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THE ROLE OF JOINT VENTURES
IN EAST-WEST TRADE UP TO 1990

by

Lorraine Watkins-Mathys

A Doctoral Thesis
Submitted in partial fulfilment of the requirements
for the award of

Doctor of Philosophy of the Loughborough University of Technology

1 October 1992

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ABSTRACT

The aims of the research described in this thesis have been to examine the role of joint ventures in trade between Western countries and the former socialist countries of Eastern Europe up to and including 1990; and to provide original case study materials of East-West joint ventures established in the former Comecon area during this period. By choosing 1990 as a cut-off date the author was able to record the effect of the post-1989 reforms on joint ventures before the fragmentation of the Soviet Union.

The research methods of the thesis, namely literature search, structured interviews and a postal questionnaire survey enabled the author to examine the role of joint ventures from existing research on the subject as well as contribute new knowledge to the subject by recording Western companies' immediate responses to the rapidly changing economic and political environment in Eastern Europe and the former Soviet Union.

The thesis begins by presenting the factors which led the author to research East-West joint ventures, gives the rationale for the application of the above research methods and the consequent practical implications of the methodology. This is followed by an examination of the role of joint ventures in international business, and the effects of Soviet and East European reforms on East-West trade and industrial co-operation, thereby providing the theoretical and historical framework for analysing the role of joint ventures in East-West trade. This analysis begins with an examination of the legal provisions for joint ventures in the former CMEA countries, followed by a discussion of the data
obtained from literature searches. This data provides information about the number of joint ventures, the size of foreign capital invested, the joint ventures' activities and the extent of individual Western countries' participation in East-West joint ventures. The literature search is succeeded by the case histories of Western companies engaged in joint ventures collected between 1986 and 1989 which were up-dated in March/April 1992, and the results of a survey conducted in December 1990 among the British partners of Anglo-Soviet joint ventures. These provide illustrations of Western companies' experiences at micro-level before and after the political changes in Eastern Europe in 1989.

To conclude, the author comments on the effectiveness of the research methods employed, reflects on the findings of the thesis and makes suggestions for further research based on the evidence presented in the thesis.
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GLOSSARY OF TERMS AND ABBREVIATIONS

CMEA

Council for Mutual Economic Assistance (also known as Comecon).

The CMEA was founded in 1949 to assist the countries of Eastern Europe in the development of international trade whilst implementing centralised planning systems within their countries. Intra-CMEA trade between the former Soviet Union and the East European countries developed on a barter basis, with the Soviet Union supplying oil and raw materials to the East European countries in exchange for industrial and consumer goods. The European member countries of CMEA have been Bulgaria, Czechoslovakia, the former German Democratic Republic, Hungary, Poland, Romania, the former Soviet Union and Albania; although some Asian and Latin American countries were also members of the Council. The CMEA was dissolved at the end of June 1991.

CoCom

Co-ordinating Committee for Multilateral Export Controls.

This Committee was established in January 1950, comprising almost all of the NATO (North Atlantic Treaty Organisation) member countries. The member countries agree to co-ordinate export control lists, designed to prevent the sale of transfer of technology which might pose a threat to national security.
East-West

The term 'East' is used in the thesis to refer to the former CMEA countries as defined above. 'West' refers to all developed market economies.

ECGD

Export Credit Guarantee Department, the British government department responsible for setting and guaranteeing government supported export credits and insurance to British exporters.

EFTA

European Free Trade Association.

Member countries include Austria, Switzerland, Norway, Finland, Sweden and Iceland. These countries trade among each other as an economic free trade area.

GDR

German Democratic Republic. This abbreviation is used throughout the thesis to refer to the former East Germany which was founded in 1949 and united with the Federal Republic of Germany in 1990.
G-7

This refers to the group of seven major industrialised countries, namely the United States, Japan, Canada, France, Britain, Italy and Germany. These countries have been meeting together with advisers from the International Monetary Fund (IMF) and European Bank for Reconstruction and Development (EBRD or BERD) to discuss trade issues of world-wide concern. Since 1989 the G-7 countries have negotiated, usually on a bilateral basis, aid to Eastern Europe, and more recently to the former Soviet Union.

G-24

The twenty-four member countries include all European Community and EFTA countries, the United States, Japan, Canada, Australia, New Zealand and Turkey. These countries meet on a similar basis as the G-7 countries to discuss trade issues of world-wide concern, including those in Eastern Europe and the former Soviet Union.

IMF

The International Monetary Fund was created at the Bretton Woods Conference in June 1944. The purpose of the IMF is to stabilise currencies in order to maintain an orderly market in world trade. It provides a framework in which governments can consult and co-operate in determining structure and functioning of the international monetary system; it extends technical assistance and temporary balance of payments financing to members; and monitors the exchange-rate arrangements and policies of member countries.
ACKNOWLEDGEMENTS

Much of the original data contained in this thesis has been obtained from Western companies actively engaged in East-West trade and industrial co-operation. Their case histories give a first-hand account at micro-level of the impact of the economic and political changes on joint venture activities at the end of the nineteen eighties. I should, therefore, like to thank all the companies which contributed to the case histories and questionnaire survey, and in particular APV, Rank Xerox, Walters International, Adidas, Schwarzkopf, Siemens, Voith and Bramac for their time and assistance in preparing the case study material.

Thanks are due also to Kester George at the East European Division of the Department of Trade and Industry for his encouragement and advice, particularly in the early days of this research, the East European Trade Council for the use of their library, and the British Council for supporting an application for a research visit to Hungary in 1986 which set in motion the research for this thesis.

I should like to acknowledge the financial support of the School of Management and Languages at the Buckinghamshire College of Higher Education and the Faculty of Human Sciences at Kingston University.

Finally my most grateful thanks go to my family for their endurance and constant encouragement throughout this research undertaking.
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CHAPTER I

INTRODUCTION

RESEARCH BACKGROUND AND OBJECTIVES

During the mid-nineteen eighties, Eastern Europe and the former Soviet Union introduced a number of economic and political reforms which had a consequent effect on East-West trade and industrial co-operation, and particularly on the establishment and operation of East-West joint ventures located in the eastern economies. This is reflected in data presented in recent United Nations' publications, which report the number of such joint ventures to have increased sharply from 165 at the beginning of January 1988 to 13,722 by January 1991. (1) The aim of the research presented in this thesis, therefore, has been to examine the development of joint ventures within the economies of the former socialist countries of Eastern Europe, and to analyse their role as a tool in East-West business, during a time of their rapid growth within a context of political and economic change.

The author's research on joint ventures began in 1986 with a preliminary study visit to Hungary, sponsored by the British Council to investigate the effects of the 1985 Hungarian joint venture amendments. The results of interviews held in Budapest with Hungarian ministry officials, joint venture partners and academics suggested that Hungary's decision to commit itself to the promotion of East-West joint ventures on its territory was achieving some positive results, as the number of joint ventures had increased from approximately 14 in 1985 to 50 by the beginning of 1986.(2)

Since little joint venture activity had taken place in other CMEA countries, such as Bulgaria, Romania and Poland, where joint venture provisions already existed (see table 8.1), the author initially set out to research East-West joint venture experiences in
Hungary, using a case study approach. In 1987, however, following the announcement by the Soviet Union to allow foreign equity capital on its territory, it became apparent that the parameters of the thesis should be extended to include the Soviet Union - clearly an important market for Western companies operating in the CMEA region (see chapter 5). Furthermore, it was also expected that all of the other CMEA countries would modify their legislation relating to inward investment. At an early stage of the research, therefore, it was decided to extend the study of the role of joint ventures in East-West trade to cover all of the European CMEA area.

As joint venture numbers were still relatively low (168 in 1987), however, it seemed appropriate to continue with the case study approach since that method had already been used successfully in the nineteen seventies to record the experiences of a relatively small sample of companies engaged in East-West industrial co-operation. Moreover, there appeared to be no research carried out by structured interviews about Western companies' joint venture experiences before 1986, except perhaps for some interviews by journalists for daily newspapers or the trade press. The first comprehensive document to appear which included Western company experiences was published by the United Nations' European Commission in 1988. Although some of the company experiences in this document were based on secretariat interviews as well as trade press reports, it was not clear, however, whether the companies were interviewed according to a structured questionnaire.

METHODOLOGY

The aim of the early case studies was, therefore, to provide accounts of first-hand experience in the management and marketing of joint ventures by Western companies engaged in this type of activity. Owing to the small number of joint ventures the author chose structured interviews to obtain the case histories of those Western firms willing to
be interviewed. Much of the preparation for the early case studies was completed in 1987, whilst the actual field research using structured interviews, was undertaken in the first half of 1988.

By 1989, however, the expectations for change in Eastern Europe and the Soviet Union were clearly gathering momentum. Revisions and improvements to joint venture legislation in various CMEA countries brought about a rapid increase in the number of joint ventures, hitherto not experienced in Eastern Europe or the Soviet Union. Moreover, the profound political changes in the various CMEA countries accelerated the introduction of more far reaching economic reforms and provisions for foreign equity shareholding, including 100% foreign shareholding. Following the introduction of these reforms, the number of joint ventures rose sharply even in some of those CMEA countries where joint venture developments had been quite static (e.g. Romania, Czechoslovakia and Poland). Consequently, the research was yet again extended to include an analysis of those reforms within Eastern Europe and the Soviet Union which affected foreign trade.

By that time, however, the number of joint ventures had risen well into the thousands which meant that the case study sample needed to be supplemented with additional field research in order to focus on a specific sample of joint ventures. Owing to the large numbers of joint ventures in the USSR and the radical changes occurring in Soviet joint venture legislation, the author consequently decided to carry out a questionnaire survey on Anglo-Soviet joint ventures which would highlight British companies’ experiences in the Soviet market; and to also update the previous case histories of Western partners’ operations in joint ventures.

Whilst the rate of increase of the numbers of joint ventures demonstrated the growing importance given to joint ventures by East-West trade partners, thereby making the selected research theme a very topical area to research, statistical data became out-of-date
soon after it was published, or was sometimes incomplete as research institutes struggled
to set up databanks that could cope with the rapidly changing scene in the CMEA area.
Attempts have been made in this thesis to obtain a quantitative assessment of the
development of East-West joint ventures, (see chapter 8), but the reliability of the
available statistical evidence has sometimes been a limiting factor in this area.

THE THESIS

As mentioned in the first paragraph, the aim of this thesis has been to examine the
development of joint ventures and to analyse their role as a tool in East-West business.
The material presented in the thesis has therefore been divided into three main parts.

Part A forms the introduction to the thesis, including this chapter and an examination of
joint ventures as a tool in international business (chapter 2), thus highlighting in
particular the marketing and management aspects of joint ventures. Part B provides a
survey of the political and macro-economic background of joint ventures in the former
USSR and Eastern Europe by discussing the role of concessions during the nineteen
twenties in the former Soviet Union, foreign trade under centralised planning, and the
impact of recent economic and political changes on foreign trade in the former Soviet
Union and socialist countries of Eastern Europe (chapters 3 and 4). The background to
the subject is further extended by tracing the pattern and volume of East-West trade and
industrial co-operation from 1970-1990 (chapter 5) as well as tracing the development of
East-West joint ventures, beginning with a review of the emergence of East-West Soviet
and East European wholly-owned and mixed companies in the West (chapter 6) which
highlight the experience gained by Comecon countries with joint ventures in a market
environment.
Part C focusses on the emergence of East-West joint ventures in the East by examining the legal provisions for joint ventures in the former Soviet Union and Eastern Europe, and their potential for Western investors (chapter 7). This is followed by a review of joint ventures in Eastern Europe and the former USSR, analysing the number of joint ventures and the amount of capital invested by Western companies, in order to obtain an estimate of the Western response to joint venture possibilities (chapter 8). These chapters are then followed by accounts of case study research into the operation of joint ventures in the former socialist countries of Eastern Europe in the late nineteen eighties (chapter 9) and a questionnaire based survey on the operation of Anglo-Soviet joint ventures in 1990 (chapter 10).

The final chapter (chapter 11) presents the author's comments and conclusions on East-West joint ventures and their role in East-West trade, and on the basis of these findings discusses areas for future research on East-West trade and industrial co-operation.
Chapter 1: Notes


2. cf. table 8.1, and

   - Paliwoda S.J., Joint East-West Marketing and Production Ventures, Gower, Aldershot (UK), 1981.

CHAPTER 2

JOINT VENTURES: A TOOL IN INTERNATIONAL BUSINESS

INTRODUCTION

This chapter describes the role of joint ventures as a tool in export marketing, providing a theoretical framework for evaluating the role of joint ventures in East-West trade. The literature included in this survey has focused on the marketing and management aspects of joint ventures, including company motivation, partner selection and types of joint venture model; as well as reasons for joint venture success and failure in both developed and developing economies. The data has been obtained from studies carried out on joint ventures in the nineteen seventies and eighties during which time their numbers increased world-wide.(1) This general literature survey is followed by an examination of the same issues raised in the literature about joint ventures in the East.

MOTIVATION

As a tool in international business, joint ventures (together with other industrial cooperation agreements such as turnkey projects and licensing) are frequently presented in the literature as an alternative strategy to exporting, a means to achieve market penetration, and a vehicle to demonstrate commitment to a particular foreign market. Recent research into foreign direct investments by Rugman, Lecraw and Booth (see figure 2.1) has shown that companies invest in joint ventures after having gained long experience of the foreign market through other export activities.(2) The degree of commitment on the part of the foreign company to the host country is measured in terms of the time spent trading with the country as well as the amount of resources invested by the foreign firm. At the first stage of market penetration, the sale of a licence requires only limited after-
sales contact or follow-up, whereas with each subsequent stage towards foreign direct investment, the foreign company is obliged to commit more and more of its resources to strengthening its market presence in the recipient country.

