the state socialist countries went both to the advanced capitalist nations and to the Third World. It included the setting up of offices of companies abroad (such as Aeroflot and Moscow Narodny Bank) which were registered in the host states. Carl H. McMillan estimates that by 1983 some 500 companies in OECD countries had equity participation from state companies in Comecon countries[14]. But the scale of such investment was small: a total of only $550 million in 1983 and more than half of this was capital in banks and financial companies[15].

The Third World accounted for approximately a third of outward investment which was directed to resource exploitation and was in small local companies. Even relatively medium sized TNCs like Pepsi Cola (55th in world rank)had a greater share in the world stock of foreign investment than did all the state socialist countries combined. In 1985, the socialist countries (excluding China) accounted for only between 0.1 and 0.2 per cent of the world stock of foreign direct investment; whereas IBM alone had 3.32 per cent[16]. Moreover, one must take into account the political factor. The socialist economic corporations were controlled by the home governments, they did not operate with the freedom of capitalist firms and they exerted little pressure over governments. Essentially (and what is missed by many world system theorists) economic coordination was bureaucratic in nature - not performed through markets.

Direct foreign investment into the socialist states was relatively low before the mid 1980s. The loans mentioned above were the financial side to the growth of East-West trade agreements which enabled the exchange of licenses and designs, co-production ventures (usually Western firms providing key components)[17]. But there were few transnational corporations in the socialist countries. Until 1975, only five joint ventures had been established between enterprises in the COMECON countries and the West[18].

But there were already important differences between the socialist countries. Poland and Hungary had small but significant Western investments from the 1970s[19]. Hungary by 1986 had given enterprises the right, with relatively few restrictions, to engage in foreign trade. The object of the reforms was '…a fuller integration of the national economy in the world economy'[20]. In Poland, by 1986, 695 foreign enterprises were in operation[21]. They were, however, a relatively small contribution to the economy: such enterprises accounted for about 1 per cent of sales even in 1987 and employment was only 0.4 per cent of the total[22].

In the USSR, strong controls were exercised over foreign companies, some (such as Pepsi Cola and Fiat) were given licences to produce under government control. And there were limitations on the foreign owners. Only in the mid-1980s did the government encourage FDI and, under Gorbachev, liberalisation of trade took place, special areas of joint entrepreneurship were established and free economic zones were set up though they were not very successful[23].

Moreover, they were not dependent on the world capitalist system in the same way as were Latin American countries which had a long and continuous history of European and American investment (as well as their own indigenous entrepreneurs and land owners). The state socialist semi-periphery was a relatively independent autonomous economic entity, not closely linked to, let alone integrated into, the world economic system. Superstructural institutions (such as ideology and a dominant communist party) are beyond the scope of this paper, but they too were not supportive of capitalistic market forms of accumulation. The centrally directed system, which operated on a country level, as well as regionally through COMECOM (Council for

Mutual Economic Assistance), greatly limited the extent of interaction with the world capitalist economy. Hence the context in which capital accumulation occurred was quite different from that of modern capitalism. A qualitative shock, a transformation, was required to push the state socialist societies into the world system. This came with the reform programme of Gorbachev.

Gorbachev recognised the importance of the world economy. 'The world economy is a single organism, and no state, whatever its social system or economic status, can normally develop outside of it…. This places on the agenda the need [for]… a new structure of the international division of labour'[24]. Exclusion from the global economy, he contended, had a detrimental effect on the development of the USSR and the socialist bloc[25]. Gorbachev had no doubts that the USSR should (and would) join the 'core' nations of capitalism, returning to its European home.

The Consequences of Reform: The Shift to a Global Economy

After 1989, the move to markets and private property strongly impacted on the shape of foreign trade, foreign investment and the place of the post-communist countries in the world global order. The global dimension of change is usually regarded positively as part of the victory of liberalism and democracy, globalisation in this perspective empowers people through the development of wealth, communications (travel, networks) and culture. Others contest this judgment and contend that globalisation has negative connotations. Global corporations and political organisations disempower individuals and weaken the responsibility of states because the processes of government, previously answerable to polyarchic interests, have been superseded by global (and non-accountable) decision-making by transnational organisations. Asymmetric relationships develop between the core industrialised and militarised countries and the periphery.

The reformed central and east European countries (CEECs) of the former socialist bloc have joined the world economic system through their membership of the European Union. In doing so they have become absorbed into the economic mechanisms dominated by the hegemonic old member states of the EU. The countries of the CIS, while moving towards the world economic system, have remained in many respects in the semi-periphery. They now share some of the economic features of the Latin American countries. Putin, Medvedev and others claim that Russia has not only survived, but is now sufficiently strong to be considered as one of the world's leading states and economies. I will argue below that, on the contrary, Russia's power (unlike that of China) has declined and the economy has inherent weaknesses which preclude it from becoming a major world power, at least in the foreseeable future.

Following the collapse of Comecon and the opening of markets to the West, capital flowed to the former state socialist societies. However, in comparison with advanced countries of the West such flows were relatively small. As the amount of FDI can vary greatly from year to year, reflecting foreign purchases or investments of a 'one off' nature, EBRD has aggregated the inflows over the period of transformation (1989 to 2005)[26]. The average for the CEECs was $2,714 per capita; for the Czech Republic the sum came to $5000. For the CIS states, the average was only $643 per head. The FDI stock in 2006 for Russia came to 197.6 billion dollars, by comparison, for China it was 292.6 billion; this places Russia just above Ireland which had a stock of 179.0 billion, and China is just below Italy which had 294.8 billion. West European countries are in a different league: the comparable figure for Germany is 502.3 and UK 1,135.3[27]. These figures represent purchases of assets in the host countries as well as capital investments in private companies. To what extent then, did the privatization of companies in the post socialist countries lead to the growth of corporations having a world ranking?

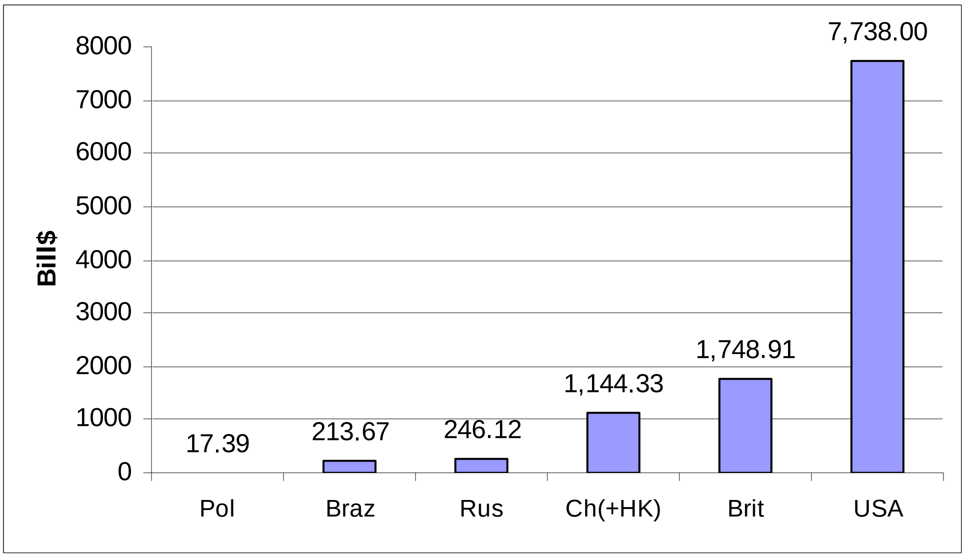
The economic power of capitalist companies is evaluated in two ways: by measuring their revenue and by their market valuation. On the basis of these measures, the post-socialist countries have very low rankings. Fortune magazine publishes a list which is based on revenue[28]. This list has the advantage of including companies not quoted on the stock exchange (and therefore having no market valuation). In the July 2008 edition (data for March 2008)[29] of Fortune 500 top global companies, the United States has 153 companies, followed by Japan with 64; France (38) and Germany (39) were also significant; in Latin America, there were just 10 companies divided equally between Mexico and Brazil. The only post socialist country to have any significant number of companies is China with 29; Russia had only five, four in the energy sector and one bank; the post-communist countries in the EU had only one representative: Poland with one company. The total revenue and profits of these companies is relatively small in comparison to the top Western corporations. Gazprom, the highest post communist earner had a smaller profit than Exxon Mobil, thought a much higher proportion of its revenues in 2008.

