Global Capitalism and the Transformation of State Socialism

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Abstract

While theories of global capitalism have added a new dimension to our understanding of the dynamics of the modern world,[1] a "globalization" approach to the transformation of the state socialist societies is relatively underdeveloped. Globalization is used in the sense of internationalization: economies become integrated and interdependent on an international scale. Globalization leads to the erosion of the autonomy of countries and national economies. The institutions of a global economy are unrestricted markets, networks, international transnational corporations and economic-political institutions. In this paper, first, I outline the footprint of state socialism and criticise the ways in which writers have attempted to locate the state socialist societies as a part of the international capitalist economic system. Second, I consider comparatively the economic integration of the post-communist countries into the world system in the post-1989 period of the building of capitalism. Third, I establish that the post-communist countries have entered the world economy but are in a peripheral position. It is concluded that though there are important differences between the post-socialist states with respect to economic penetration, exposure to the world market has led to a decline in their relative economic and welfare positions, though some countries have fared worse than others.

1 Wallerstein, 1974, 1980, 1988. For an overview of literature see: Sklair, 2002.

1. State Socialism and the World System

State socialist societies were formed in opposition to the political and economic systems of the capitalist world. It is questioned, however, whether they were able to form an autonomous bloc interacting with the capitalist system or whether they became a constituent part of the "capitalist world system." Analysis of this relationship has a new significance in the period of transformation because it informs our understanding of the constellation of interests pursuing national and/or international policies. It also raises the question of the classes driving the transition process: were they newly formed from groups within the socialist societies, or were classes already in place? The collapse also raises questions on the extent to which new national capitals have been formed and remain, and the place the post-communist countries and their corporations have in the global political and economic order.

Theoretical approaches focus on different, sometimes conflicting, aspects of internationalization. The widest definition is that suggested by David Held and Andrew McGrew, for whom globalization is "the historical process which transforms the spatial organisations of spatial relations and transactions, generating transcontinental or interregional networks of communication."[2] This might be contrasted with a narrower version of globalization defined as international economic networks operating independently of any country.[3] One might distinguish between the economic dimension made up by transnational and international corporations, the political sphere composed of international political institutions and a political capitalist class, and the cultural ideological sphere embracing a market ideology and a consumerism ethic.[4] This paper is restricted to the economic dimension of global transformation of the countries of Eastern Europe and the former USSR. It is in two parts: the first examines the footprint of state socialism and considers the extent to which the state so-

2 Held & McGrew, 1998, p.220.
3 Hirst & Thompson, 1999.
4 Sklair, 1998, p.3.

cialist countries had been part of the world economy, the second outlines the place of the economies of the post-socialist countries in the world economy.

1-1. State Socialism and the Global Order

Both the world system approach associated with Immanuel Wallerstein and the "state capitalist" interpretation of Alex Callinicos consider the state socialist countries to have been part of the capitalist world economic system. The world system orientation attempts to combine a Marxist capitalist ownership paradigm of capitalism with a political-military state system. World system writers divide the world economy into three 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 but not part of the capitalist core.

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."[5] 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. An analogy is made with socialist parties under capitalism: they are separate from, but part of, capitalist economies; with time, trade unions have become functionally integrated parts of modern capitalist societies.[6]

Christopher Chase-Dunn concedes that even if involvement in the world market is low, other forms of integration in the capitalist world-economy may be decisive. The Soviet Union, he

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5 Wallerstein, 1979, p. 271. Socialist states he argues are socialist movements in power in states that are part of a single capitalist world economy. Ibid., p. 280.

6 Chase-Dunn, 1982, p.39.

contends, entered into the interstate system in its military and political form of engagement and particularly through commodity production for the world market which led to primary production exports and Western capital goods imports.[7] These developments are considered by world system theorists to predate the revolutions of 1989; the socialist states "never fully escaped the capitalist world economy. Their political and economic development can only be understood as a response to the threats and inducements of the larger environment."[8] A process of "reintegration," they contend, took place from around the 1970s. Following the Second World War, international capital had penetrated the socialist bloc and had undermined it.

There are two main economic arguments put forward in support of this thesis: first, the increasing levels of imports, and consequent high levels of foreign debt, created dependency on the Western capitalist system; and second, the growth of communist transnational corporations, which led to a direct internal dynamic. This argument was put by Andre Gunder Frank and C. Levinson in 1980.[9] The essence of this position is that increasing levels of trade (and debt) lead to integration in the world economy. As Peter Taylor concludes: by the early 1980s, "there can be no doubt that the world consists of a single capitalist world-economy."[10] States, particularly under the communist system, became involved in the process of capital accumulation.[11] Modern capitalism combines a political interstate system and a capitalist world economy and its expansion involves the deepening of transnational (global) relations.

A closely related paradigm is put by those stressing the economic role of hegemonic Western capitalism and who regard

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7 Ibid., p.40-47.

8 Boswell & Chase-Dunn, 2000, p. 135.

9 Chapter Four of Frank (1980) has been the basis for later world system writers. See Chapter Four "Long Live Transideological Enterprise! The Socialist Economies in the Capitalist International Division of Labor and West-East-South Political Economic Relations," pp.178-262; Levinson, 1980.

10 Taylor, 1996, p.179.

11 For a cogent explanation, see Chapter 1 of Chase-Dunn, 1982.

Soviet-type societies as "state capitalist." Theoretically, this is a variant of the world system theory, discussed above. The argument advanced is that the accumulation of capital in the USSR (and state socialism in general) is determined by the "competitive pressure of the world around it."[12] State socialist societies were a "variant" of capitalism, capital accumulation being assured by "global military competition."[13] World capitalism, then, is conceived of as a combination of state capitalism and multinational capitalism.