FIGURE 2.1 Entry into foreign markets: the internationalisation process

Other reasons why firms have entered into joint ventures have been put forward by Datta (3), namely that the increased globalisation of markets together with the slowing down of economic growth in the major industrial nations during the nineteen seventies, caused companies to look at opportunities in underexplored markets, particularly in the developing countries, where direct modes of entry were not always possible. In those instances, joint ventures with a local partner have facilitated market entry and made it possible for foreign firms to operate within the market. Moreover, host governments, especially in developing countries, have tended to place pressure on Western companies to form joint ventures in an attempt to increase local employment, provide import substitution and curb spending of foreign currency. Using joint ventures as a means of penetrating the market has, therefore, been particularly relevant where government restriction and other less formal barriers inhibited market entry. (4)
By contrast studies carried out in the nineteen eighties by the United Nations on joint ventures in developed countries, particularly in the European Community, showed that companies participated in a joint venture when they were able to pool resources in research and development or establish better economies of scale. In the case of non-European Community firms, particularly of Japanese or American origin, they chose to establish joint ventures in order to secure a stronger market position within the European Community's internal market, thereby avoiding restrictions to market entry.(5)

Another important motive for seeking a joint venture partner has been the acquisition or sale of technology. Table 2.1 summarises the advantages to be gained by joint venture partners involved in acquiring and selling technology, illustrating that the main advantages to be gained by the partner acquiring the technology have been access to newer technology and help from the partner in implementing that technology, without great cash expenditure; as well as opportunities for joint research and development. The seller of the technology on the other hand, has been able to achieve greater market penetration with relatively low capital input, whilst ensuring the successful transfer of technology; and where technology has been sold to firms in less developed economies, it has also been possible to sell older technology no longer marketable in developed economies.(6)

Table 2.1 Joint Venture Advantages for Firms Acquiring or Selling Technology

<table>
<thead>
<tr>
<th>Acquiring</th>
<th>Selling</th>
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<tr>
<td>cutting/rationalising research and development costs</td>
<td>market entry with low capital input</td>
</tr>
<tr>
<td>obtaining up-to-date technology</td>
<td>rationalisation of production/processing technology</td>
</tr>
<tr>
<td>help in implementing technology</td>
<td>closer supervision and control of technology</td>
</tr>
<tr>
<td>new opportunities for product development</td>
<td>opportunity to sell older technology to developing countries</td>
</tr>
</tbody>
</table>

Source: Killing (Fall 1980)
Research undertaken by Hendryx(7) on the implementation of technology transfer in a less developed economy, revealed that in the People's Republic of China, joint ventures rather than licensing agreements have been the preferred vehicle for the sale and acquisition of technology because the parent of the technology was committed to its implementation. Furthermore, studies carried out by Davies and Killing confirmed that the greater the technology gap between companies engaged in technology transfer, the stronger their relationship had to be for the successful implementation of the technology.(8) Seventy-eight per cent of the joint ventures in Davies' sample engaged technical personnel from the supplying parent company to supervise plant construction, whilst only 26% of companies in a licensing agreement did so.

Moreover, data by Killing (see table 2.2), albeit of a small sample of 30 joint ventures in developing countries with Canadian, American and other Western firms, illustrates that the technology supplying parent is more inclined to supervise the implementation of the transferred technology. According to the data in table 2.2 the "technology parent" in shared joint ventures preferred to send permanently assigned staff to the joint venture (17 out of the 25 shared joint ventures in Killing's sample did so), rather than sending staff for a visit or on a temporary basis (only 4 out of the 25 joint ventures did this for each of the temporary categories). The sample size of "technology parents" in the dominant joint ventures (5 joint ventures) is, however, too small a sample to permit any definite conclusions to be reached about the assigning of permanent and temporary staff, although only two "technology parents" provided staff on permanent assignments.
Companies have, therefore, entered a joint venture agreement to achieve particular advantages in the transfer and acquisition of technology, but they also had certain other needs which could be provided by their partners, namely:

(i) capital needs: items readily capitalised such as "capital" itself, raw material supply, technology or equipment;

(ii) human-resource needs: general managers, marketing personnel, technical personnel for the transfer of technology and know-how, low-cost labour for competitive output;

(iii) market access needs: access to local market, and local partners' need to have access to export markets;

(iv) government/political needs: to meet host government requirements, thereby gaining political advantage, government strategy for import substitution;

(v) knowledge needs: local knowledge concerning operational conditions, labour laws, factory regulations, customs and marketing methods.(9)

PARTNER SELECTION

Having established the various motives or needs for establishing a joint venture, this section examines the criteria for selecting a joint venture partner based on research
findings conducted in the nineteen eighties, on joint ventures in developed and less developed economies.

According to Beamish (10) a company interested in penetrating a less developed foreign market would look for a local partner who had access to sound market information and good local contacts. Where the major motive was the transfer of technology, the parent company selling technology looked for a partner who not only required the technology, but had the ability to implement it successfully with their help. (11) The foreign company searched, therefore, for a partner with the necessary technical skills and capacity to absorb the technology. Where a brandname was involved, the company passing on its brandname required a partner who was able to manufacture the products to a satisfactory standard, worthy of the brandname being given to those products. Where joint ventures were engaged in production activities the foreign partner ensured that the recipient had access to good quality raw materials.

Companies wishing to combine their research and development strengths, however, have chosen partners with complementary strengths, so that both parent companies have made significant contributions to any product or technological developments.

Where better economies of scale have been an incentive for a joint venture, a partner has been sought who was able to offer production capacity to meet this major objective. The foreign partner also looked for someone who could offer skilled, low-cost and efficient labour and who was able to participate in a wider market outreach, enabling greater profits to be achieved.

In examples, however, where foreign companies were complying with the wishes of a host government, it has sometimes been the case, that they would have preferred other forms of industrial co-operation to a joint venture. However, in pursuing their major objective
of wanting to do business with that country, they agreed to form a joint venture. In this sort of situation, where the local host government exercised such pressure and control, the partner selected often came by recommendation from the government, or was expressly chosen because it had good government backing and contacts.

The local partner, for its part, was likely to choose a foreign partner who was able to provide for them a combination of strengths, including assets, technology and know-how, access to the company’s distribution outlets as well as access to external finance. Multinational corporations have usually been the most capable to meet all of these requirements.(12)

Figure 2.2 which has been developed by the present author from the summary points in the last paragraph of the previous section, presents the factors which determine partner selection. It also shows how all these factors influence the type of joint venture model chosen by the partners.
Choosing a Complementary Partner

<table>
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<th>Attributes of Foreign Partner</th>
<th>Attributes of Local Partner</th>
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<tr>
<td>a) market penetration and knowledge of market</td>
<td>assets, experience, good product/service</td>
<td>good local market knowledge and reputation</td>
</tr>
<tr>
<td>b) sale and acquisition of capital, including sale of technology and licence</td>
<td>newer technology, brand-name, know-how, capital goods</td>
<td>sound technical skill, production capacity, premises, raw materials</td>
</tr>
<tr>
<td>c) human resource needs: management and marketing know-how, research &amp; development</td>
<td>developed expertise, technical skills</td>
<td>developed expertise, technical skills in a complementary field</td>
</tr>
<tr>
<td>d) host government pressure (market entry)</td>
<td>sound reputation, multinational company</td>
<td>state enterprise, political approval, good market contacts</td>
</tr>
</tbody>
</table>

Establishing Complementary Attributes and Negotiating Terms of Partner Contribution

Deciding on a Joint Venture Model
JOINT VENTURE MODELS

Various joint venture models grant the partners different degrees of control. According to Killing (13) there are 3 joint venture models, namely the dominant parent model, the shared management model and the independent joint venture model, which each have the following features:

(a) the dominant parent model
In this type of joint venture one of the parent companies owns the majority shareholding and runs the joint venture as if it were one of its own subsidiaries, playing an important role in selecting its operational managers and in deciding the joint venture’s strategic and operational policies. Multinational companies, therefore, tend to prefer majority shareholding, as a matter of policy, in order to maintain control of all their operations. Similarly a parent company having sold its brandname to a joint venture may insist on majority shareholding in order to ensure the quality of the joint venture products. Some host governments, however, may insist on local companies holding majority shareholding as a way of protecting local employment and their national economy from outside influences.(14)

(b) the shared management model
In this type of joint venture model both parent companies have an equal share in the joint venture and its management. The partners are able to complement each other’s attributes in a balanced way, thereby maximising each other’s potential through the joint venture. This is often the model chosen by companies where one supplies the technological know-how and the other is able to offer its knowledge of the local market.
(c) the independent joint venture model

This type of joint venture runs relatively independently from either parent company’s control and as such operates as an autonomous enterprise, although several links inevitably exist between the parent companies and the joint venture.

MANAGEMENT ISSUES

Strategy and Operation

As already discussed earlier the choice of joint venture model depends very much on the needs or the motives of the parent companies. Of the three previously described models, the first two have been more common. The third, independent model has been rarer because parent companies have been generally reluctant to lose control of the joint venture and its activities, especially when they have invested their resources in the operation. The choice of model, however, has been partly influenced by its capability to resolve the management issues evolving from joint venture operation. These have been summarised by Holton as (15):

(i) Strategy: devising a plan to achieve the objective of the joint venture. Use of resources, planning of time-scales, setting of targets.

(ii) Decision-making process: communication flows between partners, trust, consultation between technical personnel and management, parent company control and dominance, state interference.

(iii) Financial management: decisions on policies regarding investment, reinvestment of profits, debts and debt-equity ratios, financial cash infusions, raising or running down of assets, partners’ financial contributions.
(iv) Accounting and control methods: accounting methods, frequency and detail of reports to be submitted to partners, deciding on the auditors.

(v) Marketing policies and practices: deciding on products/product improvements, markets, customers, services, means of promotion, stocks.

(vi) Production policies: determining quality control standards, implementing quality control, transferring technology and implementing it.

(vii) Human Resources: staffing of joint venture, expatriating staff, industrial relations, choosing the Board of Directors and the Chairman. Establishing a reporting system, hiring and firing staff, pensions, social security, employees’ rights.

(viii) Research and development policy: the size of the budget, emphasis on research and development efforts, use of research and development efforts.

(ix) Government and trade relations: managing taxation, import/export regulations, observing joint venture regulations, subsidies.

These management issues relate broadly to the management, marketing and operational activities of the joint venture both in the short and long term, as well as to the company’s internal and external policies. The ways they have been managed, therefore, have depended on the joint venture model adopted by the partners and the degree of control that they were able to exercise through it. With the dominant and independent joint venture model, conflicts have been less likely to develop than in the shared management model. This has been due to the fact that, where a partner has had control through its dominant position, the weaker partner has been more likely to accept the decisions taken by its dominant partner. In the independent model, the joint venture partners may have
been less concerned with control or complying with parent companies' policies than with
developing their own independent company policies. The management problems
discussed in existing literature on joint ventures have related mainly to the problems
encountered by partners in shared joint ventures, and have included the following issues:
(i) harmonisation of parent company objectives;
(ii) cultural differences of parent companies;
(iii) developing an independent management system for the joint venture;
(iv) establishing an atmosphere of mutual trust;
(v) ensuring loyalty of employees to the joint venture.(16)

An analysis of other management issues of shared joint ventures is presented in the
following paragraphs. These issues relate to one of the major problems confronting the
Managing Director of a shared joint venture, namely the lack of a set of well-established
guidelines or a framework of procedures for him or her to follow, which have affected
communication flows between the joint venture and the parent companies.(17) In surveys
undertaken by Killing on the problems and activities of 37 managers and by Schaan on
10 managers, the joint venture managers frequently complained about ambiguous
relationships, allegiances and the matter of trust in their relationship with the parent
companies as well as their struggle for autonomy, which affected their ability to manage
the joint venture effectively.(18) In addition to these questions of relationships,
allegiances and trust, cultural differences influence the management of a joint venture, and
associated frameworks, procedures and communication flows.

Ambiguous Relationships

A shared joint venture has not always provided a clear hierarchy or chain of command,
with staff below and above the Managing Director. In the case of divisional managers
transferred to the joint venture, their first allegiance has been to the parent company,
especially as many anticipated promotions from the parent company rather than from the joint venture. The problem for the Managing Director of the joint venture, in such instances, was therefore one of authority. This situation became particularly intense if these divisional managers felt that the Managing Director was proposing actions which appeared not to be in the parent company’s interest.

In liaising with superiors, the Managing Director faced an equally ambiguous relationship, especially when the hierarchy was not clearly defined. When making any decisions, therefore, the Managing Director had to decide which parent company to involve in the process. This implied, however, that the Managing Director had to be able to recognise in advance the interests of each partner, which required him or her to be not only familiar with the joint venture issues, but also with the structure and workings of both parent companies, and their policies and strategies, in order to make the right decision for the joint venture and the interested parent company. Managing Directors, however, were often not informed by the parent companies of their long-term objectives for the joint venture.

Allegiance

According to Killing’s findings, joint ventures which had an independent Managing Director were more likely to succeed than those which had a Managing Director who worked part-time for the joint venture and part-time for one of the parent companies. Unlike the part-time Managing Director, the full-time Managing Director was less likely to experience a conflict of loyalties between the joint venture’s interest and those of the parent company. Independent managers were, however, less common. In his sample of 20 managers, 7 worked part-time for one of the parent companies, whilst 12 of the remaining 13 managers indicated that there was a greater than fifty per cent probability that they would work for one or other of the parent companies when they left the joint
Cultural Differences

In joint ventures between partners from different cultural backgrounds, for example between Japanese and European or between Iranian and European firms, the difference in languages and management systems have sometimes led to misunderstandings, poor communications and ambiguous relationships. The difference in management systems, in particular, has been discussed by Killing in his examination of the influence of the partners' corporate cultures on the joint venture. Killing defined the partners' corporate cultures in terms of their size and personality which determined the way in which the partners dealt with bureaucracy, hierarchy and decision-making. Thus large companies would be used to dealing with bureaucracy and delays when trying to obtain a decision, whilst a manager in a small company would approach line managers directly in order to obtain a fairly speedy decision.