A similar picture appears when we consider companies by market value[30]. The FT Global 500 allocates companies to a parent country on the basis of 'incorporation, stock market listing and market perception'. On this basis, in 2008, there are 169 companies with American ownership, followed by UK with 35, Japan had 39; the post socialist countries include China and

Russia with 25 and 13 respectively; of the EU post socialist member states, Poland had 2 and Czech Republic 1; the whole of Latin America had 17: eleven from Brazil, 4 from Mexico and one each from Argentina and Chile[31].

The sum of revenues earned by companies in the top 500 global for USA, UK, China, Russia, Brazil and Poland, is shown in Figure 1. Data here illustrate the vast qualitative gap between the USA and Russia and China. In terms of market value, these data put in perspective the economic wealth of the two major post-communist countries: in terms of revenue, the companies in the United States earned 31 times more than Russian ones. In this respect, Russia is comparable to a country like Spain. The new member post-socialist EU member states (as illustrated by Poland) hardly come into the picture. Brazil is comparable in company earnings to Russia.

Figure 1. Total Revenue in Top 500 World Companies located in USA, Britain, China, Russia, Brazil and Poland, 2008.



Earnings of companies in the world top 500, as published by Fortune Magazine 2008, [http://money.cnn.com/magazines/fortune/global500/2008/countries/US.html. Accessed 13 September 2008](http://money.cnn.com/magazines/fortune/global500/2008/countries/US.html). Calculated by author.

File in HarvCam 08 Data Files.

Even with reservations about inadequacies in the data bases, the evidence shows quite conclusively that the economic power of Russia and China, as measured by the presence of large scale companies, is at a lower level than the advanced Western states - particularly the USA. China is an emerging power and has a stronger profile in terms of economic sectors, Russia being limited to companies in the primary sectors – oil and gas and materials and is particularly lacking in high tech industries. The countries of CEE and Latin America (with exception of Brazil, which is more comparable to Russia) form a separate grouping, outside the core capitalist countries, having an insignificant number of large nationally based global companies.

The Distribution of Transnational Companies

A crucial feature of the relationship a country has to the world economic system is the extent to which its economy is penetrated by foreign corporations. Transnational corporations (TNCs) are a major economic instrument of international business and are constituted of parent enterprises and foreign affiliates[32]. The top 100 companies (ranked by foreign assets) include only those with affiliates in majority ownership[33]. In 2005, they accounted for 10%, 17% and 13% respectively of foreign assets, sales and employment of all TNCs[34]. Eighty four of the companies have headquarters in the EU, Japan and the USA, the largest cluster of which is the USA with 24 corporations. The transnational corporations have immense economic (and consequently political) power. In 2005, 54.5 per cent of the assets of the world's 100 largest TNCs were located outside the home of the corporation, as were 55.5 per cent of sales and 53.1 per cent of their employees[35]. Profits, of course, were repatriated to the owners in the home countries and thus wealth is transferred to the hegemonic states.

The companies formed after the collapse of state socialism have little presence in the world of such transnational companies. In the UNCTAD 2007 World Investment Report, there is not one former European communist country in the top 100 non-financial companies. China also has no company, though Hong Kong has one (Jardine Matheson Holdings Ltd) in 97th place[36]. In the whole of Latin America, there was only one company: Cemex Sab De CV from Mexico, ranked 63rd[37]. Even if one considers companies only from developing countries (in which Latin America is included), there are only 4 in the top 100, all from Mexico (three of which are food companies and one metal products); in this grouping China has only 5[38]. In the top hundred companies by geographical spread, Lukoil is the only European post-socialist country, ranked 90th with affiliates in 19 host countries, it is followed by the Lenovo group from China ranked 94th with affiliates in 15 countries, the only Latin American country with a company was again Mexico's Cemex SA, with 35 affiliates. The spread of these countries is not very imposing: Royal Dutch/Shell (UK and Netherlands) ranked second has 96 affiliates[39].

A similar situation is found for transnational financial companies: of the top 50 (ranked by geographical spread, which essentially is a measure of the number of foreign affiliates) there is only one communist or post communist country, China, with the Bank of China occupying 40th place[40]. The Latin American countries had no companies in this category.

These data would confirm the earlier findings: the dominant financial and non-financial companies, by number of foreign affiliates and global reach are dominated by the USA and the leading Western European countries. China, Russia, Brazil and Mexico have some presence, though this is relatively small in comparison to the 'core' industrial and Western states.

<u>Affiliates and Global Reach</u>[41]

A second measure of economic dependence is the extent to which companies in a country are owned by foreigners. The growth of capitalism has led to foreign affiliates[42] playing a particularly significant role in the economies of the post communist countries in the European Union. Table 1 details the number of foreign affiliates in terms of the post socialist, some Latin American and other countries. There are over 71 thousand in the Czech Republic alone. As one would expect, given the much lower level of foreign direct investment noted above, in the CIS countries foreign ownership is much less: of the 10,782 firms, 4,004 are in Kyrgyzstan (data only available for 1998); Russia in 2004 had 1,176 firms, Belarus - 52 affiliates, and Ukraine, only a few hundred. Given the larger size of its economy, Brazil (with 3549 firms) has relatively few foreign affiliates. Mexico is also exceptional having attracted many American companies through the NAFTA agreements. China seems a special case, hosting approximately a third of all foreign affiliates of TNCs on a world scale. As China has a small share of world inward investment (2% in 2006) these foreign affiliates must be small in size.

Table 1. Number of foreign affiliates in post-communist countries with Comparisons to other countries (2006 or latest available year).

		Foreign! Affiliates
New EU members		
Czech Rep	(1999)<	71,385>
Hungary		26,019
Poland		14,469
Slovakia		2,780
Slovenia	(2000)	1,617
Lithuania		2,877
Latvia		603
Estonia		2,858
Other former communist countries		
Bulgaria	(2000)	7,153
Albania		16
Romania	(2002)	89,911^
Croatia		2,532
CIS Total		10,782
Of which		
Belarus		52
Ukraine		367
Russia		1,176
Kazakhstan		1,837
Kyrgyzstan (1998)		4,004
Moldova		2,670
Latin America		
Brazil		3,549
Argentina		1,558
Mexico		25,708
Others		
USA (2002)		24,607
Turkey		14,955

UK		13,667
China (excluding Hong Kong)	280,000	
World Total	777,647	

!Number of foreign affiliates in the economy shown.

^These figures appear abnormally high, but are given in the source.

