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Organizational Requirements for Economic Agents in Countries in Transition

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From a technical point of view, globalization can be defined as the end of closed economies and the generalization of open market economies. Both types of economies are well known in economic theory, generally presented in opposition to each other in terms of efficiency and features. Economic transition for a country may be defined as the process of changing from a closed economy to an open one. This is a rather new field of analysis.

The closest resembling issue would be the periods of return from a state of war economy, in which a large part of industrial capabilities are temporarily controlled by a state system, to a state of peace economy, where full entrepreneurship autonomy is recovered.

The superiority of open economies is not disputed any more, mainly for two reasons:

- The opposite move (return to protectionism and independent economic behavior) has proved to be dangerous and sometimes suicidal, if we think of the crisis in the 1930s for example. We have learned how to overcome these temptations, as in the European steel crisis of the 70s, as an example. On the contrary, periods of development for world trade have been favorable to all participants.

- The trend is strongly advocated and supported by the most powerful (or the most efficient) economies in the world, primarily in their own interest. It may be observed that some of them had developed protectionist and independent periods in their history: Great-Britain at the start of the Industrial Revolution, Germany in the second part of the XIXth century (Zollverein), Japan during most of its XXth century growth, the European Union at the start of the unified external tariff, and the United-States on specific occasions.

None of these examples could approach anyway the type of closed economic system that prevailed in the countries of the former Soviet Union in most of the XXth century. Because of strongly differentiated features in the economic system itself, the economic agents of the FSU suffered great handicaps when confronted with international competition and joining the global economy has been extremely difficult for them, as this has occurred in a short period of time.

The main difference lies in the fact that the demand in these countries was created by central decisions and not by the buyers themselves. The so-called enterprises were actually denied any type of entrepreneurship in satisfying market needs. As a result, at enterprise level, only rare former Soviet enterprises have good information and communication systems, strong marketing and commercial organization. Furthermore, the degree of horizontal concentration is lower than in the West [1], meaning that economies of scale and market power are not favorable toward of Russian enterprises.

If we compare the *decision making process* in Europe between Eastern and Western enterprises, we can observe that Eastern enterprises were not actually making any major decisions, such as investment or mergers/acquisitions decisions. The process of acquiring size and developpimg organizational features does not come easyly. Almost everything has to be learned from the outside.

A slightly different image emerges from the former COMECON countries, particularly among the candidates for accession to the European union. This may be explained by elements from past history. These countries, however, are encountering problems of their own due to the deterioration of their economic potential at the time of their independence, or to large amounts of excessive production capacities remaining in some heavy industries.

For a newcomer in the woréd of globalization, creating a legal framework (civil, criminal, business, non-profit, social and taxation laws) and institutions (administration, courts, national and local bodies such as national bank, chamber of commerce, stock exchange, etc; infrastructure such as roads, airports, telecommunications …, education, whether general, professional, or permanent) , although a daunting task for a newcomer in the world of globalization , is not enough as a guarantee for success. Competent and educated economic agents have to make use of the framework. The framework in itself will not create economic agents.

Economic agents needed for a country to succeed are of three kinds:

- entrepreneurs (large enterprises, SMEs , individuals),
- facilitators (professional associations, research institutions, services such as banks, accountants, B2B, and also (often forgotten) all types of non-profit associations.
- households, as consumers and savers (middle class)

At enterprise level, much has already been done, but the next phase seems to be the construction of larger, multi-business enterprises, able to compete with foreign equivalents at world level. Management issues remain to be addressed at that level.

On the other hand, the real impact of SMEs on research development, export promotion, foreign currency accumulation capability, local assistance to social services, should not be overrated, large enterprises being more efficient from these points of view.

Also, initiatives by ministries, oblasts and municipalities, as long as they do not take their inspiration from examples of the past, but aim at creating modern holding companies as platforms for national and foreign investors, should be accepted and supported when unused economic potentials have to be developed.

[1] *The Myth of Monopoly. A New View of Industrial Structures in Russia*, Policy Research Paper n°. 1331, The World Bank, Policy Research Department, Transitions Economics Divisuin, Washington, D.C. 1994.

At the level of facilitators, the Western European example shows that professional associations are a powerful way for enterprises to pool forces in terms of research, export, image-making and lobbying.

At consumer level, the development of savings by a new middle-class will prove useful for industrial development and should be supported as such in countries where available capital in scarce.

Returning a moment to legal frameworks, it should be noted that some taxation laws can hinder industrial restructuring and national competitiveness. This is the case in particular as far as *sales taxes* are concerned. Often improperly called “Value Added Tax”, they constitute in fact transmission taxes that may reinforce tendencies toward vertical integration whereas outsourcing policies should instead be developed.