The features of the corporate culture, however, were influenced by the industry the company was engaged in rather than its nationality. Thus, companies in the same industry, but not necessarily from the same country, such as oil or engineering, were likely to have more in common with each other than for example a bank or service company in the same country. These different corporate cultures usually operated different management systems (e.g. accounting, planning and control systems). The study showed that, where parent companies had different corporate cultures, it was difficult for the joint venture to formulate mutually acceptable policies on issues such as distribution, quality control or the hiring and firing of personnel.
Although these studies highlighted the cultural problems of joint ventures with partners from different countries or industries, it was possible, according to Janger, for joint ventures to work out a management system designed to cope with these difficulties. He proposed the implementation of the following systems to enable joint ventures to manage the operation successfully:

(i) writing of financial reports
(ii) informal visits by parent company executives
(iii) regular financial audits
(iv) formal planning systems
(v) staff performance reviews
(vi) management audits

Finding a Managing Director, however, who was capable of functioning in this rather complex and often ill-defined corporation was difficult. Nevertheless, a shared joint venture could succeed, if the Managing Director's allegiance and commitment was to the joint venture, rather than to one or the other of the parent companies.

REASONS FOR JOINT VENTURE FAILURE

Having examined the motives and objectives of companies deciding to collaborate together in a joint venture and having studied the complexities of managing a joint venture, it is evident that joint ventures have been confronted with many difficulties which have sometimes led to their dissolution. These have been summarised by Scanlon as misreading of market opportunities, inadequacies in human resource management and information systems, falling short of objectives, and growing disillusionment. These are explained in more detail in the following subsections:
(a) Misreading of market opportunities:

Estimating wrongly the market potential of their products or services under development, or failing to make a detailed assessment of the underlying technologies required, led to a misjudgment of market opportunities by many joint ventures. Examples were given by Scanlon of incomprehensive studies of the market place from which incorrect or distorted market data were obtained. Other joint ventures erroneously assumed the local partner already possessed an understanding of the market place because of his experience in the market or their location.

(b) Human Resource Management and Information Systems:

The problem of employee identification and allegiance was raised when parent companies supplied personnel to a joint venture. This issue often remained unresolved as few companies were willing to provide special programmes to help the joint venture employees to identify more strongly with the joint venture. On the contrary, some parent companies preferred to retain the loyalty of their employees seconded to the joint venture. The consequences of divided loyalties as discussed in previous sections led to the dissolution of the joint venture.

Setting up a reporting system which met the requirements of the joint venture was often neglected. The reporting system of one of the parent companies was, therefore, adopted in most cases, which was not always appropriate to the joint venture’s needs. Impaired information flows right at the start-up phase, and later when the joint venture was running, impeded the smooth operation of the venture.

(c) Falling Short of Objectives:

The most frequently mentioned reasons for failing to meet the objectives set by the joint venture partners included misreadings of the market place, cost overruns and unforeseen changes in the economy or governmental actions. Out of a sample of 38 companies
asked, nearly half said that the collaborative venture did not live up to expectations and there was an undercurrent of disagreement between the partners.

(d) Growing Disillusionment:

Whilst many partners were very satisfied with the collaboration at the conceptual phase of the venture, they were less satisfied with the development of the business plan and the resolution of human resource issues. Scanlon measured this growing disillusion with a percentage breakdown in his study (see figure 2.3).

The reduced levels of enthusiastic satisfaction with the business plan and human resource management, compared with conceptualisation, legal agreements and management systems were explained by the fact that the former areas were difficult to manage as they tended to be rather unpredictable. In addition, when compared with legal agreement and management systems they were less easily put into an operational framework. A business plan and human resourcing were also more vulnerable to unforeseeable factors such as changing market demands and changing industrial relations.

<table>
<thead>
<tr>
<th></th>
<th>Conceptual Phase</th>
<th>Business Plan*</th>
<th>Legal Agreement</th>
<th>Human Resources</th>
<th>Management Systems</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfied:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Very</td>
<td>79</td>
<td>57</td>
<td>80</td>
<td>50</td>
<td>66</td>
</tr>
<tr>
<td>Somewhat</td>
<td>14</td>
<td>26</td>
<td>18</td>
<td>41</td>
<td>27</td>
</tr>
<tr>
<td>Dissatisfied:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Somewhat</td>
<td>7</td>
<td>10</td>
<td>2</td>
<td>9</td>
<td>5</td>
</tr>
<tr>
<td>Very</td>
<td>-</td>
<td>7</td>
<td>-</td>
<td>-</td>
<td>5</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

**Source:** Scanlon (1986), p.83.

*excludes 4 collaborative ventures that did not develop a business plan.

**Sample Size:** 38 companies.
In the survey carried out by Buckley, Mirza and Sparkes on successful investments in Japan by American and European companies, factors for success and failure are summarised in figure 2.4. Their findings showed that being well acquainted with one’s partner and the market were prerequisites for a successful joint venture. They stressed the importance of sound management systems and good labour relations, which also support Scanlon’s findings. Key problems, besides those that referred specifically to the Japanese market, included cultural differences and communication problems at top management level.

Figure 2.4 Key Factors in Joint Venture Success and Failure in Japan

<table>
<thead>
<tr>
<th>Success Factors</th>
<th>Frequently mentioned:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Long-term commitment</td>
</tr>
<tr>
<td></td>
<td>Development of relationships</td>
</tr>
<tr>
<td></td>
<td>Technological lead</td>
</tr>
<tr>
<td></td>
<td>Special niche in the market</td>
</tr>
<tr>
<td></td>
<td>Good partner in joint venture</td>
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<tr>
<td></td>
<td>Successful product adaptation</td>
</tr>
<tr>
<td></td>
<td>Sensitivity to Japanese conditions</td>
</tr>
<tr>
<td></td>
<td>Good labour relations</td>
</tr>
<tr>
<td></td>
<td>Sound finance</td>
</tr>
<tr>
<td></td>
<td>Dedicated personnel</td>
</tr>
<tr>
<td></td>
<td>Combination of European technology and Japanese marketing</td>
</tr>
<tr>
<td></td>
<td>Close liaison between Europe and Japanese partner</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Key Problems</th>
<th>Frequently mentioned:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Language problems</td>
</tr>
<tr>
<td></td>
<td>General cultural differences</td>
</tr>
<tr>
<td></td>
<td>Intense competition</td>
</tr>
<tr>
<td></td>
<td>Distribution system</td>
</tr>
<tr>
<td></td>
<td>Meeting Japanese quality requirements</td>
</tr>
<tr>
<td></td>
<td>Long time horizons needed</td>
</tr>
<tr>
<td></td>
<td>Price structure in Japan (too low)</td>
</tr>
<tr>
<td></td>
<td>Standards approval</td>
</tr>
<tr>
<td></td>
<td>Protectionist attitudes and laws</td>
</tr>
<tr>
<td></td>
<td>Advertising costs</td>
</tr>
<tr>
<td></td>
<td>&quot;Secrecy&quot;</td>
</tr>
<tr>
<td></td>
<td>Insufficient profit</td>
</tr>
<tr>
<td></td>
<td>Difficulty in obtaining top level management</td>
</tr>
</tbody>
</table>

Source: Buckley, Mirza, Sparkes (19 September, 1986) p.102.
Holton’s study (30) on international joint ventures identified two main reasons for joint venture failure, namely decision-making and partner disagreement as outlined below.

(a) Decision-making
According to his findings joint ventures failed when the decision-making could not be delegated from headquarters to the joint venture (usually in the case of a multinational company) and the local partner was, therefore, unable to participate in the decision-making process.

(b) Partner disagreement
When partners disagreed about operating strategies, policies and methods which concerned, for example, dividend pay-out policies, debt-equity ratios, market policies and quality control, they often reached an impasse which prevented the joint venture from being able to continue operations.

According to Holton a joint venture agreement had a greater chance of working if a business plan was included because it defined the objectives of the joint venture and the partners’ commitment to them. (31) The business plan, had to specify, therefore:
- the prospective partners’ qualifications for participating in the joint venture;
- their financial capability;
- the company’s market position in the product line being considered;
- the availability of management/technical and other personnel;
- the level of research and development expenditure;
- the willingness to divulge new technology.

To ensure the viability and effectiveness of the business plan, Holton recommended that this be checked by a reputable bank or relevant embassy. In this way, both partners could gain assurances whilst at the same time working out on paper some of the operational
difficulties to be encountered by the joint venture. It also provided clear objectives to the Managing Director.

JOINT VENTURE BENEFITS

Despite the difficulties of managing a joint venture, there are nevertheless, positive benefits to be gained by companies engaged in this type of business arrangement which have been highlighted by Berlew (32) and Killing.(33) Berlew pointed to the success of joint ventures in achieving market penetration, whilst Killing presented the benefits to parent companies from the joint venture in the form of pay-off through sales, fees and royalties. Their findings are summarised in the following paragraphs.

Market Entry
Joint ventures have enabled companies to establish a market presence with small capitalisation, especially if one of the partners capitalised the venture by contributing know-how or technology and the other partner was able to provide local staff and resources. Moreover, this type of co-operation was also able to provide the foreign partner with readier access to market information obtained from a local partner. This was especially the case, where host governments were promoting joint ventures.

Equity holding
The equity holding of a joint venture was likely to increase more than earnings from a distribution outlet or licensing agreement and give a greater return on the initial investment.

Pay-offs
In the shared joint ventures interviewed by Killing (19 joint ventures) more than half of the foreign partners (11 foreign partners) received pay-offs through technical fees and
through the sale of goods to the joint venture. By contrast, the local partners' main payoffs were through dividends and the ability to obtain goods through the joint venture (approximately 7 and 6 local partners respectively).

JOINT VENTURES IN THE EAST

Introduction

As already stated at the beginning of the chapter, this section focusses on the business aspects discussed in earlier research on international joint ventures, with particular reference to East-West joint ventures in Eastern Europe and the former Soviet Union. The following pages examine, therefore, joint venture motivations, the type of joint venture model preferred, the management issues raised by East-West joint ventures, the reasons for joint venture failures and the joint venture returns, thereby providing the theoretical framework for discussing the case studies in chapters nine and ten of the thesis. The most comprehensive data on these issues, giving Western companies' experiences, has been published by the United Nations in 1988. Where possible, other sources from the trade press and East European sources have also been included.

Partner Objectives

According to the United Nations' survey in 1988, Western companies have had the following objectives in wanting to establish a joint ventures in the former CMEA markets:

(i) to sell their company's goods or services in Eastern Europe (i.e., market penetration);
(ii) to sell their technology or licences to their East European partner (i.e., capital transfer);
(iii) to achieve greater economies of scale by gaining access to low-cost labour, cheaper raw materials and factory premises (i.e., capital transfer);
(iv) to establish joint research and development (i.e., rationalising or expanding technical resources);
(v) to respond to host government pressure. (35)

These objectives correspond closely with those summarised in figure 2.2 of this chapter and have been defined as fulfilling certain needs such as market penetration, capital and human resource needs, as well as the need to respond to host government pressure.

East European partners have published their objectives in the respective joint venture decrees. Taking the former Soviet joint venture decree as an example of East European partners’ objectives, clause 3 of the decree (36) states that a joint venture with a foreign partner must:

(i) attract new technology and managerial expertise (i.e., capital and human resource acquisition);
(ii) stimulate import substitution (i.e., capital acquisition);
(iii) stimulate exports (i.e., market penetration abroad).

Moreover, in 1984 a United Nations’ report (37) also noted that East European partners wanted to modernise their enterprises and improve their export performance in order to earn more hard currency. These partner objectives are also similar to those mentioned in figure 2.2 of this chapter. They reflect the need for capital and human resources, as well as the desire to achieve market penetration in hard currency markets. However, whilst it may be possible for partners to find compatible joint venture partners to meet their capital and human resource needs, partners who disagree on the joint venture market outlets may find it difficult to continue a joint venture partnership, unless a compromise
Choosing a Joint Venture Model

The type of joint venture models encountered in Eastern Europe and the former Soviet Union prior to 1989 (see table 2.3) fell into two categories: the shared management model and the dominant parent model. In the dominant parent model before 1989, it was usually the East European partner who had the dominant position through majority equity holding.

Moreover, most East European countries and the former USSR insisted on the managing director of the joint venture having the appropriate East European or Soviet citizenship. According to United Nations' statistics the trend up to 1988 seems to have been slightly in favour of the shared joint venture model (40% of the total in table 2.3), although 29% of the total sample had a dominant East European partner and 31% of the joint ventures did not specify their equity shareholding.

Table 2.3 Types of Joint Venture Models in Eastern Europe up to 1988

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>*SHARED</th>
<th>**DOMINANT</th>
<th>UNKNOWN</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>5</td>
<td>2</td>
<td>8</td>
<td>15</td>
</tr>
<tr>
<td>Czechoslovakia</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Hungary</td>
<td>48</td>
<td>36</td>
<td>27</td>
<td>111</td>
</tr>
<tr>
<td>Poland</td>
<td>1</td>
<td>1</td>
<td>11</td>
<td>13</td>
</tr>
<tr>
<td>Romania</td>
<td>4</td>
<td>1</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>USSR</td>
<td>7</td>
<td>7</td>
<td>5</td>
<td>19</td>
</tr>
<tr>
<td>TOTALS</td>
<td>66</td>
<td>48</td>
<td>51</td>
<td>166</td>
</tr>
</tbody>
</table>

* Partner has 45% of equity shareholding
** Usually the East European/Soviet partner

Management of Joint Ventures

As discussed earlier on in the chapter the management structure of the joint venture is determined by the type of joint venture model adopted and the operational and cultural environment of the host country. Moreover, as mentioned above, in the legislation governing joint ventures in the former CMEA countries before 1989, the authorities preferred the East European partner to be the controlling or at least an equal partner in the joint venture.

