The European Union, the states of the former Soviet Union and Asia in the 21st century: Competing for Economic Leadership - Economic Development by learning from the long wave of boom

Falk Steuer*

Introduction

Currently the theory of the long waves is attaining globally more and more attention since the financial crisis began. With the help of the theory of the long waves there is the attempting to assess or rather optimize future economical developments in the next decades. A long wave can be seen as an irregular sine wave with period from 47 to 60 years and also as diversified wave in a trend. A long wave of boom is also called Kondratiev wave named after the Russian economist Nikolaj Dmitriewitsch Kondratiev and it starts always after a basic innovation. Basic innovations are not only an economical process but they also cause a restructuring of cross-social connections and its multifaceted structures of work. Economy and society are close connected. Insofar a Kondratiev wave is more than an economic cycle, it is also a value-added chain based on basic innovations which forms the economy for decades and nearly enters all fields of society and also change it. Since the end of the 18th century four long waves with a period of time from 47 to 60 years each have been verified. The first wave from 1793 is based on the innovation of the steam engine and the manufacture of cotton, the second wave from 1847 is based on the innovation of steel and the railway, the third wave from 1893 is based on the innovation of chemistry and electronics and the fourth wave from 1939 is based on neurochemistry and the automobile. Currently, the information technology (1984 - ?) is the basic innovation of the current fifth wave. The next wave has different candidates, for example the sector of health and environment are dealt as basic innovations.

Statement of the problem

The main question is: Which region of the world is well prepared for this new paradigm? Will it be Japan with its huge investments in future technology of generic engineering? Or Asia with a work-bench of the future with about 1.8 billion of their population less than 24 years old, in comparison in Europe the figure is about 200 million, in North America around 118 million. Or new chances for the global power USA or the states of the former Soviet Union? Maybe Europe might be also well prepared due to several reasons. The accepted American professor of history Paul Kennedy wrote in his book „Rise and fall of huge powers - economical change and military conflict from 1500 to 2000“, first published in 1987, that the rise of the Pacific region will go on with China and Japan. Other economical experts shared this opinion. Also due to their rule-oriented thought (in China and Japan) they calculated that the whole Pacific region will cause more than 50% of the global

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1 See also Kennedy, Paul: Aufstieg und Fall der grossen Mächte – Ökonomischer Wandel und militärischer Konflikt von 1500 bis 2000, Frankfurt am Main 2000 (2005), p. 652.
gross domestic product in 2000. China was also named because of the fact that the Communist government of China already started in 1979 to shift the Chinese economy from a pure command economy into a mixed economy. The Communist government began to permit private ownership of farmland.

Especially Japan „and its political economy is prepared the best for the 21st century than all other states“. Kennedy as well other experts prognosticated Japan a fast rising, because in every previous phase of global economical expansion the relative largest nation of believers lead the growth. Japan will become the leading nation in the computer, robot and automobile industry and even in the biotechnology or will at least take the second place. „In the financial system it could become a class of its own“. And even an economical decrease would occur in slow steps. In accordance to Kennedy Europe’s decent is foregone, because it is unlikely that the Europeans are able to work together.

By today’s view, we know that this forecast didn’t happen. One reason is that Japan offers a more extreme version of pragmatic nationalism. Until the 1980s the Japanese believed that direct entry of foreign enterprises into the Japanese markets could be destructive to the development and growth of their own industry. Thus, the Japanese have not been able to benefit of foreign direct investments to host countries. Thus, the economy in Japan is shrinking for years; in contrast, the Europeans are getting closer and introduced a common currency with the Euro. Kennedy, as well other experts made the basic mistake to forecast the present in the era of the computer quite linear into future, instead of learning from last K-waves which always led to essential progressive changes in society and economy. In the past, Japan’s economy borrows very high capital sums in the 80s and 90s in e. g. foreign stocks and bonds, businesses, real estates and now detects that it won’t achieve the paid sum in measurable time. Japan emerged to as the world’s largest creditor nation, whereas the United States became the largest debtor nation. The mountain of debt grows faster than it can be removed. This effect is noticeable. For example in 2001 about 20,000 entrepreneurs had to apply for insolvency; this matches the second highest stand since the end of the Second World War. The state is also the industry nation with the highest in debt and the banks have high deficits.