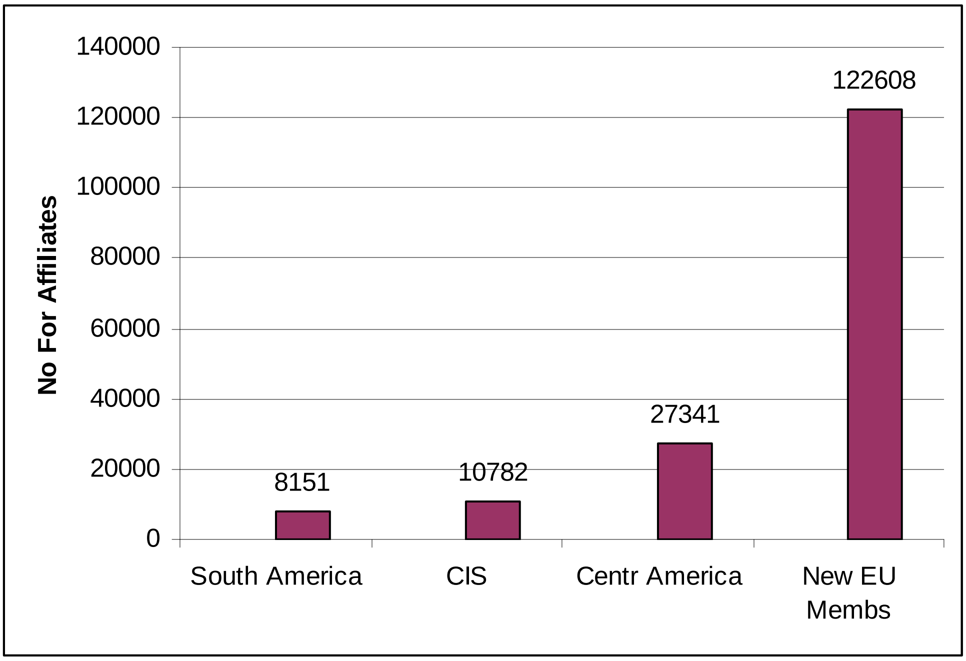
> The high figure for parent corporations in Czech Republic probably accounted for by splitting of former Czechoslovakia; of this figure 53,775 are fully-owned foreign affiliates.

< Years before 2004 shown in text.

Source: World Investment Report 2007. UNCTAD, United Nations, New York, Geneva 2007. pp. 217-218. Data based on national sources.

Figure 2 brings out the significant differences between the areas of the CEECs, CIS and South America. The new member states possess an enormous number of foreign affiliates: South America has even fewer than the CIS. Proximity to the USA and membership of NAFTA accounts for the much larger number of foreign owned companies in Central America, in which Mexico accounts for nearly 90 per cent of the affiliates. The breaking down of national borders, through membership of economic organisations, such as the EU and NAFTA, encourages the spread of affiliates.

Figure 2. Affiliates of Foreign Corporations: South America, EU New Member States, CIS



Source: WIR 2007, pp. 217-218.

Transnational companies themselves vary in the extent to which they have foreign exposure and global reach. The Transnational Index (TNI) of a company is the average of three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment. Of the top 100 companies, those located in Japan had the lowest TNI index in 2003 (42.8), those in the USA 45.8, smaller European countries had higher exposures: Britain was 69.2 and 'small European countries' 72.2[43]. The top transnational corporations (TNCs) in South-East Europe and the CIS are below the averages cited above, being only 36.6. Their global spread is much less[44]. The average for a company like Lukoil in 2004 was only 37.8, most derived from its foreign sales and Norilsk Nickel's index was 32.3[45]. The top company ranked by foreign assets, General Electric, in 2005 had a TNI of 50.1, and the number 2 world company, Vodafone, 82.4[46]. Clearly such companies were much more dependent for sales and profits abroad than the small TNIs of the post-socialist countries. Repatriated profits play an important role in sustaining the wealth of large corporations. The post-socialist countries have entered the 'core' of industrialised nations, but on different terms to the dominant countries. The Latin

American countries as well as the former socialist countries accrue relatively little in the form of repatriated profits.

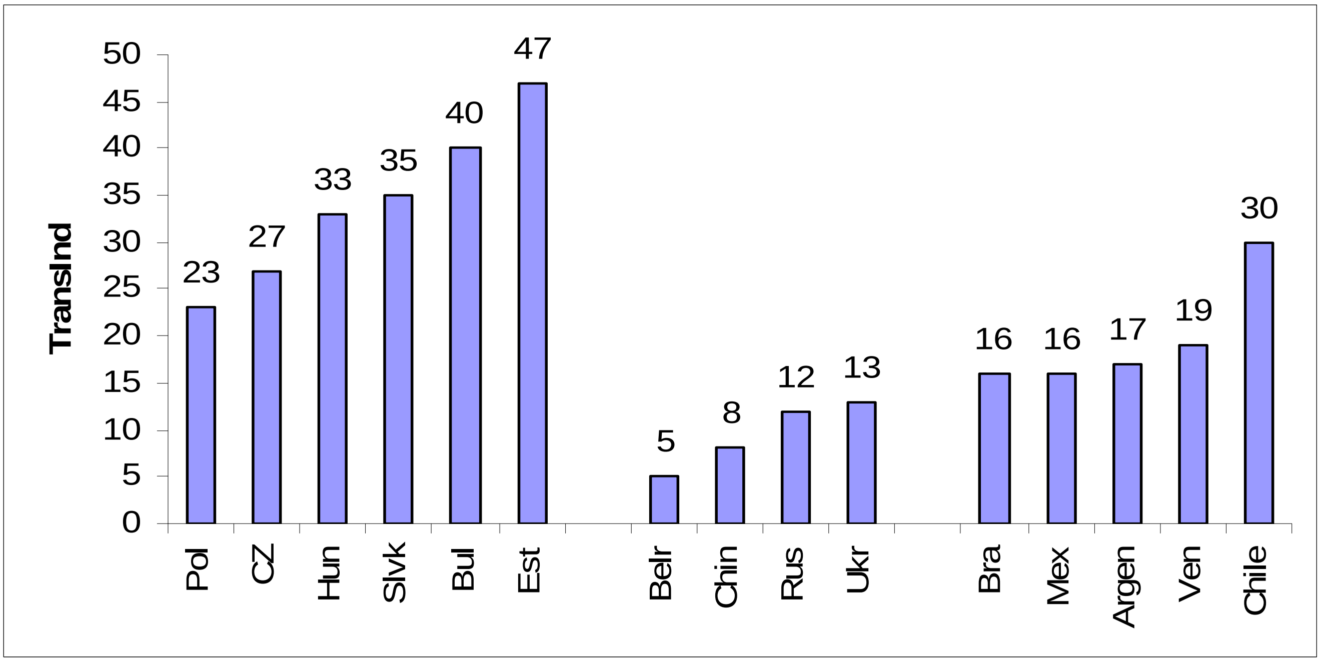
These data show that the expectations of those reformers who conceived of integration into the world economy have been fulfilled to some extent. The new EU members and China have certainly attracted investment from foreign corporations and have an even larger number of foreign affiliates than many established Western capitalist countries. The large numbers of take-overs has led to a growing preponderance of foreign companies in some of the central European states, though not so in the CIS and even in Latin America (Mexico excepted). In all the post communist countries, there has been a lack of capacity to form large capitalist companies able to complete in the world economic system. The only exception is a small number of Russian companies exploiting natural resources (detailed below). Like the Latin American countries, the new EU member states have been integrated into the world economic system, it would be perverse to argue that membership of the EU does not confer ‘core’ status on a country. But they are not equal members of the ‘core’ nations.

While traditionally the ‘core’ refers to the dominant European countries (and USA) and the periphery to the south, changes in the production chain involving the spread of manufacturing through outsourcing have led to differentiation within the capitalist ‘core’. Namely, the emergence of a hegemonic bloc (USA, Japan, Germany and UK) among the ‘core countries and others (the new members of the EU among them) which constitute a subordinate group. The CIS countries have remained on its semi-periphery. This becomes clearer when we shift the focus from companies to consider the exposure of the post socialist countries to global influence.

<u>Globalisation of the post socialist countries</u>

The global reach of corporations impacts on countries differentially. The Trannationality index for a country (TNI) measures the extent to which its economy is subject to foreign influence. It is calculated as the average of four ratios: FDI inflows as a percentage of gross fixed capital formation for the past three years, FDI inward stocks as a percentage of GDP in a given year, value added of foreign affiliates as a percentage of GDP in a given year, employment of foreign affiliates as a percentage of total employment in a given year. For a country, a high index indicates a significant economic dependence on foreign companies. In 2004, the average for all developed countries was 24. There is a great range between the exposure of developed economies: lowest was Japan with an index of just 1, the USA had a low index (6) and UK 17 - one of the highest of the core countries. As one might expect from the earlier discussion, the new post communist members of the EU have very high exposures: Estonia (47), Bulgaria (39.6), Slovakia (35.4) and Hungary (32.8), Czech Republic (27). Russia had a fairly low exposure (12) (though in 2002 it was 18 due to the disproportionate contribution of FDI stock as a percentage of GDP in that year); Ukraine (14) and Belarus was only 5, making it one of the lowest in the world. China also had a low ratio – only 8[47]. Comparisons between EU new member states, CIS and Southern America are shown on Figure 3. (Countries are selected as not all countries are given in the source). The new member states have very high foreign penetration. With the exception of Chile, Latin America is higher than the CIS and China, though foreign penetration and dependency is far less than in the post-socialist new EU member states.