Since the shared joint venture model was generally preferred before 1989, this section discusses the relevant issues relating to the management of shared joint ventures in the former Comecon countries. The main management tasks confronting the managers of a shared joint venture are to achieve harmonisation between both partners’ business objectives, and to understand each other’s management cultures and business environment. The following paragraph presents the way in which some partners have managed to overcome some of these difficulties.

a) Different business objectives

In order to compromise on business objectives, East-West joint venture partners have agreed to carry out aspects of their joint venture activities in both markets, thereby satisfying both partners’ business desires. Examples of compromise include the Heinemann/Ordzhonikidze, German-Soviet joint venture which has been engaged in the manufacture of machine tools and the Burda Moden, German-Soviet dressmaking magazine joint venture. In order to sell to the former Soviet market and gain access to Western technology and know-how, the partners in the machine tool joint venture have set up a factory in Moscow, where the joint venture pays labour and material costs from rouble profits, and Russian workers have been sent to the German based plant for training. The Burda joint venture also managed to find a compromise solution in which Burda met
their Soviet partners' objective of gaining access to Western markets by building a printing press in the former Soviet Union which sells to Western and Soviet customers. In return, Burda has been allowed to circulate and sell the Burda magazine for roubles throughout the former Soviet republics.

b) Cultural differences

The cultural differences referred to earlier on in the chapter include linguistic, corporate and operational differences. According to literature on East-West joint ventures the cultural problems have been mainly concerned with the corporate and operational differences. The main corporate differences have been due to the differences in the partners' economic systems which have resulted in Western firms being market and profit-oriented, and East European firms being more preoccupied with quantitative output rather than efficiency, quality and consumer demands. As for the operational aspects, Western firms have had to overcome certain day-to-day difficulties within a centrally planned economy. These have often included coping with the inefficiencies of the supply system, which have sometimes led to shortages and caused firms to stockpile goods as a precaution, inadequate postal and telecommunications, making communications with the parent company in the West and customers difficult, as well as bureaucracy and state interference, making it difficult for the joint venture to reach speedy decisions. Although the economic reforms since 1989 have eliminated some of the corporate and operational obstacles between former socialist and Western companies, differences will continue to exist as long as the economies of the former socialist countries lag behind those in the West.
Despite these advantages, however, national and corporate differences as well as the conflict over market outlets in East-West joint ventures have sometimes required the partners, particularly in shared joint ventures, to harmonise and sometimes compromise on their objectives in order to meet both partners’ needs. The evidence has shown that joint venture partners have been in a better position to do this as a result of working out an appropriate joint venture strategy for overcoming their differences.

According to the literature on international and East-West joint ventures, this type of partnership is a complex form of industrial co-operation between firms, particularly if the partners have equal shareholding. However, if carefully managed, they offer advantages to both partners with minimal capital outlay and enable the foreign company to penetrate foreign markets with considerable help from their partner(s).

Having examined joint ventures as a tool in international and East-West business the subsequent chapters extend the economic and political framework for discussing East-West joint ventures by tracing the important economic and political changes which have contributed to the rapid growth of East-West joint ventures in the late nineteen eighties. These background chapters establish, therefore, the necessary framework for discussing the case studies presented in chapters nine and ten of the thesis.
Chapter 2: Notes


- Killing (1980), p.41


   - Beamish (1987), p.28


   - Datta (1988), pp.78,82 -83.
   - Schaan J. L., "Parent Control and Joint Venture Success: The Case of Mexico", unpublished


18. Killing (1983). Data collected by Schaan on 10 joint ventures in Mexico was also included by Killing for comparison.


20. Ibid. Only 3/10 managing directors from Schaan's Mexican sample were informed by their parent companies about long-term objectives for the joint venture.


22. Ibid., p. 81


25. Ibid., pp. 57 - 58.


27. Ibid., p. 89


31. Ibid., pp. 263 - 264.

Joint Venture Failures

Despite the cultural differences outlined above, there was only a 5% joint venture failure rate up to 1988. According to the United Nations report, four joint ventures ceased operations in Romania, two in Hungary and one in Bulgaria. Four of the failures were attributed to either bureaucratic inefficiencies or supply difficulties, two were due to miscalculation of demand for the joint venture products, and one was due to the Western partner going bankrupt. Since 1988, however, there has been no statistical information to show whether the rate of joint venture failures has changed, although it is likely that as the number of joint ventures have increased so the failure rate may also increase.

Joint Venture Returns

It would appear that the partners’ objectives for entering into a joint venture agreement, if fulfilled, determine the partners’ returns. Benefits from the joint venture may range, therefore, from gaining access to the local or export market to meeting capital, human resource or raw material requirements.

CONCLUSION

The literature search on international and East-West joint ventures has demonstrated that companies have entered into joint venture agreements because it has enabled them to penetrate a foreign market more effectively with relatively low capitalisation; and in some cases to meet host government pressure as well as meet the partners’ respective capital and human resource needs.
35. Ibid., pp. 30 - 35.
38. See chapter 6, table 6.9.
- International Management, "Joint Ventures: it's a deal, comrade", November 1987, pp. 65 - 68.
42. Ibid., p.35.
43. Ibid., pp. 35 - 36.
44. Ibid., pp. 8 - 9 discuss failure rate of joint ventures carried out by empirical studies in the nineteen sixties, seventies and eighties. Although the sample sizes tended to vary between 38 and 1100 approximately 30% of the joint ventures in the samples ceased to operate as joint ventures because of changes in corporate strategy or operations or because the joint venture fell short of the partners' expectations.

45. Ibid., pp. 30 34.

CHAPTER 3

THE SOVIET UNION: FROM THE NEW ECONOMIC POLICY TO MARKET SOCIALISM

INTRODUCTION

The application of the Soviet economic model has been extensive in East European economies during the post-war period, and as such needs to be understood and placed in context in any discussion of East-West trade and joint ventures. This chapter traces, therefore, the development of the Soviet economy from the New Economic Policy (NEP) to the creation of Stalin’s central planning system, followed by post 1957 attempts to restructure and improve economic efficiency and technological development up to 1990. It examines the main features of each stage paying attention to the role of concessions in the nineteen twenties, the function of foreign trade under the centralised planning system and the emergence of joint ventures in the nineteen eighties.

THE NEW ECONOMIC POLICY

This section begins by outlining the main events in Soviet economic history which led to NEP and the introduction of concessions, thereby providing the historical background for a discussion of the role of concessions.
After the First World War, the 1917 October Revolution and the ensuing Civil War, the economic problems faced by the Soviet government in the early nineteen twenties were largely due to the supply crisis of 1921. A shortage of agricultural produce, following the reported famine of 1921 - 22, and a fuel crisis, caused many industrial enterprises to halt production, and large numbers of skilled workers and engineers to move back to the villages, away from the main industrial centres. Consequently skilled industrial labour became scarce and their places were often filled by unskilled workers, ill-equipped for the required task. These factors, when combined, contributed to a slump in productivity which led to the rouble being devalued and the formal distribution system being bypassed.(2)

Thus the closure of several state factories occurred as a result of supply and labour shortages which caused the Soviet government to become mainly concerned with the task of reorganising state industry and increasing industrial output. In order to achieve this objective speedily, the authorities decided to abandon temporarily the introduction of a centralised planning system through which extensive industrial growth could be effected. Consequently, with the aim of making industry self-sufficient and more independent from the state, a government decree was issued on the 9 August 1921 dividing industry into autonomous units (trusts) which controlled several enterprises.(3) The enterprises themselves fell into two categories:

1. large enterprises, which were to be supplied with raw materials, and to be controlled by the state;
2. factories, which were to be leased to private individuals and foreign concessions.(4)
Those not falling into these two categories were closed down and workers transferred to operating factories in an effort to rationalise industrial production. The remaining plants were then regrouped into trusts which were intended to attract foreign technical assistance.(5)

However, whilst the early Soviet government sought to cope with the problems of rebuilding industry and investing in agriculture by allowing market forces to play a major role, the 'Left' of that time continued to advocate the implementation of socialist central planning. (6) Support for the latter policy became increasingly stronger in the latter half of the nineteen twenties and is discussed in a subsequent section.

Planning and control in the nineteen twenties(7)

Having temporarily rejected the socialist policy of extensive industrial development in favour of a mixed market economy, the authorities decided during 1921 - 22 to decentralise the Supreme Council of the National Economy (VSNKh) which had been set up in December 1917 to control the planning of production from the centre. Responsibility for planning production was, therefore, transferred from the Council of the National Economy to newly created trusts which were responsible for groups of enterprises. Several trusts were, nevertheless, still subordinated to the VSNKh, whilst others were placed under the control of local sovnarkhozy (councils of national economy).
The VSNKh, however, retained control over:

- finance (credit, price policy, etc.),
- administration (hiring and firing of trust officials, transfer of material resources),
- production planning (drafting of simple output plans, checking on their execution).

Moreover, whilst the VSNKh was responsible for the formulation of the production plan and budget of industries of all-union importance, it merely examined the production plans of those industries under republican control (republican council). Thus key industries for the economy were given orders by VSNKh via the trusts, determining their production and outlets. Many trusts, however, especially in the consumers' goods industries, made up their own production plans which took the market into account.

The role of Gosplan (the State Planning Commission set up on 22 February 1921) was to work out the overall state economic plan together with the methods and means for implementing it. Moreover, on 21 August 1923 its duties were re-defined to include preparation of the budget, examination of questions on currency, credit and banking matters as well as making decisions on industrial location and ensuring industrial standardisation. Its main function, therefore, in the nineteen twenties was to act as a coordinating body which examined and expressed views on all plans and production programmes put forward. In this respect it overlapped somewhat with the planning division of VSNKh.

To summarise, the type of planning which was undertaken by these bodies was concerned (except for some key sectors) with strategic investment decisions and industrial co-
ordination rather than providing output plans for all trusts and enterprises. Many trusts, for their part, worked out their own targets with only partial supervision from these central authorities. Most large trusts, however, such as the Baku Oil Organisation (the Soviet Union's largest oil producer) were closely linked with the relevant sub-division of VSNKh.

Concessions

Having been refused loans from international financial institutions in the early nineteen twenties and having decided to respond to the immediate economic problems within the USSR, the Soviet government encouraged foreign direct investments. This investment took mainly the form of foreign participation in concessions.(8)

In the first half of the nineteen twenties the largest group of concessions were operating in the raw materials sector which helped to promote exports and brought quick returns of hard currency earnings. Technical assistance contracts and the purchase of complete plants and equipments also became more usual, once the rouble (backed by gold) had been stabilised through the currency reform of July 1922.

During the NEP period there were basically three types of concessions in operation which are summarised in subsequent paragraphs. All involved investments by foreign companies to varying degrees and participation in profits in keeping with their shareholding.
Type 1 predominated at the beginning of the nineteen twenties and were "pure" concessions which operated in all sectors of the economy. This type of concession permitted foreign companies to exploit and develop a business opportunity with the Soviet Union without any property rights. Their role was, therefore, to provide capital, organise finance and introduce the latest technology. These concessions, could be described as mixed companies without equity.

Type 2 concessions were mixed companies with equity. To begin with, foreign companies were allowed a 50:50 shareholding. This was later reduced to minority foreign shareholding of 49%. The chairman of the board of directors, a Soviet citizen, was also given the deciding vote. The foreign contribution in this instance, was similar to that made in type 1 concessions, except that it involved equity investments.

Type 3 concessions were technical assistance contracts, where the foreign contribution consisted mainly of technology, for which the Soviets paid. (9)

Table 3.1 on the next page shows the number of applications for concessions and the type of concession applied for between 1921 and 1930 and although the data in table 3.1, is incomplete, it nevertheless, permits the following observations to be made:

(i) the number of applications for concessions by foreign investors far exceeded the actual number of concessions established (at least up until 1926);
(ii) the greatest number of applications were received in the years 1922-23 and 1925-26 (i.e. 1 year after the NEP had been introduced and at the height of the NEP respectively);

(iii) as the NEP became less popular, it appears that the number of applications for concessions declined (i.e. 1926 onwards);

(iv) as far as is available from the data, type 1 and 2 concessions were far more popular between 1921 and 1926, than type 3;

(v) technical assistance contracts increased in the latter half of the nineteen twenties.

Table 3.1 Concession Applications and Agreement

<table>
<thead>
<tr>
<th>Year</th>
<th>Applications</th>
<th>No. of Agreements</th>
<th>Type 3</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Types 1 and 2</td>
<td></td>
</tr>
<tr>
<td>1921-22</td>
<td>224</td>
<td>18</td>
<td>0</td>
</tr>
<tr>
<td>1922-23</td>
<td>579</td>
<td>44</td>
<td>1</td>
</tr>
<tr>
<td>1923-24</td>
<td>396</td>
<td>55</td>
<td>0</td>
</tr>
<tr>
<td>1924-25</td>
<td>256</td>
<td>103</td>
<td>4</td>
</tr>
<tr>
<td>1925-26</td>
<td>482</td>
<td>110</td>
<td>7</td>
</tr>
<tr>
<td>1926-27</td>
<td>263</td>
<td>not available</td>
<td>13</td>
</tr>
<tr>
<td>1927-28</td>
<td>200</td>
<td>not available</td>
<td>17</td>
</tr>
<tr>
<td>1928-29</td>
<td>270</td>
<td>not available</td>
<td>33</td>
</tr>
<tr>
<td>1929-30</td>
<td>not available</td>
<td>not available</td>
<td>59</td>
</tr>
<tr>
<td>TOTAL</td>
<td>2,670</td>
<td>330</td>
<td>134</td>
</tr>
</tbody>
</table>

As the popularity of the NEP declined in the latter half of the nineteen twenties, the total number of applications for concessions also declined. The increase in type 3 concessions after 1926, suggests that the Soviet authorities became less interested in having capitalist participation in their economic activities and preferred instead to "buy in" Western technology and expertise through type 3 concessions as a way of preparing for the introduction of a centralised planning system.

The Role of Concessions during NEP

Writers commenting on the period of concessions in the Soviet Union have differed in their opinions about the impact of concessions on the Soviet economy. Nove for example, points out that of the remaining 68 concessions which still existed in 1928, their contribution to the Soviet Union's industrial output amounted to only 0.6% of industrial output.(10) Equally Dobb argued that concessions with foreign firms had not had a great impact on the development of the Soviet economy after 1917 because concessions had only succeeded in attracting an estimated 10 million gold roubles during a 10 year period. (11) In his concluding remarks Dobb stated that "...the policy of granting concessions on a large scale to foreign companies had little success, apart from one or two special cases, while the concessions which were granted were more often in the sphere of foreign trade than in production." (12)

A Soviet writer of that period was also dismissive of the importance of concessions. Thus, Luibimov, former professor of economics at the University of Moscow, stated:

"Any discussion of concessions in the Union of Soviet Socialist Republics must emphasize
their relative unimportance in Soviet activity..."(13) According to the above writers, therefore, concessions and foreign capital and technology did little to rebuild the Soviet economy, except in one or two cases, and tended to be engaged in import and export activities (i.e. "foreign trade").