A development of this argument has been made by two American economists, Stephen Resnich and Richard Wolff[14], who contend that Soviet-type societies have always been on a continuum of capitalist societies, sharing a statist economy similar to Nazi Germany. A dominant (state) capitalist class extracted surplus value, exploited the working class and redistributed the surplus product to different end-users and itself. In this evaluation, control of the state apparatus is a crucial pivot of class exploitation and domination, and class analysis is moved to the political realm – to those who *control* the state.

Before considering empirically the extent the state socialist societies participated in the world system, some criticisms may be made of the arguments advanced. It seems unlikely that, if peace had broken out in the world arena before 1989, the Soviet Union, China and the Eastern European societies would have stopped the accumulation of capital. While the "East European revolutions accelerated a process already under way (the unification of world politics),"[15] we have no analysis of how global capitalism led to system disintegration. An important consequence of this analysis is that the post-1989 transformations of the USSR and the Eastern European societies are not part of a revolutionary process, but are more in keeping with "system change" accounts of transition. As Alex Callinicos has put it, the transformations are a shift between

12 Binns et al., 1987, p.91.
13 Callinicos, 1991, p.98.
14 Resnich & Wolff, 2002.
15 Callinicos, 1991, p.134.

two types of capitalism[16] (state to multinational) and the process is not an example of a revolution in an analytical sense. "The transition from state capitalism to multinational capitalism is neither a step forward nor a step backwards, but a step sideways."[17] This approach leaves some questions unanswered. Why was there a need to change from state capitalism to private market capitalism? Why could not a hybrid system of state capitalism and multinational capitalism coexist? Another implication is that in the transformation process, social structure and forms of class domination and exploitation need not change from the previous one. A ruling capitalist class was already in place.

In this paper, I shall contend that the global factor was of crucial importance, but it did not operate, as argued by some world system theorists, to undermine economically the state socialist system. This becomes clear as we examine empirically the extent of the integration of the state socialist societies into the world economy before 1985, a date taken as a cut off, as the later reforms associated with Gorbachev undermined the state socialist economic and political order.

1-2. Integration into the World Economy ?

It certainly is true that the socialist countries increased their trade from the 1960s to the 1980s as indicated by the figures in Table 1. From 1960 the rates of growth of trade in the socialist countries was much greater than in the developed market ones.

Table 1. Growth of Trade, Developed Market Economies and Socialist Countries 1960 to 1985

	1960-70	1970-80	1980-85
Developed market economies	4.9	3.2	2.3
Socialist countries	6.7	5.2	4.4

Source: *Trade and Development Report 1985*, p. 155. Percentage increase in the given time period.

16 Ibid., p. 56.
17 Harman, 1990, p. 82.

Trade for all the major state socialist countries between 1950 to 1985 experienced an exceptional growth. The index of turnover in value terms rose some 95 times for Bulgaria, 39 times for the USSR, and 24 times for Poland (See Appendix Table A1 for comprehensive statistics). 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 these data by trading blocks, we find that the state socialist societies were far from being included into the world economic system. As illustrated in Table 2, a high proportion of this growth was between the socialist countries themselves and therefore did not involve them in the world capitalist trade system.

Table 2. Distribution of Trade: Socialist, Capitalist and Developing Countries, 1983

Percent of	Socialist			Capitalist			Developing		
Total	A	B	C	A	B	C	A	B	C
Bulgaria	78	76	80	12	10	14	10	13	6
Hungary	54	54	53	33	33	34	13	13	13
GDR	65	64	66	29	30	29	6	7	5
Mongolia	99	99	99	1	1	1	0	0	0
Poland	71	67	75	22	24	20	7	9	5
USSR	56	56	56	30	29	31	14	15	12
Czechoslovakia	77	75	79	17	16	17	7	9	4

A Turnover ; B Export ; C Import
Source: *Statisticheskii ezhegodnik 1984,* p. 297.

The Table shows trade (for 1983) disaggregated by trading blocks: socialist countries, developed capitalist countries and developing countries. By far the greatest proportion of trade was with socialist countries: just under a third of imports originated from capitalist countries, the three highest importers being Hungary, the USSR, and the GDR. The scale of imports from capitalist countries, however, was not great. Table 3 shows total imports as a percentage of gross national product and as amounts per capita. In 1984, it was only 1.39% of gross national product for the

USSR, and 4.2% and 2.1% for Hungary and Poland.[18] The dollar values of imports expressed as an average per capita of the population were only $97.7 for the USSR, though a considerable $307.2 for Hungary.

Table 3. Imports from Non-Socialist Countries 1984, as Proportion of GNP and Per Capita: Hungary, Poland USSR

	Imports ($)* (mills)	% of GDP	Population (mills)	Imports Per capita ($)
Hungary	3,257	4.2	10.6	307.2
Poland	4,838	2.1	37.4	129.3
USSR	27,392	1.39	280.2	97.7

* Value of commodities expressed in 1975 dollar prices.
Source: "Recent Changes in Europe's Trade"; Population data, *Statisticheskii ezhegodnik 1988*, p. 16.
GNP data derived from: CIA, 1986. CIA calculations for per capita income in 1984 are: Hungary, $7,200; Poland, $6,190; USSR, $7,120.

A second development was the growth in debt to Western governments and financial institutions. By 1973, gross indebtedness was some $17.6 billion.[19] As shown in Table 4, indebtedness rose steeply from 1971. By 1986, net debt for the European socialist countries had risen greatly though it was distributed very unevenly: of particular significance was Poland and Hungary. The high level of imports, mentioned above, was financed through loans from the West. The USSR, however, was not a particularly large debtor; and East Europe and the USSR's total export earnings covered imports, with a large positive trade balance in 1984 and only a two percent deficit in 1985. 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).[20]

18 GNP data from CIA, 1986, p. 227.
19 "The European Economy in 1975," p.144.
20 For details of the 1970s see Wilczynsky, 1969, pp. 382-383. See also the discussion in Frank, 1980, pp.194-202.