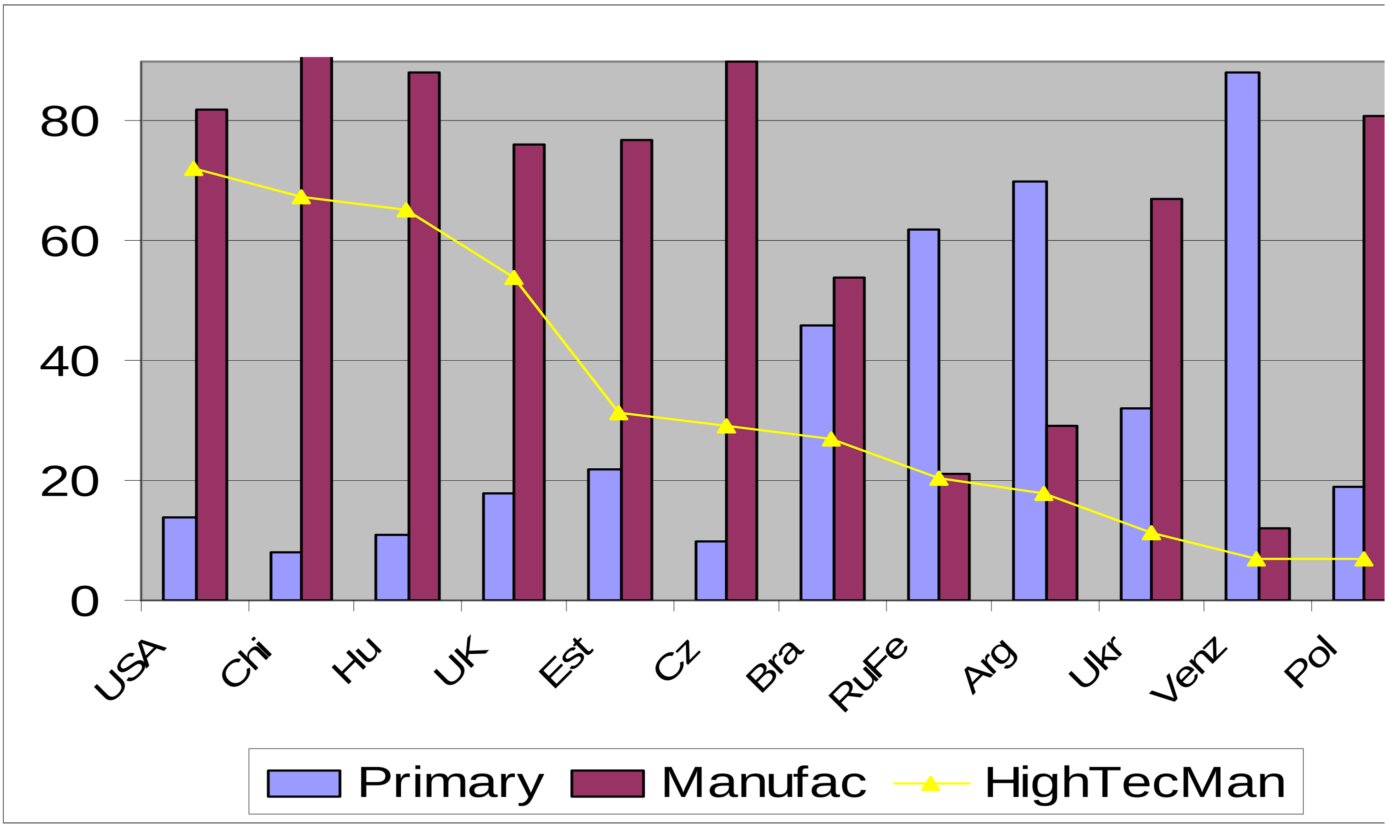
Figure 3. Transnationality Indexes for Selected EU new Members, CIS, China and Latin America. 2004



Source: WIR 2007, p. 13.

The international division of labour gives rise to specialisation in different types of production, which in turn shape the occupational structure and source of foreign earnings. Figure 4 depicts the types of exports (primary, manufacturing and high tech manufacturing) of selected post-socialist, Latin American countries and, for comparison, the USA, UK and China. The countries are arranged by the weight of high tech exports (the line graph with the axis on the right).

Figure 4. Structure of Exports, Selected Countries, By Sector 2004



Primary and manufacturing measured on left axis (per cent), High Tech exports (% of manufactured exports) measured on right axis.

Source: UNDP, Human Development Report 2006. NY. Palgrave Macmillan. P.339

Study of Figure 4 illustrates the significantly different trading profiles of the post socialist countries compared to those of the leading capitalist states. It brings out the asymmetric relationship of the type of exports between the post-communist countries and UK and USA. Russia has a particularly skewed distribution of exports, its energy sector exports accounting for 62 per cent of merchandise exports in 2004.

The 'high tech' component in manufactured exports is extremely low for all the central and east European countries, except for Hungary. By value in the period 2002-3, Hungary's top exports were in the commodity groups of: telecom equipment (12.1%), combustion piston engines (9.3%), automatic data processing equipment (5.6%), and motor vehicles (3.9%). These are derived mainly from foreign companies hosted in Hungary and were relatively small in scale: its telecom equipment, for example, only accounted for some 2.13 per cent of world output[48]. By comparison, the USA's production was in high tech commodities: 17 per cent of the world's transistors and valves and 36 per cent of aircraft; the UK produced 4.7 per cent of the world's passenger vehicles and 9 per cent of pharmaceutical products[49]. The only major industrial post-socialist power is China. Eight per cent of her exports are in automatic data processing equipment, 6.3 per cent in telecom equipment, 4.5 per cent in office machinery, 3.53 in toys and sporting goods and 3.3 per cent in footwear. Importantly, automatic data processing equipment came to 15.56 per cent of world exports, and telecom equipment 11 per cent[50]. Russia's top three exports in terms of value (2003-04) were: crude petroleum (27%), natural gas (14%) and 'special transactions' (arms) (12%). For Latin American countries, primary products are a major component of exports and they have relatively low shares of high technology products. Brazil's most important exports (in value terms) were seeds and soft fixed oils, iron ore, and meat: Chile's were copper, base metals, and fruit; Venezuela crude petroleum, aluminium and pig iron[51].