Quite a different view, however, was presented by Sutton on the role of foreign concessions on Soviet economic development. In a detailed analysis of the amount of technology transferred through foreign concessions, he established a correlation between productivity and the transfer of Western technology.(14) According to his findings, 98% of all sectors in the Soviet economy had benefited from foreign technology. In his volume covering the 1930-45 period of the Soviet economy, Sutton remained convinced that any production increases (except in petroleum refining and timber industry) were due to the increased output of plants built between 1930 and 1933 with the help of Western technology and type 3 concessions, rather than new Soviet plants. Moreover, this was substantiated by showing that no major technology or major plant under construction between 1930 and 1945 was implemented by purely Soviet efforts alone.(15)

By taking the above points of view into account, it is possible to conclude that in terms of capital investment and direct contribution to national production output, foreign concessions were unimportant to Soviet economic development, except in one or two cases (including the Baku oil fields). Nevertheless, strong evidence exists, that Western technology obtained through concessions, especially type 3, did help the Soviet economy to emerge from the slump of the very early nineteen twenties.
On the basis of the above, concessions appeared, therefore, to have had the following objectives:

a) to attract foreign investment, technology and skills;
b) to set in motion idle industries;
c) to boost exports, particularly in the raw materials sector.

As discussed in earlier paragraphs, however, concessions were only successful in meeting these objectives to a limited extent. Nevertheless, concessions enabled the USSR to obtain some important Western technology and know-how and improve its export performance in the raw materials sector.

The End of the NEP

With signs of only small improvements in industrial productivity during the latter half of the nineteen twenties, the opponents of the NEP were able to argue more convincingly for the introduction of a socialist centralised planning system. Their arguments against the continuation of the NEP were strengthened in particular by the situation brought about by the government’s price policy which had led to high prices being charged by the private sector for goods in short supply in the state sector.(16) The conflict between the state and private sector was further aggravated by the fact that many goods sold at high prices by the private sector on the open market had originally been purchased at low prices from the state sector.(17)
The gap which widened between free and official prices (see table 3.2 below) in the latter half of the nineteen twenties, helped Stalin and the advocates of a centralised planning system to succeed in outlawing the employment of labour for private gain in 1930. This brought the NEP period officially to an end.(18)

Table 3.2 Private and Official Prices of Food and Manufactures

(1913 = 100)

<table>
<thead>
<tr>
<th>Year</th>
<th>Food Private</th>
<th>Food Official</th>
<th>Manufactures Private</th>
<th>Manufactures Official</th>
</tr>
</thead>
<tbody>
<tr>
<td>1926 (Dec.)</td>
<td>198</td>
<td>181</td>
<td>251</td>
<td>208</td>
</tr>
<tr>
<td>1927 (Dec.)</td>
<td>222</td>
<td>175</td>
<td>240</td>
<td>188</td>
</tr>
<tr>
<td>1928 (Dec.)</td>
<td>293</td>
<td>184</td>
<td>253</td>
<td>190</td>
</tr>
<tr>
<td>1929 (June)</td>
<td>450</td>
<td>200</td>
<td>279</td>
<td>192</td>
</tr>
</tbody>
</table>


THE SOCIALIST CENTRAL PLANNING SYSTEM(19)

With the rise of Stalin and the demise of NEP, it was possible for the Soviet government to lay the foundations for a centrally planned economy which was later to provide the model for the development of the economies in Eastern Europe in the post-war era. This section summarises, therefore, the main characteristics of the centralised planning system, the organisation and role of foreign trade within it, and outlines the major reform elements, beginning with the 'sovnarkhozy' reforms of 1957, followed by the Kosygin reforms of 1965 and the Brezhnev reforms of 1973 and 1979. (See table 3.4 for summary
The planning and management structure of the centralised planning system of the Stalin period had the following major features:

i. centralised decision-making - the state planning committee (Gosplan) created in 1921, was charged by the Communist Party with the task of determining not only the macroeconomic, but also microeconomic policies of the economy through detailed five yearly plans which included targets for enterprise production;

ii. a vertical chain of command - plans and targets were passed down to enterprises through the People's Commissariats (later known as ministries), which ensured that the plans were implemented by the enterprises. Inter-enterprise activities of supplying and purchasing was also subject to ministerial control and supervision. Thus enterprise requirements were communicated to Gosplan through the ministries, which acted as a filter for information flows from both ends;

iii. Production targets - legally binding directives were passed down the hierarchical ladder requiring enterprises to put their energies into meeting the targets set by the central planners;

iv. Physical balancing - output was measured both at central and operational levels in physical units, rather than in terms of efficiency or cost.(19)
The aim of the centralised planning system was, therefore, to use extensive sources of growth in order to achieve economic development and industrialisation. To this end, the command economy was successful: between 1928 - 1955 Soviet GNP growth was estimated to have been in the range of 4.4 - 6.3% per annum which were considered to be very high growth rates from a low industrial base (c.f. GNP growth for approximately the same period in USA increased by 2.7 times, UK by 2 times).

The weaknesses of the centralised planning system, however, were its inflexibility to respond to anything outside the plans and the binding nature of the plans, which had to be fulfilled even when inaccuracies in the physical balancing of resources existed. Consequently this method of balancing resources placed emphasis on quantifiable outputs and inputs, without regard to efficiency, except for continued planned increases in enterprise output with proportionately smaller increases in allocated resources. These factors contributed subsequently to a slow-down in growth and innovation which led successive Soviet governments to introduce reform programmes in an attempt to deal with these problems.

The Foreign Trade System under Centralised Planning

Whilst foreign trade and concessions had been actively promoted in the NEP period in order to aid Soviet economic reconstruction, foreign trade under the centralised planning system became just another branch of the economy, governed by the Ministry for Foreign Trade. Import and export targets were, therefore, set centrally. Moreover, their role within the economy was diminished, in as far as imports were meant to overcome supply
shortages in the domestic market and exports were to enable the authorities to pay for these imports. Thus, exports took second place to imports in the planning process.(25)

Table 3.3 demonstrates the vertical flow of the import-decision making process and the lack of horizontal communication between foreign trade organisations, enterprises and their customers. As with any other planning of supplies, the ministries passed on import allocations received from Gosplan to enterprises and vice versa, aggregating and adjusting any discrepancies between the import requirements of both parties. The final decisions regarding imports were then made by Gosplan which in turn set the export targets in keeping with import requirements.

Foreign trade, therefore, did not contribute directly to economic growth, but only indirectly by providing resources not available in the domestic market. Moreover, whenever the value of the rouble was overestimated in import and export transactions, Soviet importers made large profits which were transferred into budget calculations. However, whenever exporters sold at low prices, their losses were compensated by the State budget.(26) Consequently, Soviet exports in particular, were seen to have a negative impact on the Soviet economy, depending on the value of the rouble.
Table 3.3 Foreign Trade Organisation Pre-1987

Key
1 Gosplan set control figures as guidelines for operative agencies.
2 Enterprises sent their individual draft plans to the industrial ministries; Foreign Trade Organisations to the Ministry of Foreign Trade.
3 The branch-related import proposals of the industrial ministries were transmitted to Gosplan and to the Ministry of Foreign Trade (3a).
4 The draft of the aggregated foreign trade plan was passed to Gosplan, and its final version was submitted to the Council of Ministers.
5 The Supreme Soviet received the plan and, after confirming it as law, returned it to the Council of Ministers (6a).
6 Plan instructions were passed down through the foreign trade hierarchy.

Source: Powell (1977) pp. 51 - 76.
Owing to the relatively unimportant role given to foreign trade, therefore, under the centralised planning system and the poor economic situation in the West, brought about by the Depression in the thirties, East-West trade declined in general, except for Soviet-German trade which continued until the dissolution of the Nazi-Soviet pact in 1941. Although trade with the Western allies increased again during the war years because of the USSR’s need for large quantities of machinery, it nevertheless decreased once more after the Second World War, owing to the onset of the Cold War and increased political tension.(27)

**Reforms (1957 - 1979)**

After the death of Stalin in 1953, new Soviet leaders emerged who were prepared to discuss the weaknesses of the system and seek to find ways of improving output and to improve relations with the West. The weaknesses of the centralised planning system were thus attributed to the following:

- low level of mechanisation (or non-implementation of new technology and lack of innovative activity at enterprise level),
- labour problems (due to bad discipline and over- manning),
- the production of goods which were generally below world standards,
- the imbalance in the supply and demand of certain goods within the economy.(28)

Although successive governments attempted to solve the inefficiencies of the Soviet economy by different reforms, they, nevertheless, had some fundamental elements in common. None of the reforms, for example, sought to remove the Communist Party’s control of the Soviet economy, nor did they intend to remove any of the gains (eg., full
employment, low prices on basic commodities, egalitarianism) achieved through socialism.(29) The reforms hoped, therefore, to reinforce and improve the planning system, thereby increasing efficiency of production.

Table 3.4 summarises the main changes which occurred and illustrates how the reforms sought to alter control of central planning and the management of enterprises, introduce incentive or bonus schemes and price calculations for outputs and inputs of enterprises. The only attempt at decentralising the centralised planning system in this era of Soviet economic history, however, took place under Khrushchev's reforms which aimed to hand over control of the management of enterprises from Gosplan and the ministries to newly created 'sovnarkhozy' (regional economic councils). This act of decentralisation was to promote the interest of enterprise activities at the local level which were intended to result in increased efficiency by the enterprises. Owing to conflicts between local and all-union interests which led to a certain amount of confusion, the reforms were reversed. Consequently, the Supreme Council for the National Economy (VSNKh) was recreated in February 1963 and placed in overall control of the targets.

Another reform introduced shortly before Khrushchev's removal in 1965 was an incentive scheme designed to increase efficient productivity by allocating bonuses to enterprises which demonstrated cuts in their production costs. This reform failed, however, because planners continued to emphasise the need for fulfilling quotas, thus causing enterprises to channel their efforts on meeting the targets, whatever the cost.
Following the 'sovnarkhozy' reforms, the Kosygin reforms in 1965 concentrated on returning control to the centre and improving the mechanism for planning. Another incentive scheme was introduced which required enterprises to measure their production outputs and inputs by means of a cost-accounting scheme, whereby bonuses could be allocated on the basis of enterprises' sales volume. This involved a revision of some wholesale prices. Moreover, prices were revised in such a way as to enable all enterprises to begin their accounting as a profitable concern. (30)

To sum up, the 1959 - 1965 reforms failed in their effort to decentralise effectively central control of enterprise activities. Consequently, subsequent reforms undertaken in 1965 concentrated on reorganising Gosplan with the help of planning committees in an effort to consolidate central control. (See table 3.4) The bonus scheme, however, failed to improve enterprise efficiency because enterprises merely increased sales volumes by increasing resource inputs which negated any increases in profits. (31)

The Brezhnev reforms in 1973 continued to focus on improving the centrally controlled planning system by subordinating groups of enterprises in the same branch throughout the USSR to the control of all-union industrial associations (VPO), created for this purpose. The VPOs were given the added responsibility of managing the production and scientific activities of their enterprises. Moreover, the incentive scheme begun in 1965 of rewarding enterprises for increased sales volumes was developed and bonuses were allocated on the basis of enterprises' normative net output which meant that inputs were included in the returns from the sales volume. Despite some emphasis on profitability, enterprises were still mainly rewarded not only for meeting, but for exceeding annual plan
targets, and enterprises consequently continued to be rewarded for quantitative rather than qualitative output.

To summarise, in view of the confusion caused by the sovnarkhozy reforms, they helped to reaffirm the Soviet authorities' belief that control of the economy was best achieved through central administration. Subsequent reforms, therefore, concentrated on refining the mechanism for devising and directing plans from the centre. The Soviet Union's second concern was the inefficient use of resources at enterprise level brought about by including 'inputs' in the performance figures. Despite various attempts at providing incentives for increased efficiency, however, growth declined and the quality and technological gap between goods available in the West and at home continued to widen. Furthermore, whilst other countries in Eastern Europe governed by a centralised planning system recognised the importance of foreign trade as a contributing factor to economic growth and implemented reforms accordingly (see chapter 4 for details), the Soviet Union still viewed its foreign trade activities as a stop-gap for supply shortages in the home market. (32)
Table 3.4
SUMMARY OF MAIN REFORM FEATURES 1957 - 1979

<table>
<thead>
<tr>
<th>Reforms to:</th>
<th>Khrushchev 1957</th>
<th>Kosygin 1965</th>
<th>Brezhnev 1973</th>
<th>Brezhnev 1979</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GOSPLAN</strong></td>
<td>Operational planning powers transferred to 100 regional economic councils (sovarkhozy) under control of regional gospans.</td>
<td>Sovarkhozy dissolved. Full power returned to Gosplan. New committees created for prices, material and technical supply, science and technology.</td>
<td>No major changes.</td>
<td>No major changes.</td>
</tr>
<tr>
<td><strong>MINISTRIES</strong></td>
<td>Ministerial control of enterprises broken down.</td>
<td>Ministerial control reinitiated. Total of 23 ministries setting obligatory targets for enterprises (Reduced from 35-40 to 8 compulsory targets.)</td>
<td>Glavki* merged into ministries. Creation of VPO (all-Union industrial association). Took on responsibility from ministries for groups of enterprises in same branch in all USSR. Still central control.</td>
<td>No major change.</td>
</tr>
<tr>
<td><strong>INCENTIVE SCHEME</strong></td>
<td>Based on enterprise cutting cost, but plan fulfilment still took priority.</td>
<td>Gross output indicator replaced by target for sales volume.</td>
<td>No major change.</td>
<td>Rewards given for adopting more ambitious targets than set in 1 year plan. Normative Net Output (output-inputs) rewarded.</td>
</tr>
<tr>
<td><strong>PRICES</strong></td>
<td>None</td>
<td>Industrial price reform: centralisation of price-setting mechanism through new committee, Goskomtsen, revised and controlled prices.</td>
<td>No major change.</td>
<td>No major change.</td>
</tr>
<tr>
<td><strong>FOREIGN TRADE</strong></td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td><strong>RESULT</strong></td>
<td>Chaos in the planning system, affecting enterprises' performance. Conflict between regional and union interest.</td>
<td>Slow implementation of changes. System not in operation until late sixties.</td>
<td>Power of suppliers increased through VPO. Control shifted from one bureaucracy to another.</td>
<td>1979 decree never fully implemented. System therefore, continued to emphasise gross output.</td>
</tr>
</tbody>
</table>

Nove (1986)  
* Production and technical administrative bodies, which controlled a group of factories or technical establishments within an industrial ministry.
Reforms in the early nineteen eighties

In the years between Brezhnev and Gorbachev (1982 - 1985), the Soviet Union was under the short leadership of Andropov and Chernenko. It is generally recognised that the Andropov government set the scene for open and frank discussions about the economic shortcomings of the system which helped to prepare the way for 'glasnost'.(31) Moreover, Andropov introduced new plan indicators and incentives, and tried to improve discipline in the factories in an effort to improve productivity. Enterprises were, therefore, rewarded for fulfilment of contracts rather than number of orders, increased labour productivity and cost reductions, and managers were rewarded for implementing new technology in the production process. However, as in the past, interference from branch ministries overshadowed the effectiveness of these initiatives.(33)

ECONOMIC AND FOREIGN TRADE REFORMS (1985 - 1990)

Following the election of Gorbachev as Secretary General of the Communist Party of the Soviet Union in 1985, the former USSR implemented not only a new wave of economic reforms, but major changes to its political and foreign policies which have had a considerable impact on East-West and East-East relations. This section will confine itself, however, to a discussion of reforms relating to the planning and management of the former Soviet economy, foreign trade and joint ventures, excluding Comecon trade which is discussed in chapter 4 of the thesis.