Table 4. Debt of European Socialist Countries 1982 to 1985

	Convertible Currency Debt $ billions				Ratio Net debt to exports to market economies (%)	
	1982	1983	1984	1985	1984	1985
Bulgaria	1.9	1.2	0.7	0.7	21.7	27.1
Czechoslovakia	3.0	2.6	2.1	2.1	42.7	44.0
GDR	10.7	8.4	7.0	5.3	76.5	65.8
Hungary	7.0	6.9	7.3	7.8	170.8	240.5
Poland	25.2	25.2	25.3	25.7	431.3	492.0
Romania	9.5	8.4	6.6	6.2	93.4	87.9
Total E. Europe	57.3	52.6	48.8	48.8	142.2	155
USSR and CMEA banks	18.4	16.0	14.3	18.5	25.4	42.9
Total E. Eur and USSR	75.6	68.6	63.1	67.3	81.3	102.0

Source: Economic commission for Europe, *Economic Survey of Europe in 1985-86*, pp. 255-256.

Taken as a whole, we might conclude (a) that the state socialist societies were entering the capitalist world trade system by the mid-1980s though they were not dependent on world capitalist trade and (b) that the USSR was much less exposed to world trade than the central European countries. While the state socialist societies as a whole were in debt to the West, only in the cases of Poland and Hungary was this significant, and the USSR's export earnings were sufficient to cover the level of imports.

1-3. International Capital Flows

A further criticism of dependency as a form of globalization lies in the absence of the interpenetration of companies between the capitalist and socialist economies. Investment occurred both through outflows to Western countries and through foreign investment inflows to socialist countries. Both were small in scale before the collapse of state socialism.

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 airlines and banks) which were registered in the host states as well as direct investment in their host companies. Carl H. McMillan estimates that by 1983 some 500 companies in OECD countries had equity participation from state companies in Comecon countries: from the USSR were 116[21]; followed by 107 from Hungary, 102 from Poland, and Bulgaria with 48. The most important hosts were West Germany (83 companies), United Kingdom (68), France (46) and Austria (44).[22] The major role of these companies was to support the marketing of exports from the home country; only 34 companies were concerned with material production.[23] 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.[24]

The Third World accounted for approximately a third of outward investment which was directed to resource exploitation and was in small local companies. Overall, the outward investment from the state socialist countries was relatively meagre. Table 5 shows the foreign outward direct investment in 1985 of the combined socialist countries compared to the foreign assets of individual TNCs. Even relatively small TNCs like Pepsi Cola had a greater share in the world stock of foreign investment than did all the state socialist countries combined. In 1985, the share of socialist countries (excluding China) in the world stock of foreign direct investment was between 0.1 and 0.2 percent, whereas IMB alone had 3.32 percent. The state socialist countries' foreign holdings were low in capital value. As the CTC Reporter puts it: "... these figures suggest that the economic impact of equity capital originating in socialist countries on the market economies is negligible and that the role of this capital in the international

21 The following companies had investments in foreign countries, and 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, 1987, pp. 53-55.

22 McMillan, 1987, p.34.

23 Ibid., p.35.

24 Ibid., p.43.

economy is insignificant – considerably less significant than that of selected TNCs."[25] Moreover, one must take into account the political factors. The 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.

Table 5. Foreign Assets of Selected TNCs, 1985

Rank	Company	Foreign Assets (mills US $)	Share in world stock of FDI (%)	No of foreign affiliates
1	IBM	21 422	3.32	68
2	Ford	14 158	2.19	137
21	Merck	2 245	0.35	103
55	PepsiCo	1 055	0.16	39
Total (61 top companies by foreign assets)		171 706	26.62	8204
All Socialist Countries (Excluding China)		1 000	0.15	590

Source: "Socialist Countries' Enterprises Abroad: New Trends," p. 18.

The position in the European socialist countries with respect to attracting FDI was similar to that of capital export: given the size of its economy, the USSR was very much behind Poland and Hungary. These countries, already by the accession to power by Gorbachev, had moved, albeit cautiously, towards a market society.

Direct foreign investment *into* the socialist states was relatively low before the mid-1980s. The loans mentioned in Table 2 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).[26] 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

25 "Socialist Countries' Enterprises Abroad: New Trends," p.19.

26 For details of the 1970s see Wilczynsky, 1969, pp. 382-383. See also the discussion in Frank, 1980, pp.194-202.

and the West.[27] But there were already important differences between the socialist countries. Poland and Hungary had small but significant Western investments from the 1970s. Hungary had eight joint ventures in 1980, rising to 66 with a capital value of $80 million dollars in 1986.[28] Hungary by 1986 had given enterprises the right, with relatively few restrictions, to engage in foreign trade: "The policy of promoting joint ventures in Hungary forms an integral part of an economic policy whose main objectives are the further progress of economic reform and a fuller integration of the national economy in the world economy."[29]

In Poland, from 1976, direct foreign investment was legal though it applied only to small enterprises. By 1982, 252 foreign enterprises were operating, rising to 695 in 1986.[30] This was, however, a relatively small contribution to the economy: such enterprises accounted for about one percent of sales even in 1987 and employment was only 0.4 percent of the total. Fifty-three percent of the foreign enterprises employed less than 50 employees and only five, over 500.[31]

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, liberalization of trade took place, special areas of joint entrepreneurship were established and free economic zones were set up though they were not very successful.[32] In 1987, agreements in principle had been reached with 20 foreign firms to set up joint ventures and 200 proposals were being examined.[33] But the total number of joint ventures was only 23 in 1988. Thereafter, associated with

27 Data cited in "Socialist Countries' Enterprises Abroad: New Trends," p.22.
28 Data cited by Sklair, 2002, p.226.
29 Matonyi, 1987, p. 226.
30 Nawrocki, 1987, p.49.
31 Ibid.
32 See Sklair, 2002, p.226.
33 Data cited in "Socialist Countries' Enterprises Abroad: New Trends," p.21.

perestroika policy, the numbers increased to 1,572 in 1990.[34] These, however, were relatively small and insubstantial. The only large investment ($1 billion) was that of Fiat in 1989 for the production of cars.