While Japanese research into computing began in the 1930s, the Japanese politicians assume at the beginning of 2000 that they only have to be focused on the IT development to balancing the rising reduction of jobs during the era of the computer. The government has to detect that this proceeding, which was very successful in the 70s and 80s, loos its effect today. A lot of Japanese electronics companies, like Sony, NEC, HITACHI and Panasonic have to struggle against enormous sales collapses, which lead to a negative quarter and annual result and investments were deleted. A major cultural shift might be occurring. For example HITACHI which was founded in 1911 by Namihei Odaira points to two forces that may result in cultural change: prosperity and globalization. Those forces are leading to changes in

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2 See also Kennedy, Aufstieg und Fall, p. 653.
3 See also Kennedy, Aufstieg und Fall, p. 678.
4 See also Kennedy, Aufstieg und Fall, p. 688, see also Diamond, Jared: Kollaps – Warum Gesellschaften überleben oder untergehen, Frankfurt am Main 2008, p. 457 + 461.
5 Kennedy, Aufstieg und Fall, S. 689.
6 See also Händeler, Erik: Die Geschichte der Zukunft, Moers 2007, pp. 391.
7 See also Crome, Peter: Der Tenno – Japan hinter dem Chrysanthemenvorhang, Köln 1988, pp. 33.
8 See also Koizumi, Junichiro: Ohne Reformen kein Wachstum, in: Machtworte – Wirtschaftslenker und Staatsmänner stellen sich den Fragen der Zukunft (Günter Würtele,eds), Frankfurt 2007, p. 41-57.
HITACHI. But, an inevitable wave of dismissals is stressing the Japanese national economy for years. Does a paradigm change occur? Why do countries and regions relapse to their competitive which rises fast in an economical way because of information technology?

In 2008 the Lausanner Management Institute IMD creates a study with a ranking of the most competitive countries. According to this, the Asian countries declined in this ranking and European countries clearly upgraded. After the first place in the past, Japan only takes a bad 22. place in the midfield and a state like Denmark better oneself from rank 15 to rank 6.9 A main reason for this development is the previous and now decreasing driving force of the computer for the whole global economy. Countries, which are mainly reliant of the production and export of computer technology (mainly hardware) and countries were the domestic jobs are not competitive have to struggle with a negative development of wealth. So it shows that the next wave isn’t only about steel, cars or computers anymore, but countries will be successful and wealthy if they are handling information more efficient. The term of social capital gains more and more importance. The society has to expand the ability to link themselves more socially. This applies for privacy, like in family and clubs, but also for companies. Firstly, after the abilities are formed which push the economy further, like scooping inner power, accepting opponents of conflict, working in a team, then the flow of information will be more efficient and so there is a fair, trustful and productive teamwork between partners, suppliers and customers. Japan might take profit from their “Ringi”-system.

So far, a long wave was always a whole social cycle of structure, where only the one is successful who is willed to break new grounds and who is willed to customize his way of thinking on the new demand. Additionally, the accepted German sociologist and political economist Max Weber could proof a century ago that the productivity of a country depends on the ruling religion. For example in Germany, during the German empire all evangelic areas were industrialized, whereas the catholic areas only a little bit. Insofar, Protestants had a higher income than Catholics. Weber explains this development with the reformation. Because of them, the work of the Protestants became a kind of church service. A possibility to collaborate the Creation of good. Work is rewarded with money and money is invested in economy. So the industrialization of Europe developed. Because religions also procure values.10 Values declare how people acting with each other, do business or what kind of willing they have. Values also define a stable expectation of behavior and help the society to work. The more influence the religion on the thinking of people has, the less public force is necessary to gain the requested social behavior. Finally, a religion can create trust more efficiently than a nation will. Entrepreneurs which don’t have to fear permanently to get cheated by trading partners don’t have to ensure every risk.