As in the past, the Soviet authorities were very concerned about the continuing fall in productivity of capital which Gorbachev openly attributed to the emphasis of the Soviet system on "quantitative growth". Moreover, a gap in the use of advanced technology and techniques was singled out as major contributing factor to the stagnating economy.(34) Figure 3.1 demonstrates the consistent fall in productivity between 1960 and 1985.
Figure 3.1
PRODUCTIVITY OF CAPITAL

Productivity 1960=100

Year

The negative effect on the balance of payments by this declining productivity was, however, more than outweighed by the increased sale in hard currency of oil and fuel. (See figure 5.1)

**Perestroika**

Having therefore, acknowledged several shortcomings regarding economic performance, the Communist Party announced at the XXVII Party Congress (held in Moscow 25 February - 6 March 1986) its intention to:

1. create "a unified, effective and flexible administrative system."
2. continue with the "economic experiment on a large scale" and reorganise the wage payment system.
3. promote the co-operative sector (small private businesses in the service sector) of the economy and individual labour activity in the field of trade and industry.(35)

In practice, this meant the planning and management of enterprises were to be decentralised, the performance related wage system developed further, and consumer demand satisfied by the introduction of small "private" businesses.(36) Reform to foreign trade, however, was, as in previous years, directed separately from central economic reforms. Foreign trade reforms were, therefore, administered from August 1986 by the Politburo under the directorship of Nikolai Ryzhkov in isolation from the Law on State Enterprises.
Among the organisational changes which occurred mainly in 1987 and 1988 were:
- the reorganisation and decentralisation of Gosplan;
- the merging of branch ministries by reducing the numbers of staff(37);
- the release of control from the centre to the ministries, thereby granting the ministries greater autonomy;(38)
- the self-management and self-financing of enterprises.

These measures were meant to encourage ministries to engage in long-term planning and promote technical development, whilst enterprises were given greater autonomy and responsibility for operational planning. Moreover, by introducing the election of enterprise managers and foremen by the workers, and making enterprises responsible for their profits and losses, the reformers hoped to increase qualitative output.(39)

Operational planning, the five-year and the one-year plans (based on the 5-year plan) were to be worked out by enterprises independently and were to take into account any of their concluded economic agreements.(40) Nevertheless, enterprises were still required to include in their plans control figures, state orders, long-term economic normatives and quotas, all of which were set by the central planners and passed down through their ministries. Although Gosplan was expected only to give enterprises state orders for 50 - 70% of their production capacity, enterprises were still bound by requirements specified by central planners. Moreover, it appeared that in practice, many enterprises were given state orders for up to 100% of their capacity.(41)

An important factor in helping enterprises to achieve better self-management concerned the allocation of supplies. The 1987 decree, however, merely stated that supplies should be allocated by wholesale trade or centrally, and that enterprises should seek to establish greater links for selling and purchasing resources (from other enterprises).(42) A wholesale market per se was to be established over a period of four to five years, which
would eventually reduce the role of Gosnab as the supplier of inputs. By the end of 1990, however, there not only appeared to be no effective wholesale market, but the distribution system was causing great imbalances of supplies. (43)

Reform efforts since 1985 were unable to eliminate shortages of goods, reduce excess money supply, and improve the large state budget deficit. (44) Consequently, conservatives within the party began increasingly to question the effectiveness of the reforms, whilst the more radically minded within the party saw this as a reason for advocating a greater move towards a market economy. At the end of the nineteen eighties, therefore, two types of reform models emerged with the aim of improving the economy of the former USSR which are outlined in the subsequent sections.

**Progressive and Conservative Reform Models** (45)

a) The progressive reform model

At the end of 1989 a coherent programme of restructuring was put forward by Dr. Leonid Abalkin, the then deputy prime minister in charge of economic reform, outlining more clearly than hitherto perestroika’s objectives and the means by which to achieve them. As a progressive programme, the following eight points aimed to introduce market conditions and included:

(i) denationalisation of property;
(ii) financial reorganisation through a unified tax system, use of credit leverage through the banking system and drastic stabilisation of the money supply;
(iii) an active structural policy to revive the consumer sector, stimulate export growth and stop wastage of natural resources;
(iv) the gradual creation of a market, with production output exceeding state orders so that surpluses could be sold at free prices;
(v) the gradual coming together of controlled state prices and free prices and adjustment to world market levels;
(vi) the creation of a financial market, stock exchanges, and a state-controlled trade in securities;
(vii) intensification of foreign economic ties;
(viii) development of a currency market through auctions and regular trade, to introduce partial convertibility of the rouble.

These measures concentrated, therefore, on the freeing of prices, which would enable supply and demand to determine prices rather than central planners; the development of conditions which would promote foreign trade such as partial convertibility of the rouble, private enterprise and money markets. Although the implementation of the above reforms would have resulted in a deliberate shift away from a plan-driven economy, the Soviet economy, hitherto shielded from any external economic influences through the non-convertibility of the rouble, might in the first instance have been destabilised causing inflation, unemployment and a fall in production. The gradual time-table, however, for Abalkin’s radical programme (see table 3.5) might have been able to soften the effects described above.
b) The conservative model

In contrast to the above reform model, the conservative programme, proposed by a former prime minister, Mr. Nikolai Ryzhkov advocated the following reforms to the existing Soviet system:

(i) the channeling of resources away from heavy industry into the production of consumer goods and food;
(ii) Comecon trade to be conducted in convertible currency from 1991 onwards;
(iii) import restrictions;
(iv) the abolition of the election of managers in state enterprises by their workers.

The first priority, therefore, of the conservative faction was as in the past, the consolidation and continuation of the plan-driven economy in an effort to maintain stability. As for import restrictions, this measure was frequently used by Comecon countries to overcome hard currency shortages. However, whilst the history of East-West trade has demonstrated that import restrictions were successful in curbing hard currency expenditure, the restrictions, nevertheless, resulted in a reduction of technology intensive imports. Consequently a technology gap developed, making it more difficult for the USSR to compete in international markets. (47) (See chapter 5 for a discussion of the development of East-West trade in the early nineteen eighties.) Finally, the supporters of these reforms firmly rejected the efforts, outlined in the progressive model, to denationalise and introduce monetary reforms which they believed would cause a further decline in the Soviet economy.
Table 3.5  Abalkin’s Time-table

### OWNERSHIP

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<tr>
<td>Transfer of state enterprise to lease terms (to form 25 - 30% of total assets)</td>
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<td>Joint companies to form 30 - 40% of total assets</td>
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<td>Lease and mixed farms for 50% of farmers</td>
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<td>Mobilise savings for share ownership</td>
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### FINANCIAL RECOVERY

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<td>Reduce budget deficit to 3 -4 %</td>
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<tr>
<td>Take control of money supply</td>
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<td>Flexible interest rates</td>
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<td>Form financial market</td>
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<td>Cut state investment &amp; defence spending</td>
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<td>Set up stock exchange</td>
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<td>Gradual end of state support to loss-makers</td>
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### PRICES

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<td>Change to flexible prices</td>
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<td>Controlled prices on state orders</td>
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<td>Wholesale prices into line with demand</td>
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<td>Retail prices into line with costs, demand</td>
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<td>Share of products at contract prices to reach 40-50%</td>
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### FOREIGN INVESTMENT

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<td>Relax restrictions on foreign investment, creation of free economic zones</td>
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<td>Integrate Soviet financial markets into world market</td>
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<td>Creation of basis for convertible rouble</td>
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To sum up, the conservative reform package advocated the continued shielding of the Soviet economy which contributed, as in times past, to a slowing down in growth rates. The proposal, however, of carrying out Comecon trade in convertible currency (in effect since 1991 and discussed further in chapter 4) was to have positive implications for the Soviet Union's balance of trade with other CMEA countries as Soviet oil was estimated to be worth more in hard currency than East European exports. The fall in the world price of oil, nevertheless, resulted in reduced import orders from the former USSR. (See chapter 4 for a discussion of Comecon trade and chapter 11, section on the break-up of intra-CMEA trade [p.341].)

By the end of the nineteen eighties, however, the conservative faction won a majority vote in the Soviet government, causing the radical reformers to suffer a set-back. Consequently, the decision was taken to slow-down the implementation of those measures which would move the economy of the former Soviet Union further towards a market economy. Thus the conservatives succeeded in bringing about a delay of the price reform, restrictions to the black market through police measures and cuts in foreign imports. (48)

**Foreign Trade Reforms since 1985**

Having suffered a 40% drop in the value of its exports between the years 1984 and 1986 as a result of the drop in oil prices in the mid-nineteen eighties (see figures 5.1 and 5.2), the Soviet Union announced foreign trade reforms at the XVII Party Conference, which had the following aims:
- to connect branch ministries and enterprises through foreign trade,
- to encourage Soviet producers to export,
- to raise the technical level and quality of products produced,
- to reduce bureaucracy,
- to organise more efficient allocation of imports.
- to improve the co-ordination of foreign trade.(49)

These reforms showed similarities with those introduced in Eastern Europe in the nineteen seventies and illustrated the Soviet Union's increasing awareness of the importance of foreign trade for the economy.(50)

As part of the drive to reduce bureaucracy and break down the monopoly over foreign trade by the Ministry of Foreign Trade, the Ministry and the State Committee for Foreign Economic Relations (GKES) were amalgamated into the Ministry for Foreign Economic Relations (see table 3.6), which resulted in an initial staff cut of 30%.(51) Moreover, in 1987 the state monopoly over foreign trade was broken down by the granting of foreign trade rights to 22 branch ministries and 77 large associations. By 1988 there were a total of 213 associations with foreign trade rights. However, by leaving the supply of raw materials and commodities in the hands of Gosnab and responsibility for the export of oil and other natural resource products with the Ministry of Foreign Trade, control was still retained centrally.(52)

As an incentive to increase exports, enterprises were allowed to retain between 30 - 50% of their export yield (later interpreted as export revenues), although in practice many branch ministries confiscated 100% from their enterprises, demonstrating the domineering role of branch ministries in their relationships with enterprises.(53)
Table 3.6

ORGANISATION OF FOREIGN TRADE 1987

Council of Ministers of the USSR

State Committee of Science & Technology

State Committee of Supplies

State Bank

Foreign Trade Bank

State Committee of Planning

State Foreign Economic Commission

Industrial Ministries

PRODUCT DESIGN & MANUFACTURE

CO-ORDINATION

IMPORT & EXPORT TRADE

Notes:
1. Foreign Trade Organisation (or enterprise) is abbreviated to FTO.
2. Post 1987 changes:
   - Creation of State Foreign Economic Commission to co-ordinate Ministry of Foreign Trade, State Committee for Foreign Economic Relations, and Foreign Trade Bank.
   - Foreign Trading Rights to 22 ministries, administrations and state committees, and 77 enterprises.
   - 10 FTOs transferred to industrial ministries.

Source: Hill (September 1987).

69
Furthermore, by introducing a greater number of currency coefficients for commodities destined for foreign trade, varying from 0.3 - 6.0 in relation to wholesale prices in domestic roubles, the former USSR moved a step further towards the unification of its exchange rates and towards a wholesale price structure aligned with world market prices which would eventually facilitate exporting procedures.(54) Until the rouble is fully convertible, however, being able to calculate the real export price and gains from exports for former Soviet enterprises remains a difficult task.

The role of joint ventures

By using the concession period in the nineteen twenties as ideological justification for promoting direct foreign investments on Soviet soil, the government of the USSR included in its foreign trade reforms a decree, issued with effect from 1 January 1987, allowing joint ventures to operate in the Soviet Union.

The decree set out three main aims for joint ventures:
1. to provide "... fuller satisfaction of the requirements of the country for specific types of industrial products, raw materials, and foodstuffs..."
2. to help, "...the attraction to the national economy of the USSR of progressive foreign technology, management experience, and additional material and financial resources,..."
3. to bring about, "...the development of the export base of the country, and the reduction of irrational imports."

Thus, the aims of joint ventures appeared to reinforce some of the more general foreign trade aims such as helping Soviet producers to export by raising the technical level and quality of products manufactured through the help of "progressive foreign technology, management experience, and additional material and financial resources...". As to the effectiveness of joint ventures, however, doubts have been raised about the contributions.
made by joint ventures to the economy in terms of foreign capital and technology. (See chapter 8, 9 and 10 for an examination of joint venture contributions).