While the scale of this investment was not great, more important effects were the intangible ones, particularly in Poland and Hungary, where foreign trade and foreign enterprises improved the standards of the consumer sector, and acted to promote positive psychological attitudes to the market and foreign linkages.

1-4. The World Economy and State Socialism: Conclusions

By the mid-1980s, the state socialist countries had moved marginally into the global system. Their economies had a relatively low participation in world trade, their companies (the "red transnational" corporations) were small and had insignificant external penetration. Foreign direct inward investment involved small companies, and there was negligible penetration by transnationals. There were important differences, moreover, in the levels of exposure to international economic influence in the different socialist countries: those adjacent to the European Economic Community (particularly Hungary and Poland) had much greater links compared to the USSR.

One might conclude that inward and outward penetration of capital was absent and therefore could have had no direct precipitous role as an agent of transformation. Global capital, nevertheless, brought indirect consequences for the state socialist system – at best a modicum of Western capitalist know-how concurrently with a market ideology. There were, however, no capitalist enterprises; the economic plan was not under threat. Capitalist enterprises were symbolic islands in a centrally-planned sea.

The state socialist societies were not part of the capitalist world system. Capitalism is distinguished by the production of exchange value through markets, competition of capital, the necessity to make surplus and consequent labor exploitation, and the

34 Economic Commission for Europe, East-West Joint Ventures News Letter, no 3, 1989. These data are cited in Gutman, 1992, p. 135.

continual accumulation of capital; class conflict is an in-built motor of social change. Soviet-type societies made surplus but the dynamics of the system of production did not stem from competition of capital (as enterprises had no economic autonomy and were not profit maximising); there was no production of exchange value as there was crucially no free market for commodities and assets; money (as it functions under modern capitalism) was non-existent and there were no financial institutions or banks. 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 forms of exploitation and accumulation. Hence the context in which surplus value was extracted was quite different from that of modern capitalism.

To integrate these economies into the world economic system, a qualitative, not a quantitative change was required. Hence the world system argument that transformation involved a movement between types of capitalism is not correct. The transformation of state socialism into a form of market capitalism, required the creation of a capitalist economy and superstructure, as well as a capitalist class. The dynamics of this process cannot be addressed here. Such an account would include the underlying influence of cultural globalization, particularly the consumer ethic, the rise of an "acquisition" class concerned with valorising their skill assets through a market and an administrative class, which was able to turn executive power into ownership of capital assets. Finally, note has to be taken of external political factors, particularly the global political class.

2. The Global Dimension: the Move to the Market and Privatization

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 global world order. The global dimension of change is usually regarded positively as part of the victory of liberalism and democracy; globalization in this perspective empowers people through the development of wealth, communications (travel, networks), and culture. Others contest this judgment and contend that globalization has negative connotations: global corporations and political organizations disempower individuals and weaken the responsibility of states because the processes of government, previously subject to democratic control, are spheres for autonomous (and non-accountable) decision-making by transnational organizations. Asymmetric relationships develop between the core industrialized and militarized countries and the periphery.

This paper can deal only with a limited range of economic issues. To evaluate the global presence of the former state socialist societies, I focus on the levels of foreign direct investment and the formation of transnational companies. Global exposure is also measured by a study of market capitalization and listing on foreign stock exchanges. Transnational influences are also surveyed in terms of foreign investment as a proportion of gross capital formation, the value added by, and the employment dependency on, foreign company affiliates. Finally, I evaluate the impact on the ranking of post-communist countries in the world order of their varying degrees of linkage to the world market.

2-1. Foreign Direct Investment

Immediate release from the constraints of state socialism led to a reorientation of trade and the flow of investment capital. Outward and inward capital investments reflected the openness of the economies to the purchase of privatized assets by foreigners, as well as previous linkages and commercial opportunities. Between 1989 and 1994, the cumulative total of FDI put Hungary clearly at the top with a total investment of $6,316 million ($558 per capita), followed by Russia with $3,558 ($20 per capita), the Czech Republic with $2,820 ($242 per capita) and Poland with $1,365 ($28 per capita); the Ukraine had a total of only $498 million ($4 per capita for the whole period).[35] (FDI cumulative flows 1988 to 1994 and 1989-1998 are shown in detail in Table A2 of the Appendix which orders countries per capita.) By 1998, this pattern continued: Hun-

35 *Economic Bulletin for Europe*, Vol. 46, New York : UN, 1994, p.119.

gary's FDI per capita again outstripped that of other East European countries: for the period 1989-98, Hungary received $1,652 per head, followed by the Czech Republic with $968, Estonia $947, Latvia $634, and Slovenia $596. Ukraine received only $54 and Russia $60.

Table 6. Foreign Direct Investment Inward Stock by Host Country 2001 and Outward Stock, by Home Country 2001 (Selected former State Socialist Societies)

	2001 FDI Inward stock by Host country	2000 FDI Inward stock as % of GDP	2001 FDI Outward stock by home Country	2000 FDI Outward stock as % of GDP
	US$ mill	Percent	US$ mill	Percent
Belarus	1 412	11.9	18	0.2
Ukraine	4 615	12.1	129	0.3
Russia	21 795	7.7	14 412	4.7
Moldavia	609	35.7	19	1.5
Estonia	3 155	53.2	429	5.2
Czech Rep	26 764	42.6	832	1.5
Hungary	23 562	43.4	4 377	4.5
All Developing Countries (Ex. China)	1 786 057	30.6	748 486	13.9

Source: *World Investment Report 2002*, pp. 312-317, 335-336.