It is the same with entrepreneurs which trust their employees. The auditing and controlling of procedures will decrease. Insofar, the global market can’t operate without ethical elements and the American political scientist Francis Fukuyama here detects that competitiveness and welfare of a nation depends on how much the trust is pronounced.11 But all nations are not able the same to adapt to a new paradigm. Furthermore, every religion creates a different dimension of trust and the ability of cooperation. In future, all of those countries will extend their wealth, which have a cooperative social climate and where the ruling religion is real exemplify and supporting group ethic which doesn’t exclude others. Which religions will prosper in future depends on the ruling, religious moulded moral

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9 See also Neue Züricher Zeitung, „Trotz Schwächen sehr wettbewerbsfähige USA“, 15.05.2008.
10 See also Händler, Die Geschichte, p. 394.
11 See also Wirtschaftswoche Nr.23 dated 29.05.1997.
concepts, which occur a group ethic, an individual self-involved or an unlimited cooperative universal ethics. It is also up in the air how fast societies are able to change their traditions and behaviour. Insofar you can say that essential conflicts don’t only occur between different cultures, but mainly within societies. So the decision of economical success during the sixth Kondratiev depends on the societies themselves. In this context the next two chapters will analyze the chances and perspectives of two regions: the states of the former Soviet Union and the European Union.

**Methods and scientific aim**

The approach of the article is mainly focused on qualitative analyzes, less quantitative analyzes. Qualitative research uses subjective judgment based on no quantifiable information, such as management expertise, industry cycles and strength of research and development.

The scientific aim is to enhance the very limited research on the so-called Kondratiev-waves and the importance of those waves for the economical development of regions like the European Union and states of the former Soviet Union.

**Potential regions of the world: chances and perspectives**

**The states of the former Soviet Union**

The Russian privatization process began in mid 1991 when Russian President Boris Yeltsin signed a privatization law and created a state agency to oversee the transfer of state assets into private hands. A centrally planned economy in which almost all productive assets were owned by the state had to be transformed into a vibrant market economy. State-owned enterprises have been put into private hands and making them accountable to their new owners for their performance and a more productive economy. However, as a result of this process about 70 to 80 percent of all business and banking activities are controlled by the Russian Mafia. This control is exercised by demanding payment of protection money which is much higher than the official state tax authorities’ rate. Moreover, crime groups have a minority or even majority ownership stake in enterprises.

In addition, other two criticisms of the rapidly transforming state-owned enterprises into private entities are: Firstly, that the old Communist elite were among the largest gainers of the privatization program instead of new owners and managers. New owners and managers are more likely than the old Communists in restructuring a newly transferred privatized organization. Secondly, the chosen voucher system which led to less financial returns for the state. In several other privatization cases of other countries the government first restructured state-owned enterprises in order to make them more valuable and efficient and then the enterprise was sold to the highest bidder. In Russia, however, the state did not first restructure the state-owned enterprises. Those enterprises have been sold directly into private hands in exchange for vouchers, leaving their new owners alone with the necessary restructuring process. Thus, the state received less income of the company-sale and many of the new private company owners underestimated the know-how and the capital required to restructure an enterprise.

Today, the huge empire mainly earns money with natural resources. But every third person lives under the poverty level. Only the economical elite and treasury gain profit by the

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12 See also Hill, International Business, p. 62.
13 See also Hirn, Angriff, p. 104.
rising earnings of oil. The existing social structures from communism\textsuperscript{14} are contra productive for information society. Too much controlling, equalizing and missing own initiative hinder the economy. Households with low level of internet access, enterprises with low access to broadband communications end in less free flow of information and the expression of the opinion are seen as a danger. It will take a long time till an information productive generation arises. In this social loss crime, disorientation and materialism rises. So where no constitutional state exists, the right of the stronger one is ruling. In this case the right of the state.

\textbf{Tab. 1: The European Union and Russia – statistical comparison}

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Source: Statistical Office of the European Communities (Eurostat), 2007

* At the end of the year in percent
** as % of GDP
*** Eurozone estimate
**** in trillion m\textsuperscript{3}

The power of the intelligence rises and critical journalists are getting judged on a court and go to jail.\textsuperscript{15} Nearly 90% of the Russia media are directly or indirectly controlled by the state.