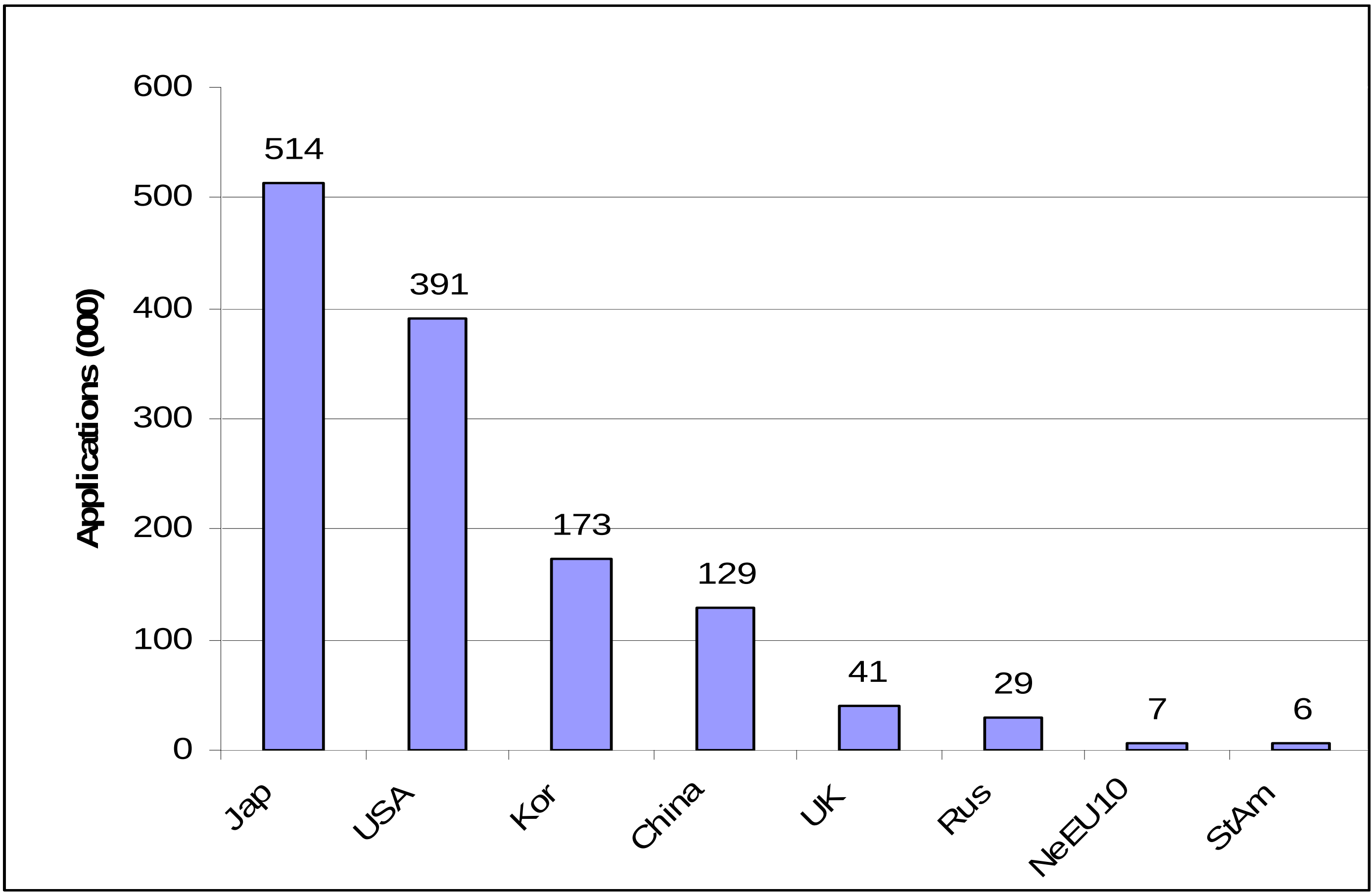
The conclusion to be drawn from this analysis is that, with the notable exception of China and Hungary, the post-socialist societies have entered the global system, but they have joined the Latin American countries at the lower value added place in the world production chain. An importance difference between the EU new member states and Latin American ones, is that the former produce and export more manufactured goods. While members of the Commonwealth of Independent States are less integrated into the world economy: they have relatively less foreign direct investment and hence fewer foreign companies, their exports are not only in low tech manufacturing, but in primary products – timber, ores, minerals and particularly energy. Russia is exceptional as a major energy exporting country.

Intellectual Capital

An important determinant of the type of economic production is the level of intellectual capital. This gives rise to invention and consequently, ownership of intellectual property through patents. One expectation of optimistic reformers of state socialism, made explicit by Gorbachev and Castells, was that entry of the USSR to the world economy would speed up the process of innovation and development. This has not happened. The advanced Western states, particularly the USA and Japan, dominate research and development and consequently intellectual property.

The World Intellectual Property Organisation (WIPO) collects national data on patent registration and this may be used as one index to compare innovation in different countries. (Patent registration is a complex subject - only one index is utilized here which I believe is indicative of trends). In 2006, patent applicants from Japan, the United States of America, the Republic of Korea and Germany accounted for 76% of total world patent filings[52]. The only significant other player was China with 7.3 percent of filings in 2006. Figure 5 illustrates for comparative purposes the shares of Japan, USA, UK, Korea, China, the 10 new post-socialist EU member states and South American. The latter two groupings are relatively similar in total, though Brazil accounts for 4/5ths of South American patents.

Figure 5. Patent Filings by Country of Origin (2006): Core countries, New EU Members and South America

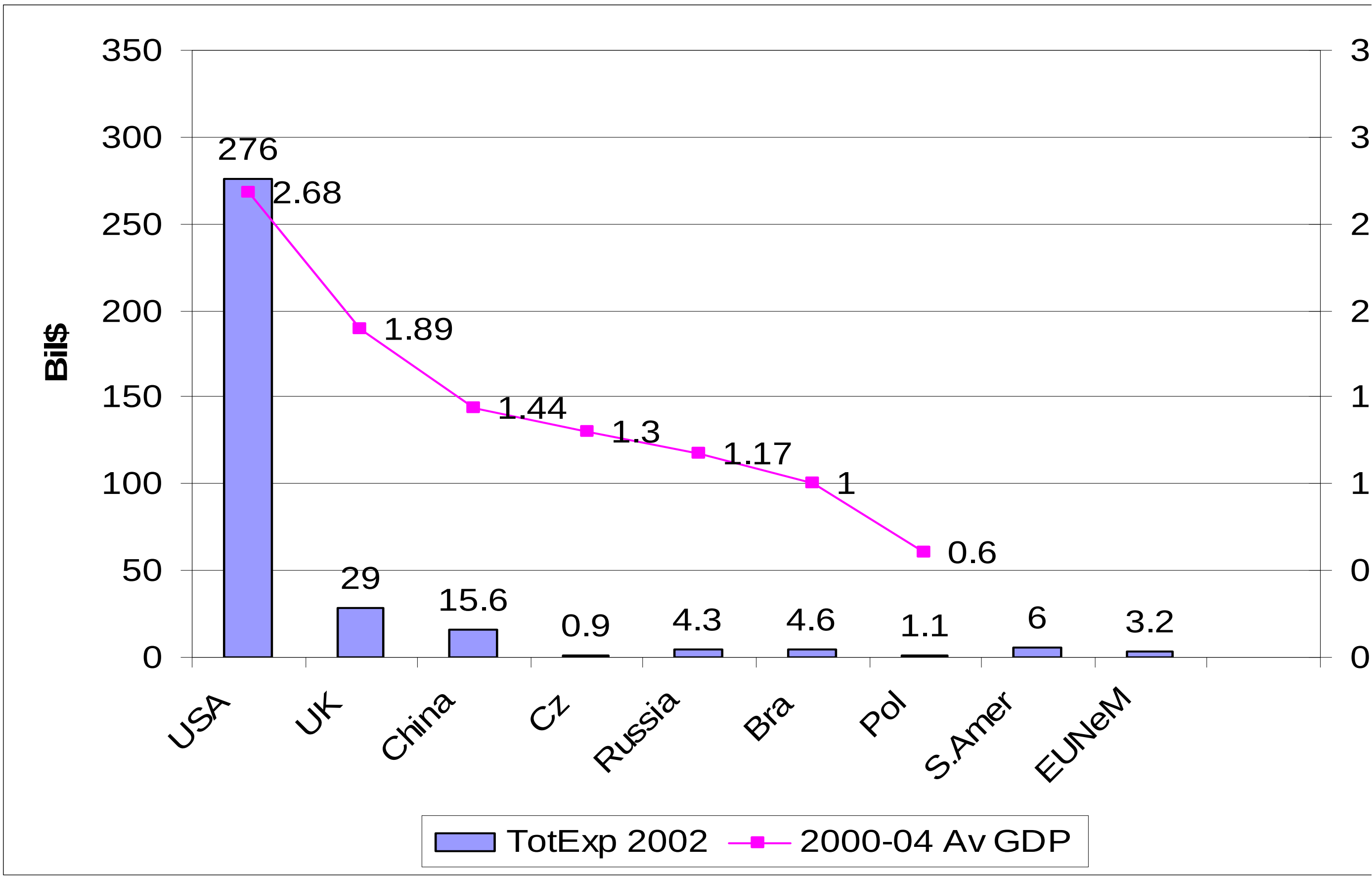


Source: IPSO, World Patent Report 2008. www.wipo.int/export/sites/ipstats/en/statistics/patents pp 62-64. Accessed 22 Sept 08 Filings by country of origin in 2006.