By 2001, we may estimate the extent of foreign ownership by expressing total FDI inward investment as a percentage of GDP. Selective data are shown in Table 6 (the full table may be consulted in Table A3 in the Appendix). Relative to the other post-communist countries, Estonia, Hungary, Czech Republic and Moldavia have very high foreign investment. Capital inflows were generally greater than for developing countries, though not for Russia. These higher levels were probably due to the "one off" privatization of state assets and their purchase by foreigners. As to outward investment, the central and east European countries were similar in character to the least developed countries: they had on average a very low level of capital export – only six (notably Hungary, Estonia and Russia) being higher than the world's least developed countries. Their foreign direct investment was less than the least developed countries. On both counts the inward and outward flow of direct investment, when expressed as a proportion of gross domestic product, was very much lower than the average of developing countries.

Transnational Companies

As noted in the discussion of the spread of foreign companies to the state socialist countries, the number of foreign corporations and foreign affiliates in the immediate post-communist period was small. In 1991, given the size of their economies, Hungary and Poland had by far the most companies with foreign affiliates. (Hungary had 66 foreign parent companies and 2,140 foreign affiliates, and Poland 58 and 2,168 respectively. The whole of the CIS had only 68 parent corporations and 2,296 foreign affiliates.) On a global scale this is a very small presence. The developed countries have transnational corporations in thousands (in 1991, the USA had 3,800, and Germany 6,984), with foreign affiliates in tens of thousands. Individual countries like Germany, Brazil and China, had more foreign affiliates than all the former state socialist societies put together (See details in Appendix Table A4).

These data are for the early period of the transition to capitalism for the former state socialist countries. By 2001, the numbers of transnational companies had grown considerably. On an imperfect information base, on a world scale, there were 64,592,000 transnational companies with 851,167 foreign affiliates. Of these, only 850 companies were reported in the six central and eastern European countries. A total number of 255,442 affiliates of foreign companies, however, were operating in *all* the east and central European countries shown in Table 7. (Though it must be emphasized that data for the countries of the former USSR were incomplete).

Table 7. Number of Parent Corporations and Foreign Affiliates, Post 1994 (latest year available in 2002)

	Parent Corporations based in economy (a)	Foreign affiliates located in economy (b)
Central and Eastern Europe	850	255,442
Bulgaria	26	7,153
Czech Rep.	660 (c)	71,385
Hungary	-	26,433
Poland	58	35,840
Belarus	-	393
Ukraine	-	7,362
Russia (1994)	-	7,793
Albania	-	2,422
Bulgaria	26	7,153
Romania	20	83,934 (c)
Slovakia	-	5,560
Slovenia	-	1,655
Croatia	70	353
Lithuania	16	1,893
Latvia	-	193
Estonia	-	3,066
Comparisons:		
Turkey (1995)	357	136
UK	3,208	8,609
Germany	8,522	13,267
Brazil (1998)	1,225	8,050
China	379	363,885
World Total	64,592	851,167

(a) Number of parent companies in the economy shown.
(b) Number of foreign affiliates in the economy shown.
(c) These figures appear abnormally high, but are given in the source. The high figure for parent corporations in the Czech Republic is probably accounted for by the splitting of the former Czechoslovakia.

Source: *World Investment Report 2002*, p. 272.

The companies formed after the collapse of state socialism have little presence in the world of transnational companies. After the collapse of the USSR, its new export orientated companies, such as Lukoil (now the largest Russian transnational company), have sought a global dimension, though their opportunities initially were limited. The Russian government under Yeltsin fixed a limit on foreign shares in Russian strategic companies (originally not more than 15 percent of shares in Russia's oil companies, for example, could be foreign owned) and the state in different forms owned (and still owns) a very large proportion of assets. The largest Russian companies are located in the energy sector – the top five companies by market value and 19 out of the top 50 companies.[36]

In the Financial Times 500 (2003) Index [37] (capital market value), the USA dominated with 240 companies, Japan followed with 48. Russia had five companies, all in the energy sector: Yukos (Rank 144), Gasprom (169), Surgutneftegaz (280), Lukoil (294), Sibneft-Siberian (375). No other former communist country appeared in the list. If we turn to revenues earned as shown in the Fortune 500,[38] China had 11 companies, UK 33, Japan 88, the USA again topped the list with 197 companies; of the former state socialist countries, there were only two, both from Russia: Gasprom (rank 236, no profits data), Lukoil (422, for profits it ranked 74). Even in the top 500 European companies (capital market value), there were only ten companies: Telekomunikacja Polska (rank 170), Surgutneftegaz (214), Lukoil (231), Gazprom (232), Cesky telekom (310), Matav (Hungary) (326), Yukos (Rus) (336), Unified Energy (Rus) (383), Mobile Telesystem (Rus) (464), and PKN Orien (Pol) (482) (Data for 2002 from FT website).

If we measure the companies by value added, the presence of the post-socialist countries is small. Of the top 300 European companies in 2001, Russia had only three (Sperbank, Gasprom and Lukoil),[39] two of which were then largely state owned and controlled and the third (Sperbank) had a major government stake (Lukoil by 2003 has sold most of its government stake). Of the other post-communist countries, only one company, Telekomunikacja Polska, came in the top 300. The total value added of all companies in Russia, came to about half that of Shell UK, Russia was around the level of Belgium (See Table 8).

36 *Kommersant reyting*, 200 Krupneishikh kompanii Rossii. No 01 (01), 2003, pp. 93-96.

37 FT Global 500, published in *Financial Times* 28 May 2003.

38 *Fortune* (European Edition), August 19, 2002, No.15.