To be successful in an information society, firstly the states of the former Soviet Union have to stress out more the connecting ones than the separating ones. Secondly, the newly privatized enterprises need capital to restructure their businesses and to purchase new equipments; therefore the capital market should offer opportunities (like low interest rates). During the years, the ruling nationalism will decrease and this will also have a positive effect on the behavior of state and church. In this way, the former Soviet Union could participate on the next long wave and so gain economical wealth (also in form of more interest by foreign investors). And so participate on the positive economical development of the European Union.

The European Union

The regional economic integration in Europe is still going on and therefore getting closer: There are now two blocs in Europe; the European Union (EU) and the European Free Trade Association (EFTA). Of the two, the EU is by far the more significant, in terms of

\textsuperscript{14} See also Löwe, Barbara: Kulturschock Russland, Vol. 6, Fulda 2009, p. 159.

\textsuperscript{15} Or also murdered, like the Russian journalist Anna Politkowskaja on 07.10.2006 in Moscow who supported the freedom of the press and the democracy.
membership (the EU is an union of 27 member states, and EFTA has 4 member states\textsuperscript{16}), and also in terms of economic and political influence in the global economy.

The European Union is the product of two political factors: firstly, after two world wars on Western Europe the desire for peace, and secondly, the desire to hold their own on the world’s economic and political stage. Thus, it seems that the countries of the European Union have learnt from the past and are well prepared for the next Kondratiev.\textsuperscript{17} Europeans are aware of the potential economic benefits of closer economic integration of their countries. Nearly one third of the 500 worldwide largest companies are located in Europe. Or if we analyze the ISO9000: It is a European standard.\textsuperscript{18}

On the one hand a common currency assures safety, because two third of the exports occurs within the European borders. But on the other hand the eurozone is also facing major problems like the “rescue operation” of Greece which may not be big enough, political and social unrests in countries like Greece and Italy or the banks could famish the economy of credit. The current problems have to be solved at the member state and also at EU level in order to be successful in the long run.\textsuperscript{19} In currency reserves, the Euro gains up as well in contrast to the US dollar. China and Japan are holding more and more Euros for years. So the value of the Euro and international importance rises. The European Union possesses a market with more than 450 million people with the third largest number of customers after China and India and the largest buying power worldwide. In accordance to the global power America, meanwhile Europeans gained a lot together. They also have huge market, without duties, common products and the same currency. A typical American company is only operating entrepreneurial in America and so has a small quota of export. However, a typical European company delivers customers in the whole world: Quality than quantity is in the foreground. In the previous years, after the formation of the European Union a new continent arises which more and more come together despite of cultural, economical and political differences. Exports the languages to the whole world and a lot of people in other global regions are emigrants of it. Contrariwise, a lot of non Europeans live peaceful in European states. This connection links Europe emotional with a lot of countries on the world and makes the trade and exchange of opinions easier. Here, the famous professor Malik from St. Gallen detects: “The centre is located on this place where economical relations to China and Japan already exist 500 years ago, without E-Mail, mobile phone and jets, and where no thoughts of globalization arises, namely Europe\textsuperscript{20}.

It will be important for Europeans to create a social climate with a cooperative ethics where people can participate and so find a solution together. A climate where the knowledge and the skills of the individual can get added in a process of synergy is important as well. The signs are positive. But the challenges of the demographic change, the loss of family quality and the rising of crime have to get handled and answered seriously.

\textsuperscript{16} Those members are Iceland, Liechtenstein, Norway and Switzerland.

\textsuperscript{17} The original forerunner of the EU, the European Coal and Steel Community, was formed in 1951 by Belgium, France, Italy, West Germany, Luxembourg and the Netherlands. The objective was to remove barriers of coal, iron, steel and scrap metal. The European Community (EC) was established with the signing of the Treaty of Rome in 1957. The Treaty of Rome provided for the creation of a common market. The name changed again in 1994 when the EC became the EU following the ratification of the Maastricht treaty.

\textsuperscript{18} See also Thurow, Changing, pp. 243 – 245.

\textsuperscript{19} See also Stewart, Heather: Six problems facing the eurozone (www.guardian.co.uk dated 27.10.2011), London.