Research and development investment, which underpins technical advancement and innovation, again are most uneven on a world basis. In Figure 6 are shown the total expenditure on R and D by county and groups of countries (EU new members and South America) and the proportion of GDP on average spent of R and D between 2000 and 2004. The USA greatly outranks the remainder (though Japan, not shown here, is also a leading player). The world's top ten countries account for 86.9 per cent of world R and D[53]. The post-communist and Latin American countries are in a completely different league to the Western major powers. To bring home the significance of the differences: the Ford Motor company spends 7.2 billion dollars on research and development, the total for the Russian Federation is 4.3 billion – the same as Volkswagen. Poland spent 1.1 billion – about half that of Hitachi[54]. As the largest companies are located in the Western countries, it follows that they will dominate R and D spending. Of the 700 largest R&D spending firms, 296 are located in the USA and account for 42 per cent of the spending, followed by Japan (22 per cent), and Germany 7.6 per cent[55]. South American spending is higher than that of the EU post-socialist New Members; again Russia and Brazil are at roughly the same level.

We might conclude that the core industrial states of the world system, not only own and control its major financial and non-financial companies, but also dominate research and development which, though patenting, gives ownership and control of intellectual property. The post-socialist countries and South America have a similar profile, poles apart from the core states.

Figure 6. Research and Development: Selected States; South America and EU New Members



GDP Right hand axis, total expenditure on left hand axis.

Sources: Total Expenditure on R and D, UNCTAD, World Investment Report 2005. United Nations: Geneva and New York. 2005. p. 105; 267-8. Per cent of GDP, World Bank, 2007 World Development Indicators, World Bank, Washington DC 2007, pp. 308-310.

The Impact on Human Development

In the study of economic trends above I concluded that the state socialist societies have entered the world economic system, though with different economic consequences. We now consider how the economic changes have influenced human development. It might be contended that human development (the well being of the population) might not be causally connected to the differences in economic endowments and developments noted above. The benefits of membership of the world economic system might accrue equally to its members.

Human development trends are captured by the Human Development Index constructed by the United Nations Development Program (UNDP). The index is a composite measure of life expectancy at birth, adult literacy, mean years of schooling, and real purchasing power (at PPP)[56]. The index ranks all the countries in the world, the highest having a ranking of 1. At the start of the transformation process in 1990, all the European socialist countries (except Romania) were in the 'high human development category' – comprising 53 countries. Czechoslovakia ranked 27, followed by Hungary 30, and the USSR 31 had the highest levels of human development of the socialist countries. (In 1987, the German Democratic Republic had the highest score, 15, when the UK which had an index of 17). The USSR at this time, it will be remembered, included many rural undeveloped republics of central Asia, and the rankings of the European republics (the Baltic states and the Russian Federation) would certainly be higher than 31. Non-European socialist countries were in the medium development echelon: Cuba (62), North Korea (74) and China (82). The Latin American states were clustered below the European socialist states: the highest ranking being Uruguay 32, Chile 38 and Costa Rica 40, followed by Argentina 43, Venezuela 44 and Mexico at 45; Brazil was 60.

Figure 7A . Human Development Indexes: 1990, 2005. Post-Socialist and Latin American Countries. Original Rankings

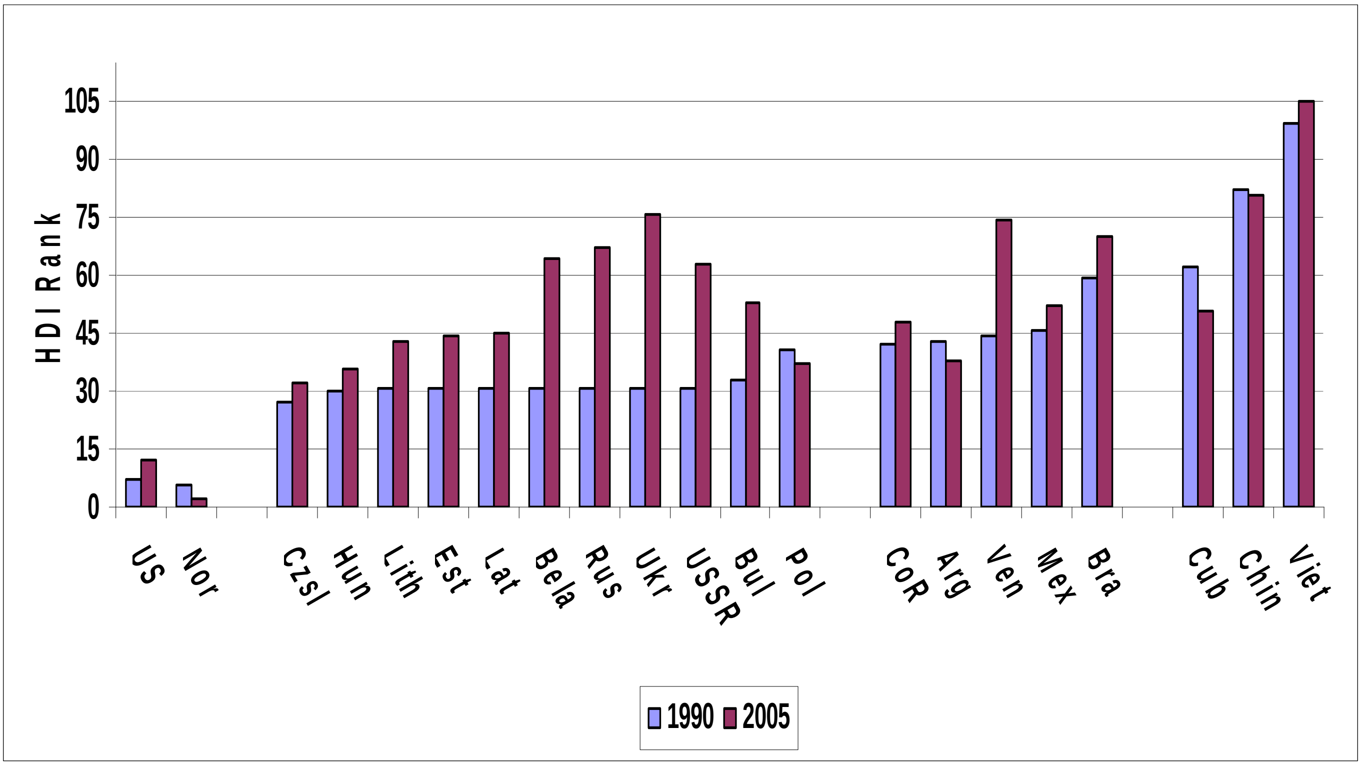
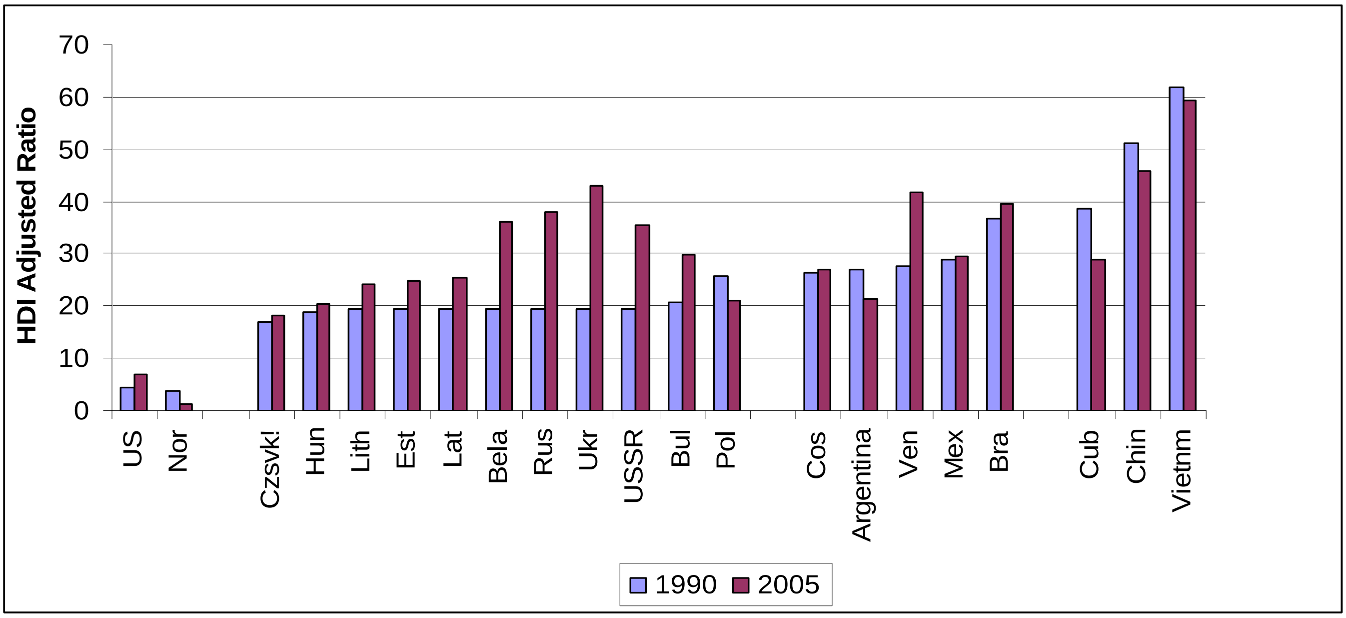