39 *The Value Added Scoreboard*, p.90

Table 8. Rank and Value Added of Russian and Polish Companies with European Comparisons, 2000/2001

Company	Rank	Value added £mills
Daimler Chrysler	1	27,117
Shell UK	2	25,663
Gasprom	31	8,200
Lukoil	69	4,531
Telekomunikacja Polska	175	1,746
All Companies		1,080,752
Russia (total)		13,791
Belgium (total)		13,523

Source: *The Value Added Scoreboard,* p. 90.

Foreign Assets

In terms of their foreign assets, the transnational corporations of the former state socialist countries are relatively minor companies compared to the Western TNCs. Of these, Russia has the top two in terms of foreign assets – Lukoil and Novoship. Their foreign assets are 4,189.0 and 963.8 million dollars respectively,[40] this compares to the world's top company (Vodafone) with foreign assets of 221,238 million and General Electric (in second rank) with 159,168 million dollars.[41] Other countries in the top central and east European ten included, in the following order, Latvia (Latvian shipping), Russia (Primorsk shipping), Hvatska elektroprivreda (Croatia), Gorenje Group (Slovenia), Far East shipping (Russian Federation), Podravka group (Croatia), and Atlantska Plovidva (Croatia) (For full details see Table A5 in Appendix).

2-2. Stock Market Capitalization: Country Profiles

The extent to which companies have a transnational presence and are open to domestic and foreign ownership is dependent to a great extent on their stock market capitalization. This is a major feature of Anglo-American capitalism though less so for German and Japanese. Stock marketization in the countries' own exchanges

40 *World Investment Report 2002*, p.112.

41 Ibid., p.86.

(enabling take-overs as well as the raising of capital), with Latin American and European comparisons, is shown in Table 9.

Here we note the early start to stock market capitalization in Hungary and Poland. All countries between 1990 and 1999, including Western ones, have had a rapid increase in stock market capitalization: of particular note are China and Brazil. By the latter date, the former Eastern European countries were on average at the level of Brazil, though there were important differences: Russia and Ukraine were much behind the East European countries whereas Hungary and Estonia were in the lead. Stock market capitalism was much less firmly set than in the leading capitalist countries – UK, USA and Japan.

Table 9. Stock Market Capitalization

	Percentage of GDP		No of listed Domestic companies
	1990	1999	2000
Eastern Europe:			
Lithuania	0	10.7	54
Poland	0.2	19.1	225
Russia	0	18	249
Ukraine	0	2.9	139
Romania	0	2.6	5555 (*sic*)
Hungary	1.5	33.7	60
Czech Rep.	0	22.2	131
Estonia	0	34.2	23
Croatia	0	12.7	64
Other countries			
China	0.5	33.4	1086
Germany	22.2	67.8	933
Japan	98.2	104.6	2470
Turkey	12.6	60.7	315
Brazil	3.5	30.3	459
UK	85.9	203.4	1945
USA	53.2	181.8	7651
Latin America	7.7	29.7	1938
Europe EMU	22	84	3880

Source: World Bank, 2001, pp. 278-280 [Derived from Standard and Poor's, *Emerging Stockmarkets Factbook 2000*, and other sources].

Table 10. Listing on London and New York Stock Exchanges

	London SE	New York SE
Lithuania	1	0
Poland	11	0
Russia	3	5
Romania	1	0
Hungary	4	1
Czech Rep.	3	0
Estonia	1	0
Croatia	1	0
China (excludes Hong Kong)	5	14
Japan	23	19
Turkey	9	1
Brazil	0	32
UK	(2737)	52

On the London exchange:
Russia's three companies include: Tatneft, Gazprom, Lukoil.
Poland is more diversified: media agencies, banks (3), vehicle distribution, mineral extraction, construction, pharmaceuticals, oil and gas, software, telecommunications.
Czech Rep: telecommunications (2), banks.
Hungary: computer services, building, chemicals (2).
Lithuania: telecommunications.
Romania: banks.
Estonia: telecommunications.
Croatia: pharmaceuticals.
China: oil, minerals, construction, electricity (2).
On the New York exchange:
China included: oil, petrochemicals, gas, coal mining (6), aluminium production, transport (3), communications (2), power plants, chemical products manufacturing,
Hungary: telecommunications,
Russian Federation: Oil and gas, telecommunications (3), food.

Source: *NYSE website*, listed on 2 April 2003, *London Stock Exchange website*, listed on 6 June 2003.

One further indication of the global reach of the companies founded after the fall of communism may be exposed by their listing on Western stock exchanges. This requires companies to attain certain internationally recognized legal and financial conditions which enhance the credibility of the company and makes it possible for companies to attract capital investment. Table 10 shows the number of companies registered on the London and New York Stock Exchanges in 2003. On the London Stock Exchange, in June 2003, 40 Central and Eastern European companies are listed. On the New York Exchange, in total 472 foreign companies were listed, but of these only six originated from the former socialist countries of Central and Eastern Europe. The participation of the former state socialist countries again is small. The largest economy, Russia, has only three energy companies registered in London and five in New York which included energy, telecommunications and food. China and Brazil have a much higher presence.