The new paradigm is also a challenge for the Europeans. But it seems to be easier for the Europeans to handle them by weighting all factors in contrast to other regions of the world. A main reason could be that Europeans made painful experiences in the last centuries with group ethics like nationalism, fascism or Stalinism, what didn’t occur to other regions in this way. Europe managed it as well to connect those countries on the contingent of real teamwork, which had a lot of conflicts with each other during history. Europe also got to know the pros and cons of a clearly intellectual or a clearly materialistic way of living. The ability to handle different cultures already arises in the Middle Ages. The gentry for example, married among each other Europe-wide or craftsmen went on for migratory labor, artists spend years abroad. Trading houses, e.g. from Germany or Italy, got branches in bigger cities in Europe, later in other continents as well. Today, in a rising more complex world, national states wouldn’t survive and the globalized world is knotting to this pattern. But, Europeans already gained an advance and as well a sense of belonging because of a common history and culture from former centuries. Insofar you can’t assigned this behavior to other regions of the world.

Here, Europe is going to use the advantages of individualism. Because a good individualism allows it to people to do enormous work, getting creative and innovative. But, if the individualism is lined, a society can become dead or non productive. Examples from history are the ancient Greek and Rome. This development recurs with a delay of three to four centuries. Marriages and families are splitting, firstly only rich families split, later it also happened the rest of the population. Again and again, the state is trying to rise the birth rate, but without success. There is no visible reason for the declining of the population in the West Roman Empire since the second century.

Furthermore, Europe possesses another important aspect of tradition, besides to tribal group ethics and individualistic philosophies, which abets a balanced relation between the able interests of the individual and community. The most important impulses started with the Christendom. So, Europe is well prepared for the exhaustion of the new paradigm. Europeans only have to take courage for this new way.

Conclusions

Results show that the long wave theory can help to get to know the economical course in cycles better. Understanding the theory should help to optimize future economical developments in the next decades and therefore to utilize it for concrete, realizables economical decisions. Results of the analysis indicate that it is of great importance for the success of different regions of the world.

The advancement of modern information and communication technology has shaped the society over the last years into an information-based society. The top of the fifth Kondratiev is possible crossed in Europe and Japan (maybe in the USA as well). For this countries, that

23 See also Händeler, Zukunft, p. 435-436.
24 See also Miegel, Meinhard: Das Ende des Individualismus, München/Landsberg 1994, pp. 17.
25 See also Miegel, Das Ende, p. 21.
means in consequence a cluster of economical bad years for this countries, which can’t get resolved with information technique for sure. By this reason it is necessary to in invest in growth markets of the future. Being familiar with the pattern of the theory and the cause of “long-waves”, mankind can take positive developments in terms of global positioning and can take most of the positive dynamics of the long wave (important planning tool). Selective educated employees for these sectors are also essential. Because education and gained knowledge are the basis of every innovation.

This change into the sixth Kondratiev has to be well prepared in a social political way, so that the European Union gain profit by this utilization and can lead to a long significant growth.

The analysis of this paper shows that Europe is well prepared for this new challenge in contrast to other regions like the states of the former Soviet Union. Experiences show the importance of an early answer to technological change because this development can't get stopped or blocked. A pessimistic or ignoring attitude would only intensify or extending the crisis.27

References


27 See also Janssen, Lange Wellen, p. 224.


The European Union, the states of the former Soviet Union and Asia in the 21st century: Competing for Economic Leadership - Economic Development by learning from the long wave of boom

Falk Steuer

ABSTRACT

This paper enhances the very limited research on the so-called Kondratiev-waves and the importance of those waves also for regions like the European Union and the states of the former Soviet Union. A long wave of boom is also called Kondratiev wave named after the Russian economist Nikolaj D. Kondratiev and it always starts after a basic innovation. On the one hand, basic innovations are an economical process but on the other hand they also cause a restructuring of cross-social connections and its multifaceted structures of work. By understanding the theory of the long waves there is the attempting to estimate or rather optimize future economical developments in the next decades. The target of the research is to declare if the European Union and the states of the former Soviet Union are well prepared for the next long wave and how companies and society in those two regions are prepared in order to utilize it for concrete, realizable economical decisions.

Key words: Long wave; Economic development; Basic innovations; European Union; Soviet Union.

JEL classification: E20, L26