Figure7B.AsAbove.AdjustedHDIRatioa



Sources: UNDP, Human Development Report 1991 New York and Oxford, Oxford University Press 1991.pp. 119-121. Data for 2005. Human Development Report 2007/2008. http//hdr.undp.org/en/media/hdr_200072008. Accessed 13 September 2008.

Total of 160 states for 1990, 177 for 2005. Czechoslovakia for 1990, Czech Republic for 2005. Index for USSR 2005 aggregate of former republics.

How then did the transformation process affect human development, did the post-Soviet European countries close the gap on the advanced capitalist states? Figure 7A which compares the rankings of the former state socialist societies to other states (including Latin American ones) in 1990 and 2005. The countries of the former USSR have suffered a considerable relative decline in levels of human development. The USSR ranked 31 in 1990; the republics of the former USSR had fallen to an average of 83 in 2006. The central Asian republics and Ukraine all had positions lower than 60 (Ukraine, 78 and Tajikistan, 122). The Russian Federation in 2006 is ranked at 67 and Belarus 64. Compared to their relative position in 1990, only Estonia and Lithuania had survived relatively well – though below the previous USSR ranking. Bearing in mind that the Baltic states had the highest levels in the USSR, one might charitably conclude that they just maintained their relative position. The Caucasus has also fallen well below even the level of the Russian Federation; Armenia in 2006 was ranked 83 (just below Grenada) and Georgia 96 (just below Paraguay). Georgia had a particularly significant decline, as it was one of the most developed republics in the USSR. Poland had risen slightly from 41 to 37, whereas the CEECs had fallen – Hungary from 30 to 36. With the exception of Argentina, which had risen from 43 to 38, the Latin American countries had also fallen in their rankings: particularly Venezuela from 44 to 74, and Brazil from 59 to 70.

While these rankings show that neither the post state socialist nor the Latin American countries had risen, one might object that there is an in-built bias in the statistics, as the number of country units had risen between the two dates. In order to adjust for this problem, Figure 7B shows the rankings converted into ratios (i.e. 1990/160*100; 2005/177*100). This correction makes no difference to the relative rise and fall of the rankings. The 'core' Western industrialised countries constitute those with the highest human development scores: of the top twenty, all are western and northern European countries plus Japan, USA, Canada, New Zealand and Australia. The new EU member states fall below these levels, and have not reduced the gap in any significant way. The post-USSR European societies have fallen in rankings and by 2005 are similar in profile to those of Latin America.

CONCLUSIONS

Unlike the societies of Latin America, state socialist societies before 1986 were not part of the world economic system. At best, only two European countries (Poland and Hungary) had significant links with it but were not dependent on it. Transnational corporations played no role in the economies of state socialism. Economic coordination was bureaucratic not through market exchange.

Following the demise of the socialist system, the newly constituted capitalist countries have acquired different economicstructures. Global capitalism has made greater progress in the new member states of the European Union (and China) than in the CIS. The former are much more closely integrated into the world system of trade and production; they have become part of the global division of labour. This is illustrated by the greater globalisation of production through inward FDI and the hosting of foreign companies. Czech Republic, Hungary and Estonia are highly dependent on foreign direct investment for capital formation and their economies are substantially penetrated by foreign capital. They are becoming integrated into the economies of old EU states on the terms of the latter. They are bound to the political economy of the European Union of which, while enjoying its freedom of movement, they are likely to remain relatively poorer members. While the level of human development has improved somewhat in absolute terms, the relative position of these countries in relation to the core world states has not.

The predicted rise in wealth and living standards, as a consequence of a movement into the world economy, has not materialised. Moreover, in many respects the CIS states are not fully incorporated into the world system, as their economies have a high level of state ownership, and foreign companies have little presence. Their military and political elites (not discussed in this paper), unlike those of the new EU member states, are not integrated into those of the Western hegemonic societies; and membership of the EU is not on the political agenda. In many ways they remain in the semi-periphery, though their autonomy from the world system is less than in Soviet times. For the non-EU post-socialist states of the former USSR, movement to the world market system has led to an overall decline in human development; in some cases - Ukraine, Georgia, Kazakhstan and Russia - to a precipitous degree.

Russia must be distinguished from the other European post-socialist societies. It has the largest economy and is the only one with any global economic presence. Russia is becoming a hybrid economy with a large primary exporting sector, and declining manufacturing and agriculture. Its energy sector is integrated into the world economy and significant transnational companies are emerging, though they have a relatively low global reach, and are dependent on sales. Its economic global presence is restricted to a small number of energy companies with few affiliates. In this context, there is an option for a type of national corporatist capitalism, similar to that developed in China, as an alternative to participation in the global economy on the terms of neo-liberalism. Though China has a considerable present of foreign companies and its membership of WTO somewhat limits its trade options. For China and Russia, economic coordination has become a task for the state, rather than markets, in directing resources to support technically advanced industries and research. This provides a base for the notion of 'self-determination' and 'sovereignty' currently advocated for Russia[57]. The key to successful policy is the correct utilisation of economic rents, earned from materials' export industries, for innovation and renewal.

The economies of Latin America share similar characteristics with the post-socialist states. They have one large country, Brazil that is distinguished from the rest, as Russia is from the European post-socialist states. But both blocs lack a global economic presence comparable to the 'core' industrial countries of capitalism (USA, Japan, Germany and the UK). In the past twenty years both groups of countries have suffered a relative decline in their ranking in terms of world human development. Again, like all the former state socialist countries, they have a low component of high tech industries in their export profiles; they are at a qualitatively lower level of research and industrial innovation than the core Western countries. One difference between Latin America and most of the post-Soviet states, particularly in the CIS, is that the latter still retain elements of the state socialist system, particularly a greater role of the state and greater state ownership.