2-3. The Impact of Globalization

The data we have considered so far cover the growth of international companies in the former state socialist societies. We now turn to consider how foreign investment and foreign companies impact on the host countries. The transnationality index provides a very good measure of the involvement of countries in the global economy. 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, value added of foreign affiliates as a percentage of GDP, and the employment of foreign affiliates as a percentage of total employment. A high index indicates a significant economic dependence on foreign countries. As shown in Table 11 in 1999, the USA had a low index (8.2) and the UK 14.5; the lowest of the developed countries was Japan with 0.6. As one might expect from the earlier discussion, Russia was low down the list with an index of 4.6 and Ukraine 4.8 – both similar to Turkey with 4.1; Hungary was much higher with 27.6 and the Czech republic with 17.6 which is even higher than China's 14.4, though Hong Kong (China) had an enormous 98.4 (disproportionately due to massive FDI inward stock).[42]

42 Ibid., p.275.

Table 11. Transnationality Index 1999

Japan	0.6 (lowest)
USA	8.2
Germany	10.6
UK	14.5
China	14.4
Czech Rep	**17.6**
Ukraine	**4.8**
Russia	**4.6**
Turkey	4.1
Hungary	**27.6**
Hong Kong/China	**98.4** (highest)

A high index indicates a significant dependence on foreign countries.
The index is a composite average of four ratios expressed in percentage terms: average of FDI inflows as % of gross capital formation; FDI inward stocks as % of GDP; value added of foreign affiliates as % of GDP; and employment of foreign affiliates as % of total employment.

Source: *World Investment Report 2002*, p. 275

The evidence indicates that the post-communist countries have moved into the world capitalist economic system. But they have not entered as members of the core states – rather they rest on the periphery. They have a negligible number of transnational companies. The Central European states (Hungary and the Czech Republic) are highly dependent on transnational companies for investment, income and employment. While Russia receives a considerable amount of FDI for its energy industry, it and Ukraine remain largely self-sufficient (or self-deficient) with respect to gross capital formation, value added and employment.

The first part of this paper concluded that the state socialist societies were not part of the world economic system. Has joining that system led to the expected increase in wealth and human welfare? 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). Table 12 shows the rankings of the former state socialist societies and comparisons with some developed societies between 1987 and 2000 (the latest date available).

Table 12. Human Development Trends in Central and Eastern Europe

Country	GNP Rank Per capita	HDI Rank	GNP(a) rank Minus HDI Rank (b)	HDI Rank	HDI Rank	HDI Rank PPP rank	GDP(a) per cap minus HDI Rank (b)
Year	1987	1987	1987	1990	1994	2000	2000
N	130	130	130	173	175	173	173
Albania	69	46	23	49	102	92	17
GDR	15	20	-5				
Hungary	43	29	14	28	48	35	8
Poland	47	32	15	32	58	37	16
Czechoslovakia	28	24	4				
Czech Rep.	-	-	-	27	39	33	6
Slovakia	-	-	-	27	42	36	10
Slovenia	-	-	-	34	35	29	0
USSR	29	25	4				
Russian Fed.	-	-	-	37	67	60	-2
Ukraine	-	-	-	45	95	80	22
Estonia	-	-	-	34	71	42	6
Belarus	-	-	-	38	62	56	7
Kazakhstan	-	-	-	54	93	79	-1
Georgia	-	-	-	49	105	81	34
China	108	64	44	101	108	96	0
Japan	4	1	3	1	7	9	2
USA	2 (c)	18	-16	6	4	6	-4
UK	17	9	8	10	15	13	7
Germany	10	11	-1	12	19	17	-2

(a) Note that the basis of comparison changes between the two dates from GNP to GDP. This does not change very much the rankings in the table for comparative purposes. As the methodology of the index, and the number of countries covered, has changed over time, the measures are not exactly comparable, but show trends. In this table, I have reversed the order given in the original 1987 series to make symmetries with later tables i.e. 1= the highest score, 130 the bottom. The indexes have been compiled by the United Nations Development Programme (UNDP).

(b) A positive score indicates that Human Development is higher than GNP.

(c) Switzerland = 1 in 1987.

Source: *Human Development Report for 1990, 1992, 1993, 1994, 1997 and 2002.* The dates reported in the volumes are usually two years before the date of publication.

Study of the table shows that the ranking of the former socialist countries has fallen over time, both with respect to gross national income and also to human development. Moreover, under state socialism, human development was usually higher than gross national product, but this difference has fallen in the post-communist period. For example, in 1987, the USSR was 29 in GDP rank and 25 in HDI rank. In the successor states of the former Soviet Union, all had fallen in their HDI rankings, Ukraine and Georgia by over 50 positions, in Russia HDI fell to 60 in the year 2000, and had a minus 2 in the GDP less HDI index, the Ukraine had fallen to 80 in HDI but its net index was positive (+22). In the central European countries, the HDI indexes had all fallen between 1987 and 2000, even taking into account the increase in the number of countries. None had bettered their 1987 index; though the HDI index was still higher than the GDP ranking, this is probably due to the legacy of the state socialist system's educational and health provisions. The transition has led to a decline in the world ranking in the level of human development for most of the central and eastern European countries (and China). In the discourse of world system theory, the countries had moved from the semi-periphery to the periphery.

Conclusion

The author argues that traditional world system and state capitalist theories are wrong in defining the state socialist societies as part of the world capitalist system before the reforms following 1986. The transnational corporations did not play a direct part in the transformation and the political structure of state socialism precluded the formation of a capitalist class. They had no internal capitalist class which consequently had to be made during the period of transition to capitalism. Globalization before 1989 may have had significant effects on the propensity for reform, but these were cultural (such as the culture-ideology of consumerism, not discussed in this paper) and psychological not economic. Following the fall of the state socialist system, global capitalism has made greater progress in the Central European countries than in the East. Overall, the globalization of companies and the role of transnational companies have been limited. They have fallen below their previous rankings in relation to the levels of the "core" industrial countries. The economy largest in size – Russia – is the only one with any global economic presence, but in terms of its companies, this is minuscule and restricted to a small number of energy companies. In terms of inward FDI and their levels of economic development, the post-socialist countries are similar to the world's developing countries. The former state socialist societies have different structures of capitalism. The Czech Republic and Hungary are highly dependent on foreign direct investment for capital formation and employment and have become integrated into the economies of neighboring states. Russia is becoming a hybrid economy with a large primary exporting sector, and a declining undeveloped manufacturing one. The former is becoming integrated into the world economy and significant transnational companies are emerging, the latter is adopting the economic features of the developing world. 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. Even the more economically successful countries of Central Europe – the Czech Republic and Hungary – have had a decline in ranking in the world order. Overall, the countries of the post-USSR have moved to the periphery of the world system.