Political support, therefore, for joint ventures, as during the NEP period, remained divided between those committed to the centralised planning system and those supporting radical reform and joint ventures. Nevertheless, the structure of the Soviet economy and the organisation of foreign trade before the break up of the Soviet Union posed different problems for joint ventures than the pre-command economy of the nineteen twenties did for concessions. These problems are discussed in the subsequent paragraph.

Although joint ventures operate under different conditions from state enterprises, being self-managing and self-financing, they are, nevertheless, subject to the same domestic conditions and foreign trade structure such as the price system and the non-convertibility of the rouble. Other difficulties include the system of supply allocation, the relationship between joint ventures and their respective branch ministries as well as the work ethos of the population.

CONCLUSION

The necessity of reviving Soviet economic activity and attracting foreign capital and technology in order to overcome economic stagnation, persuaded the Soviet government in the early nineteen twenties to adopt the NEP and introduce concessions with foreign partners instead of introducing a centralised planning system immediately. Whilst the NEP was successful in relaunching industrial productivity by re-establishing a functioning supply system (albeit imperfect), concessions failed to attract foreign capital and the participation of many large foreign companies. Nevertheless, the work carried out by Sutton, with particular reference to technology agreements in the latter half of the nineteen twenties, suggests that concessions enabled the USSR to gain access to foreign technology.
which aided its economic development to some extent.

Political opposition to NEP and concessions, however, gained momentum with the introduction of a price system which permitted large price discrepancies between private and state enterprises and eventually resulted in the supporters of the centralised planning system gaining control of political and economic life. Consequently the centralised planning system was introduced in 1930 which has dominated Soviet economic development until 1991. The centralised planning system was designed to achieve extensive growth and exclude any free market forces. Inputs and outputs for the domestic market were, therefore, planned centrally and the role of foreign trade was reduced to overcoming domestic shortages only, without considering the effect such a policy might have on the balance of trade and economic growth.

Although successive Soviet governments recognised the inherent weaknesses of the system and tried to improve its efficiency by concentrating mainly on the mechanisms for planning and various incentives for raising enterprise productivity, they failed to produce the desired growth rates. Yet none of the reformers questioned (at least publicly) the fundamental socialist principles and values embodied in the centralised planning system. In this respect, perestroika followed the tradition of previous reforms which was not to undermine the basic socialist principles. Nevertheless, the policy of 'glasnost' permitted at least discussions to take place on hitherto taboo subjects such as the introduction of market forces, inegalitarianism (of wages), bankruptcy and unemployment as well as alternatives to the Soviet system.

Although most of the reforms introduced since 1985 aimed, as those reforms previously, to increase economic productivity by rationalising the central planning system, they distinguished themselves from the former reforms in two ways. They introduced private enterprise officially into Soviet economic activity and efforts were made to reform the foreign trade system. The importance of foreign trade to economic growth was, therefore,
finally recognised by the former USSR. As part of the foreign trade reforms, joint ventures like concessions in the nineteen twenties, have enabled enterprises in the former USSR to gain access to foreign capital, technology and markets with little hard currency expenditure.

Since the dissolution of the Soviet Union at the beginning of 1992, however, the individual republics now face the task of deciding on the speed and the extent to which they wish to move towards a market economy. Moreover, they are now having to face similar decisions about reform as the former socialist countries of Eastern Europe had to after 1989. The following chapter examines, therefore, the reforms in East European countries before and after 1989, paying particular attention to those reforms affecting foreign trade and joint ventures, thereby providing the economic framework for the discussion of the development of East-West joint ventures.
Chapter 3: Notes

1. By 1920 the standstill in industrial production was evident from the USSR’s import and export structure which consisted mainly of food and raw materials. According to Sutton, a total absence of any capital goods exports suggested poor industrial output at that time. See,


2. Ibid., pp.344-345.


10. From 1924 - 25 only 4,260 workers were employed by 13 significant concessions. See,


15. Sutton used the SIC code to prove that he covered all sectors in an impartial manner and avoided any biases on his part.

See,

16. The Soviet government used a price system to control prices of some basic industrial materials, fuels and freight at low levels. Subsidies were therefore, often required which led to a goods shortages in the field of producers' goods. See,

17. Ibid., p.139.


22. Wilczynski (1972), pp.63 - 64.


29. Ibid., pp.37-49.

30. Ibid., p.236.


32. Ibid., pp.257-260.

33. Ibid., pp.261.


35. Ibid., p.20.


39. Aslund A., Gorbachev’s Struggle for Economic Reform, Pinter, London, 1989, p.120.
40. Pravda, (1 July 1987).
41. Izvestiya (23 April 1988) stated that a few enterprises managed to win their right to adopt their own production plans, among them the “Uralmashzavod” which had previously employed Nikolai Ryzhkov as director general.
42. Pravda, (1 July 1987).
46. Peel (14 December 1989).
50. Kamentsev V., "Problemy vneshneekonomicheskoi deyatelnosti" in Kommunist, 64, 15: 25 - 34, October 1987, p.27

N.B. A price reform did not appear imminent. See,

55. Bartlett de Reya (Solicitors), Joint Enterprises in the Soviet Union (in-house booklet), 1987, p.6

56. Opposition to joint ventures were voiced by Ligachev (Politburo member), Nina Andreeva in her letter to Sovetskaya Rossiva (March 1988), and Mikhail Antonov (publicist) in "Idti svoim putem", published in Molodaya gvardiya (1988), no. 1, p.197.

CHAPTER 4

THE REFORM PROCESSES IN EASTERN EUROPE

INTRODUCTION

Having been placed under Soviet control soon after the end of the Second World War, the countries of Eastern Europe also adopted the Soviet-style system of central planning, which has been outlined in the previous chapter. In the early post-war period this centralization of economic policy, administration and strict political leadership caused the countries of Eastern Europe to develop economies which were more autarkic than their counterparts in the West and included a heavy industrial and (where possible) a raw materials base. However, when the economies became more complex in the nineteen fifties as a result of industrial expansion, it became evident that the system of centralised planning was a factor causing growth rates to fall, leading to discussions among socialist economists about reforms. By the early nineteen sixties, Moscow had given the smaller East European countries approval to look at ways of experimenting with economic reforms in an effort to render their economies more efficient.(1)

This chapter focusses, therefore, on the reforms attempted by the countries of Eastern Europe since the nineteen sixties through to 1990, thereby outlining the historical development of economic and foreign trade reforms in Eastern Europe. The reforms have been examined in three stages, beginning with the first reform efforts in the nineteen sixties and nineteen seventies, followed by reforms in the nineteen eighties and finishing with the post 1989 reforms. As individual East European countries introduced different reforms, each country has been discussed in turn. Consequently, the first section begins by examining the GDR’s reform efforts in the nineteen sixties, a prime example of conservative reforms, and ends with Hungary, an example of more radical reforms.
Particular attention is paid throughout the chapter to those changes affecting foreign trade.

The second stage analyses the development of reforms particularly in Hungary during the nineteen eighties, as in this period of economic and political stagnation in Eastern Europe Hungary’s reform efforts were studied and sometimes copied by the other CMEA countries.

The third stage discusses the post-1989 reforms, and the extent to which individual CMEA countries managed to introduce those economic instruments required to release central control such as measures for privatising state enterprises, making currency convertible, improving the banking system and capital flows as well as foreign investments. The former GDR, however, has been excluded from discussions at this stage as a result of having been integrated into the economic, political and social system of the Federal Republic of Germany in December 1990, thereby ceasing to be a member of the CMEA.

Owing to the importance of intra-CMEA trading to the individual countries of Eastern Europe and the Soviet Union prior to 1989, the chapter concludes by examining the role of the CMEA and the impact of the post-1989 reforms on intra-CMEA trade.

REFORMS IN THE NINETEEN SIXTIES AND THE NINETEEN SEVENTIES

Introduction

The reforms introduced in the nineteen sixties and nineteen seventies had similar aims and objectives, namely to render the management of the economies more effective by improving the quality and efficiency of industrial output and increasing the foreign trade activities of enterprises. However, the economic reforms adopted by the individual countries of Eastern Europe can be seen to have followed two models: a conservative
model, which preferred to maintain control from the centre, and a more radical model which was based on comprehensive use of market forces combined with broad guidelines from the centre to create a socialist market economy. All the East European countries, except for Hungary, eventually adopted the conservative reform model which is outlined in the subsequent paragraphs.(2)

The Conservative model

The main features of this reform model included the grouping together of enterprises into industrial associations (e.g., VEB in the GDR, WOG in Poland, Khozraschet in Bulgaria, VHJ in Czechoslovakia and industrial 'centrals' in Romania) and the introduction of economic levers such as price reform as a way of assisting the new management organs to achieve the desired plan targets, producing goods at lower prices and of improved quality. The role of the industrial associations was to simplify the planning and management of the enterprises by assuming responsibility for the co-ordination of a group of enterprises within a certain sector. In this way the Central Planning Committees were able to reduce the difficulties by co-ordinating a smaller number of economic units. It was also expected that individual enterprises would increase their output and efficiency by taking advantage of large-scale production facilities within the association. These two main features of this type of reform model (i.e., associations of enterprises and price reforms), introduced, therefore, some element of decentralisation whilst the system of central planning firmly retained its grip on the mechanism for steering the economy.(3)

The following paragraphs outline how individual CMEA countries, except for Hungary, came to adopt the more conservative reform model.
German Democratic Republic

In a deliberate attempt to remain firmly integrated in the socialist system and establish a separate identity from West Germany, the authorities of the GDR decided at the outset to retain the characteristics of a centralized planning system. Moreover, the 1968 events in Czechoslovakia, when radical reform processes had far-reaching political and social repercussions, strengthened the GDR’s resolve to proceed cautiously with any reforms.(4)

The GDR began preparations for its New Economic System (NES) in 1962. By 1963 the GDR had published its 'Guideline for the New Economic System', and other laws pertaining to the reform as well as deciding on the number of state enterprises and associations of enterprises (VEB) which were to take part in the reform experiment.

The second phase (1964 - 67) was devoted to putting into practice the concepts outlined in the Guideline. This included the introduction of a price reform with the aim of trying to align production costs with product costs, thereby cutting down on subsidies, and transferring management and investment decisions to enterprises with the only proviso that they keep within the planned target guidelines set by the State. Certain factors, however, which are presented in the following paragraph, prevented the reformers from achieving their objectives.

Prices which were supposed to be based on costs, did not take sufficient account of capital costs, namely the effect of depreciation and interest on capital, which led, therefore, to actual miscalculations of prices. Moreover, the effect of shortages in production supplies and the high demand for some goods was also excluded from their calculations, with the result that consumer demands were not always met. Consequently, the exclusion of correct price calculations for consumer goods led to economically incorrect price ratios. The price changes induced by the price review meant, therefore, that official gross capital

82
stock valuations which were based on 1962 prices, no longer corresponded to actual replacement costs.(5)

Besides the price reform, the GDR attempted to decentralise decision-making by allowing the VEB to make certain management and investment decisions. However, owing to unclear definitions of the rights of the State Planning Commission and those of the VEB a certain amount of confusion occurred. Whilst the VEB felt there was interference from the State in their business operations, it was evident, that the VEB lacked necessary management expertise at enterprise level.(6) Consequently, this rather unsuccessful attempt to decentralise the management structure of the economy caused the reformers to re-centralise the system and concentrate instead on improving its planning mechanism.

Thus, the third phase of the NES, the "corrective phase", took place between 1967 and 1968 and lasted until 1970. During this time the emphasis was on the better planning of production which would bring about economic structuring (i.e., product constrained planning). By returning to a more centralised system of priority planning and planning of supplies, the GDR was in a better position to control its economy and enterprises, although the enterprises themselves had their decision-making powers restricted through this process.(7)

As regards foreign trade, the view held in the nineteen fifties by socialist countries was that foreign trade was a necessary means for overcoming temporary supply difficulties in the internal market (see chapter 3). By the nineteen sixties, however, this view began to change among CMEA countries, except for the Soviet Union, and foreign trade was regarded as an important factor for economic growth.(8) As a result, the new GDR constitution of 6 April 1968 confirmed the state monopoly of foreign trade (art.9,5) and with the resolution of the Council of State of 22 April 1968 foreign trade activities were gradually included in the economic accounting of enterprises. This meant, significantly,
that export deliveries which had hitherto been excluded from operational calculations, had to be included in their operating results. Export deals could, therefore, raise or reduce an enterprise’s operating profit depending on how successful its export performance had been. Although the reforms sought initially to grant enterprises more control in this area, the resolution of 1 December 1970 brought a return to stricter state management and control of foreign trade, requiring enterprises to work strictly according to planned targets. (9)

**Czechoslovakia**

Reforms in Czechoslovakia were initiated in 1958 and revived in the mid-nineteen sixties as a result of a slowing-down in the economy. Although the first set of economic reforms in 1958 aimed at improving rather than changing the centrally planned system by granting firms greater freedom regarding investment decisions (cf. GDR) the economy did not improve, despite signs of positive results initially. Czechoslovak economists, therefore, reached the conclusion that these reforms were not far-reaching enough and that market mechanisms should replace aspects of the command-system. (10) The Central Committee of the Communist Party eventually accepted guidelines for economic reforms in January 1965 entitled 'Main Directions for the Improvement of Planned Management of the National Economy'. Despite being a fairly radical document, it still emphasised the dominant role of the central plan and retained several specific production quotas. However, the radical elements included virtual elimination of obligatory targets, flexible competitive pricing and considerable decentralisation of investment decisions. The reform 'package' also maintained centrally fixed prices alongside 'free prices' and grouped enterprises into about 100 large associations. These reforms were to be achieved over a prolonged transition period, making the changes gradually. These initial changes included the setting free of only 10% of prices and permitting the central plan to give 'orientation' rather than prescribed targets. However, it soon became evident that even these measures
were not far reaching enough in order to improve performance. Another revised reform document was thus published in May 1966 called 'The Principles of Accelerated Implementation of the New System of Management' with the aim of yet again speeding up the reform process.(11)

To summarise, the tools for accelerating changes were price reform, the introduction of competitive prices and the removal of planned targets and quotas. Enterprises were to have autonomy, especially as regards investment and all enterprises were to have access to foreign markets. The role of the central plan was to act as government policy.