But Latin America and the post-socialist countries cannot be considered to be two homogeneous blocks. Rather, they are composed of different groups of countries, the size of Russia and Brazil respectively separate these countries from the others. The post-socialist EU member states have found that the EU gives not only opportunities, but also constraints and limits economic and political choices. In contrast, in Latin America, only Mexico is part of a larger institutional area economic association, NAFTA, which is not comparable economically and politically to the EU. While the CEECs are becoming absorbed into the world economic system through the EU (and NATO), Russia and Belarus are moving to a different type of corporate capitalism. For Latin American societies, there is not one alternative model. Mexico is more closely integrated with Canada and the USA through NAFTA. Brazil and Venezuela could possibly constitute part of a separate economic block composed of Russia, India, and China.

The assumptions of many who advocated entry into the world economy, both before and after the fall of state socialism, is that participation benefits all. Castells's conclusion that the situation of countries in the Soviet bloc prevented development and retarded its members' 'fundamental sources of economic and military power'[58] would appear not to have been changed very much after following the fall of the Soviet system. What is lacking in these accounts is recognition that the world economy is composed of a range of states differentiated in terms of economic, political and social resources. The state socialist political economy may have had a braking effect on developments leading to public disenchantment and calls for reform. But other factors (the extent of a market, type of economic endowment, geographical location, the stock of cultural and well as economic capital) also hinder growth and development and limit military power. These are common factors affecting Latin American as well as post-socialist states.

The economic power of the hegemonic core states is perpetuated through their dominant corporations, financial dominance and their high level of development and research, as well as military forms of enforcement. The world system approach envisages a polarisation of interests between core and periphery. The core countries extend their lead and keep research, design and development, finance, and ownership of intellectual and physical property. Their economic power is constitutive of their political hegemony. The quality and quantity of their weapons of mass destruction cannot be matched. The peripheral states provide contract manufacturing as well as the provision of primary and secondary products at the lower end of the production chain; they experience an outflow of profits and labour in return for FDI and manufactured products. There is an asymmetric relationship both economically and politically. As the chief executive of Rolls Royce has put it, though with respect to the UK economy: 'It is pretty obvious that if businesses are not from a particular country, and the brand, and the routes to market and the intellectual property and everything else are vested somewhere else, then any decisions that are made about investments and the dis-investments will have a national flavour'[59].

Many nations on the periphery, when confronted with the economic, political and military power of the core states, have little alternative than to accede to their policies. There were some good reasons for the CEECs to join the EU, rather than to stay outside it. But some countries (Russia, China, India, and Brazil) of the 'semi-periphery' may have more options than assumed by world system theorists and those who envisage a 'one world' economy regulated by the hegemonic model of Anglo-American capitalism. The emerging power of the semi-periphery in the form of Brazil, China and India is becoming evident in WTO Doha discussions, at which they have been able to assert their interests against the demands of the core countries. There are divergences as well as convergence in the world economy[60]. The assumptions shared by transitologists and world system theorists that the 'semi-periphery' is a transient category may be mistaken. Whether the CIS states and China remain 'transitionary' societies which will eventually become integrated into the world system in the same way as the new EU member states is highly problematic. Doubtless, a new type of state corporatist capitalism is developing in China and Russia which is currently lacking in Latin America, outside Cuba and Venezuela.

The 'semi-periphery' may lead to the rise of alternative groupings of states which interact with the core but are not part of it – in the same way as the state socialist societies before their collapse. As evidenced by data on levels of transnationalisation, the economies of many countries have production which is local in character, and regional companies and political actors have considerable scope for action independently of the global economy.

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2 An international corporation is one with subsidiaries that extend the firm's production beyond the boundary of one country.

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4. I. Wallerstein, The Capitalist World Economy. Cambridge, Cambridge University Press, 1979. p. 271.

5. Others, such as Christopher Chase-Dunn and Alex Callinicos, point to other forms of integration in the capitalist world-economy may be decisive. To survive, '..global military competition compelled the subordination of production within the USSR to the goal of capital accumulation' A. Callinicos, The Revenge of History. Oxford: Polity Press 1991, p.25.

6. Terry Boswell and Christopher Chase-Dunn, The Spiral of Capitalism and Socialism, London and Boulder: Lynne Rienner, 2000. p. 135.

[7] The index of turnover in value terms rose some 95 times for Bulgaria, 43 times for Hungary, 49 for GDR, 39 for USSR, 24 times for Poland. For detailed statistics in ten yearly intervals see: Statisticheski ezhegodnik stran chlenov Soveta Ekonomicheskoy Vzaimomoshchi 1988. Moscow: Goskomstat 1988. pp. 339-40.

[8] For details, see: Statisticheski ezhegodnik stran chlenov soveta ekonomicheskoy vzaimopomoshchi 1984. Moscow 1984 p. 297.

9. Author's calculations based on Statisticheski… and GNP data from CIA, The World Fact book 1986. US Government Office, Washington DC. 1986 p. 227.

[10] Value of commodities expressed in 1975 dollar prices. Source: 'Recent Changes in Europe's Trade', Economic Bulletin for Europe, Vol. 37, no 4. 1985. Population data, Statisticheski ezhegodnik 1988. (Moscow 1988) p.16. GNP data derived from: CIA, World Fact book 1986. Washington DC, Government printing office, 1986. CIA calculations for per capita income in 1984 are: Hungary, $7,200; Poland, $6,190; USSR, $7,120.

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[12] Economic commission for Europe, Economic Survey of Europe in 1985-86. New York: United Nations, 1986. pp.255-6.

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14. From the USSR were 116; followed by Hungary 107, Poland 102 and Bulgaria with 48. The following companies had investments in foreign countries, after the collapse of the socialist countries officials in these companies were well placed to procure and deal in foreign assets. For instance, from the USSR, Gosbank 20 investments, Soyuznefteexport (18),

Vneshtorgbank (20), Sovracht (23), Exportles (14), Stankoimport (15), Mashpriborintorg (10), Soyuzchimexport (12). For a full list see: McMillan, pp. 53 to 55.

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17. For details of the 1970s see, J. Wilczynsky, The Economics and Politics of East-West Trade. London: Macmillan 1969, pp. 382-3. See also the discussion in A. Gunder Frank, Crisis: In the World Economy. London: Heinemann, 1980, pp.194-202.

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http://money.cnn.com/magazines/fortune/global500/2008/countries/Russia.html. Accessed 13 September 2008

[30] The Financial Times Global 500 lists companies which have at least 15 per cent of shares in 'free float'; it therefore may underestimate some corporations which have very large state or family holdings.

[31] FT Global 500, Data for March 2008.
http://media.ft.com/cms/8ebb955e. Accessed 21 September 2008.

[32] A formal definition of a transnational corporation (TNC) is that it is 'an incorporated or unincorporated enterprise comprising parent enterprises and their foreign affiliates. A parent enterprise is defined as an enterprise that controls assets of other entities in countries other than its home country, usually by owning a certain equity capital stake'. A foreign affiliate is an incorporated or unincorporated enterprise in which an investor, who is a resident in another economy, owns a stake that permits a lasting interest in the management of that enterprise (an equity stake of 10 per cent for an incorporated enterprise, or its equivalent for an unincorporated enterprise). In World Investment Report (WIR), subsidiary enterprises, associate enterprises and branches are all referred to as foreign affiliates or affiliates. World Investment Report 2005 (WIR 2005), United Nations Conference on Trade and Development (UNCTAD), Geneva 2005.p. 297.

[33] United Nations Conference on Trade and Development, World

Investment Report 2007 (WIR 2007) United Nations: New York, Geneva 2007. note c p.231.

[34] WIR 2007, p. 24.

[35] WIR 2007, p.25

[36] WIR 2007, p.231.

[37] WIR 2007, Table A.I.13. pp.230-1.

[38] WIR 2007, (Annex Table AI.14, p.233-4.

[39] WIR 2007, p. 236. The geographical spread index is calculated on the basis of the number of foreign affiliates, divided by the total number of affiliates, multiplied by the number of host countries.

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