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Appendix

Table A1. Index of Volume of Foreign Trade 1950-1985

	1950	1960	1970	1980	1985
	Million Rubles	**Index*: 1950 = 1**			
	Foreign Trade Turnover				
Bulgaria	225	4.8	15	59	95
Hungary	580	2.8	7.4	29	43
GDR	788	5.0	10.8	33	49
Mongolia	63.5	2.4	2.9	10	19
Poland	1172	2.2	5.5	21	24
Romania	410	3.0	8.4	40	39
USSR	2925	3.4	7.6	32	49
Chechoslovakia	1276	2.6	5.3	16	24
	Exports				
Bulgaria	106	4.9	17	65	100
Hungary	296	2.7	7.0	28	43
GDR	365	5.4	11.3	34	55
Mongolia	32.8	2.0	2.3	8.2	14
Poland	571	2.1	5.6	20	25
Romania	191	3.4	8.7	40	48
USSR	1615	3.1	7.1	31	45
Chechoslovakia	701	2.5	4.9	14	21
	Imports				
Bulgaria	119	4.8	14	53	91
Hungary	287	3.0	7.8	30	42
GDR	423	4.7	10.3	32	44
Mongolia	30.7	2.8	3.5	12	24
Poland	601	2.2	5.4	22	24
Romania	219	2.7	8.1	40	31
USSR	1310	3.9	8.1	34	53
Chechoslovakia	575	2.8	5.8	18	26

* Index calculated on basis of prices in corresponding years.
Source: *Statisticheskii ezhegodnik 1988*, pp.339-340.

Table A2. Foreign Direct Investment: 1990-1994 and 1989-1998

	1990-94 (Cumulative) Total $Mill	1989-98 Cumulative Total $Mill	1989-98 Inflows Per capita US$
Tajikistan	-	1	17
Uzbekistan	-	533	23
Belarus	18	4	39
Ukraine	498	2726	54
Russia	3558	8801	60
Armenia	-	235	63
Kyrgyzstan	-	332	72
Moldova	42	324	79
Georgia	-	477	89
Macedonia	96	194	97
Albania	82	423	132
Bulgaria	182	1286	155
Turkmenistan	-	762	157
Romania	323	451	200
Slovakia	390	1275	236
Croatia	127	1572	349
Kazakhstan	-	5829	383
Poland	1356	15066	389
Azerbaijan	-	3155	415
Lithuania	70	1563	422
Slovenia	292	1191	596
Latvia	112	1584	634
Estonia	337	1373	947
Czech Rep.	2820	9973	968
Hungary	6316	16796	1652
Total	-	80,605	184

Source: *Transition Report 1999 Update*, p. 12.
Data for 1994, *Economic Bulletin for Europe*, Vol. 46, p.119.

Table A3. Foreign Direct Investment Inward Stock by Host Country 2001 and Outward Stock, by Home Country 2001

	2001 FDI Inward stock by Host Coutry US$mill	2000 FDI Inward stock as % of GDP	2001 FDI Outward stock by Home Country US$mill	2000 FDI Outward stock as % of GDP
Belarus	1,412	11.9	18	0.2
Ukraine	4,615	12.1	129	0.3
Russia	21,795	7.7	14,412	4.7
Moldova	609	35.7	19	1.5
Yugoslavia	1,484	15.6	-	0.0
Macedonia	919	10.9	5	0.1
Albania	759	15.4	82	2.2
Bulgaria	3,850	26.4	96	0.7
Romania	7,636	17.7	93	0.3
Slovakia	6,109	24.2	382	1.9
Croatia	6,597	27.1	853	3.9
Poland	42,433	21.3	1,039	0.6
Lithuania	2,665	20.6	48	0.3
Slovenia	3,250	15.5	898	4.4
Latvia	2,216	29.1	248	3.4
Estonia	3,155	53.2	429	5.2
Czech Rep.	26,764	42.6	832	1.5
Hungary	23,562	43.4	4,377	4.5

Source: *World Investment Report 2002*, pp. 312-317, 335-336.

Table A4. Parent Transnational Corporations and Foreign Affiliates (number) in Central and Eastern Europe 1991

	Parent Corporations	Foreign Affiliates	Year
Central and Eastern Europe			
Total	300	10,900	1991
Bulgaria	26	117	1991
CIS*	68	2,296	1991
Czechoslovakia	26	592	1991
Hungary	66	2,140	1991
Poland	58	2,168	1991
Romania	20	3,527!	1991
Comparisons			
Germany	6,984	10,978	1990
Brazil	576	7,110	1986
China	553	15,966	1988
World Total	35,000	147,200	1990

*Commonwealth of Independent States.
! Appears inflated, but as given in source.

Source: *World Investment Report 1992,* p.12.

Table A5. Non-financial Transnational Corporations: Total Foreign Assets, 2000

(Million dollars)

World's top

1. Vodafone	$221,238.0 (UK)
2. General Electric	$159,168 (USA)
8. Toyota	$55,974 (Japan)
14. Hutchison Whampoa	$41,881 (Hong Kong/China)

Top Ten Central and East European Companies (by foreign assets)

Lukoil	$4,189.0	Russia
Novoship	$963.8	Russia
Latvian shipping	$459	Latvia
Primorsk shipping	$256	Russia
Hrvatska elektroprivreda	$296	Croatia
Gorenje Group	$236.3	Slovenia
Far East shipping	$236	Russian Federation
Podravka group	NA	Croatia
Pilva group	$181.9	Croatia
Atlantska Plovidva	$138	Croatia

Source: *World Investment Report 2002*, p.112.