As a result, therefore, of the radical political changes which took place in 1968, three major reforms were incorporated into the Action Programme of the Communist Party in April 1968 with the aim of achieving market socialism. The programme had the following aims:

(i) separation of economic management from the state and from the party apparatus;
(ii) management control for enterprises;
(iii) creation of workers' councils;

These measures involved a political as well as an economic commitment to change which were, however, abruptly stopped by the Soviet invasion of Czechoslovakia.(12)

Following the crushing of these radical reform efforts, Czechoslovakia reverted immediately to managing its economy in accordance with the principles of central planning. As the reform efforts of 1968 had not been allowed to gather any momentum, this reversal did not prove too difficult. Throughout the nineteen seventies the economic policy pursued by Czechoslovakia demonstrated a clear tendency towards centralisation, especially regarding the freezing and controlling of prices centrally.(13)
By the end of the nineteen seventies, however, it became necessary to consider new reform efforts in order to try and improve economic efficiency. Clearly any radical reforms were rejected and the formula adopted, therefore, resembled very much the earlier reform attempts of 1958 as well as those reforms introduced by the GDR in the nineteen sixties. Consequently, the state imposed only long-term plan targets on a number of enterprises which had been grouped into associations (VHJ) for the purposes of the reform experiment. Moreover, by 1980, the authorities decided to extend this grouping of enterprises, despite remaining doubts about its economic effectiveness. For the large majority of enterprises outside the VHJ scheme, however, the state continued to set detailed output indicators.(14)

As with the GDR, export earnings were fed into the price conversion system which could affect an enterprise's profitability. This reform introduced in the late nineteen sixties survived the return to the conservative centrally planned economic system.(15)

**Poland**

Although Poland had already begun reasonably ambitious reforms in the nineteen fifties (1956-1960), few were actually implemented in that period, owing to strong 'Stalinist' political opposition. Despite this opposition, however, Poland established workers' councils (in 1956) and set up industrial associations which took part in the economic administration and management of enterprises and decollectivised extensive areas of land. (16) Moreover, in the resolutions of the IV Party Congress (1964) and the IV plenary meeting of the Central Committee in July 1965, it was decided to transform industrial associations into units of a more economic character by reducing the number of direct orders, binding targets and placing constraints upon industrial associations. The industrial associations for their part were to develop a similar relationship with their subordinate enterprises which would result in a reduction of control from the centre. During this
period the number of associations was reduced from 163 to 121.(17)

Moreover, further reforms in 1968 continued the idea of altering the traditional system of economic planning and management from an instructing to a guiding and controlling system, particularly in industry, building and foreign trade. The central economic authorities were to limit themselves to defining the strategic growth targets and leave the implementation at decentralised levels. To this end, 'large economic organizations' (WOG) were set up in 1973 to enable enterprises to participate in the experiments of self-management subject to their control.(18) An interesting feature of this reform was the 'incentive' scheme offered to managers and workers of the nearly 2000 industrial enterprises participating in the experiment. Financial incentives were worked out for managers and workers based on fulfilments of plan targets over five years. Other factors used to calculate the premiums included the amount of additional resources the association was able to procure and the performance of the enterprise (in terms of profit or improved production output).(19)

The system, however, had one great disadvantage in that it fixed the upper limit of possible wage and salary increases for five years in advance without actually improving economic performance. Although meant as a wage incentive, it actually acted as a wage restriction, especially in the face of growing economic difficulties and rising prices.(20) Soaring prices and insufficient wage increases led, therefore, to the workers' revolt in December 1970 which in turn forced the Polish government's hand into pursuing a massive investment programme aimed at modernising capital stock, raising personal incomes and keeping prices for basic foodstuffs stable in the 1971-1975 plan period.(21) In line with improved terms of trade and the availability of Western credits, particularly for investment goods and licences, Poland was able to pursue its investment policy vigorously. However, Poland remained unable to solve its supply and demand imbalance even with large imports and credits from the West.(22) Consequently further social unrest
was experienced in 1976, followed by a renewed attempt at reviving the idea of a special status for WOG. Efforts were once again made to link the wage fund with increasing production by establishing more direct links between export performance and bonuses through the retention of a quota from foreign currency earnings. (23)

As is well recorded, Poland’s economic policies of the nineteen seventies created a situation where foreign credits provided a period of artificial affluence, followed by a period of austerity in an attempt to curb import spending which resulted in social and political unrest that could only be curbed by martial law in 1981.

As with other centralised systems, foreign trade had been traditionally operated separately from domestic production. However, along with the 1971 measures introduced by Gomulka’s regime, foreign trade was revised, resulting in the separation of the specialized foreign trade corporations (centrale handlu zagranicznego) from the subordination of the Ministry of Foreign Trade. Moreover, industrial ministries and associations were granted permission to organize their own foreign trade enterprises or to arrange their export business through a specialised foreign trade corporation on a commission basis. This resulted in industry becoming more greatly involved in foreign trade. As with Hungary and the GDR, the price system was to be replaced by charging the user or producer enterprises the so-called transaction price (i.e., the price of the foreign currency converted into zlotys by a coefficient for the respective currency area of convertible currency, rouble and clearing). (24) These foreign trade reforms resembled very much those undertaken in the other CMEA countries and enabled industrial enterprises to take a greater interest in foreign trade.
Bulgaria

Having enjoyed good growth rates in the nineteen fifties and nineteen sixties, the need for reform became only apparent in the nineteen seventies when Bulgaria began recording poor economic results. Some attempt at improving the centralised planning system had, however, begun in 1965 and included a series of measures which aimed at providing a wider margin for action. These reforms resembled Czechoslovakia's early attempts, where the most 'progressive' features included planning from below, the lifting of controls over the wage fund and the three-tier price system (i.e., fixed prices for capital goods and consumer goods in daily demand, prices that could fluctuate between state-fixed upper and lower limits for the majority of deliveries of goods agreed in inter-enterprise contracts, and free market prices for goods of seasonal or local importance.)

From 1963 onwards, enterprises of the same branch and with similar production were grouped into state economic associations (Darzavenski Stopanski Obedinenije DSO). After 1968, economic planning agencies, the State Planning Committee and the State Committee for Science and Technical Progress were reorganised and given the task of concentrating on broader issues such as the improvement of planning methods and the elaboration of guidelines for science and research. This meant the DSOs were given greater powers to oversee the management of enterprises including distribution of raw materials, marketing, authorising changes in product-mix, concluding co-operation agreements with other enterprises, and ratifying foreign trade deals under the supervision of the ministry of foreign trade.

Having witnessed, however, the political consequences of such reform attempts in Czechoslovakia, Bulgaria reversed its reform measures at the July 1968 Plenum of the BCP CC, concentrating its efforts instead on catching up with world technical standards and creating a more effective central administration. In 1977 wage regulations were...
introduced which rewarded or penalised workers and managers in specified wage groups (e.g., industry, construction and agriculture) for fulfilment or non-fulfilment respectively of the quantitative and qualitative plan. At the same time an attempt was made to reorganise labour on the basis of self-supporting brigades which aimed at providing peer control, whereby each person's pay would depend on the performance of the entire brigade. These efforts had, however, very little impact on economic performance. As a result Bulgaria began investing instead in computerised and automated management systems in order to improve the efficiency of economic management rather than introduce market forces. (29)

As for changes to the foreign trade system, the price reform adopted in 1965 aimed at granting enterprises a greater degree of self-determination as well as giving them a greater incentive to take part in foreign trade. These more progressive reforms, however, were rejected in the late nineteen sixties, and the return to central control prevented the effectiveness of these measures being tested to the full. Despite such economic levers as the wage system, economic output was not rendered any more efficient. Bulgaria's balance of trade was still in deficit because of its need for imported capital goods required for the expansion of its machinery production destined for its main export market, the Soviet Union. (30)

Romania

Romania was the last of the CMEA countries to introduce any kind of reform. The first economic reform was announced in 1967 and lasted only into the early nineteen seventies. Unlike the other East European countries, who had tried to experiment with ways of releasing central control of the economy, Romania began its reform efforts by trying to perfect the management and planning of the national economy. To this end, central control was reorganised and included the grouping of enterprises into associations
(centralele) which were under the control of the ministries. After 1969 each ministry supervised a branch of industry, agriculture, and transport, drew up its own plan draft, and had responsibility, under its statute, for the fulfilment of the plan and budget for that branch.

Besides the setting up of centralele there occurred little change in the economic management of Romania until the late nineteen seventies when the 'new economic mechanism' was introduced (1978) which stressed the principle of self-management and the principle of a unitary national plan. This contradictory position was made very apparent by the way in which enterprises were given responsibility for foreign trade activities, making investment decisions and production deliveries, whilst at the same time being closely monitored by the central administration regarding the spending of their profits and their performance of target fulfilment in the areas of exports, imports, investments, production, deliveries to the home market and technical progress. Clearly, this constant and close supervision by the central administration defeated the object of self-management.

Similarly foreign trade was initially decentralised under the first economic reforms of January 1970, transferring the competence of foreign trade corporations from the Ministry of Foreign Trade to appropriate central offices. By May 1974, however, the process was reversed, placing all, except four foreign trade corporations, under the Ministry of Foreign Trade again. Licences and transactions for each product group were dealt with by a single agency (cf. decree of 22 March 1974, 'Buletinul oficial', No. 43). The decision made in the March 1978 Resolution, however, to replace the coefficients relating to foreign trade prices with a normal exchange rate in January 1981, was a simplification enabling the cost of imported and exported goods to be made without complicated calculations between domestic and world prices.
Before turning to Hungary’s New Economic Mechanism, the similarities between the reforms attempted by the above East European countries have been summarised in order to highlight the contradictions inherent in them and their inability to achieve the desired results.

To begin with all reform efforts were triggered off by a decline in economic performance experienced in the former Soviet Union and Eastern Europe, and the admission on their part that the Stalinist system of central planning was unable to convert "extensive" into "intensive" growth (in other words from bulk output to increased productivity).(36) Furthermore, the countries of Eastern Europe began to recognise the importance of foreign trade for the improvement of the economy. As a result, the reformers attempted to relax control from the centre to the enterprises, thereby granting them decision-making powers for investment and foreign trade as well as incentives for managers and workers in an effort to render the enterprises more profitable. These initiatives were met, however, with limited success for the following reasons:

- despite the semblance of decentralisation, central control was always retained through the setting of planned targets and supply allocations to enterprises, causing a certain amount of confusion between central and enterprise responsibility;
- having been conditioned to meeting targets and still being expected to do so, enterprises lacked not only the experience and know-how to become profit oriented, but also the incentive.

Having recognised the inconsistencies of these reforms which tried to retain a system of centralised planning and hold fast to socialist principles at the same time, some countries took the decision to concentrate instead on improving the system’s planning mechanisms. Any country as for example Czechoslovakia, however, hoping to achieve fundamental political and economic reforms were speedily prevented by Soviet military action.
The Progressive model.

As Hungary is a prime example of a CMEA country which was able to loosen control from the centre more effectively than the other East European countries discussed above, the policies of the New Economic Mechanism, which was launched in 1968, and changes to the foreign trade system have been examined in the following paragraphs.

The aims of the New Economic Mechanism were, therefore to:
(i) achieve greater autonomy at enterprise level in the day-to-day running of the business;
(ii) allow enterprises to participate in the macroeconomic planning of the centre by providing information and proposals to the authorities;
(iii) regulate the economy centrally through the National Economic Plans confined to macroeconomic aspects only and by using regulators such as income tax, credit terms, creation and utilisation of funds and other fiscal and monetary policies to control enterprises.(37)

In practice, however, these aims could only be partly realised in the nineteen seventies owing to certain economic difficulties such as a sharp increase in import prices as a result of the 1973 oil crisis, investment booms and increased borrowing, causing the authorities to place restrictions on imports, wages and prices, freeze investments and withdraw liquidity. Nevertheless, these aims were to be achieved by pursuing three major polices; namely a price, incomes and investment policy which are discussed in subsequent paragraphs.(38)

a) The price policy
The price policy was intended to bring about vertical integration between production and consumer prices, domestic prices and world market prices. In 1968 prices in certain sectors were regulated in specified proportions by the authorities with a view to being
eventually deregulated. This meant that prices could vary from being fixed to having a maximum ceiling put on them, or by having a range of price levels attached to them.\(^{(39)}\) This policy proved so successful that by the mid-nineteen seventies, the gap between producer and consumer price levels had been reduced (cf. consumer price level in the early nineteen sixties was 38% higher than the producer price level; in 1976 the consumer price level was 2% below the producer price level). Despite this success, however, a conscious decision was taken by the Hungarian government to recreate the price disparity that existed pre-1968 because it wanted to finance a larger part of the state budget through this type of consumer taxes, whilst granting reductions in capital charges that had been imposed on producers. This meant that prices in the latter half of the nineteen seventies reverted to being fixed by the government.\(^{(40)}\) As regards the effect of world market prices on domestic prices, this was treated with less interventionism by the authorities. The increase in world prices in the early nineteen seventies owing to the first oil crisis and inflation resulted in increased import prices for Hungary and worsening terms of trade. Consequently, prices were revised to take into account the increased cost of imports.\(^{(41)}\)

b) The income policy
The aim of the income policy was to improve performance at enterprise level by introducing profit-motive and encourage autonomous action whilst retaining macroeconomic control at the centre. The reformers had difficulty, however, in motivating enterprises to become profit-oriented when they had hitherto been concerned with plan-fulfilment and had enjoyed complete job security. Moreover, with the virtual absence of private ownership there were only few companies run on a profit basis that could provide some sort of example. Enterprises were, therefore, reluctant to think of taking calculated risks in order to maximise the company’s, and thereby their own profits. Furthermore, the notion of profit-making and being able to earn large sums of money as a result of such efforts was not permitted by the authorities, who preferred to avoid the
emergence of large wage discrepancies. (42)

Owing to the 1973 oil crisis, however, which led to a sharp increase in import prices, as well as investment booms and increased borrowing in the early nineteen seventies, the price and income policies suffered from governmental interventionism. (43) Despite central interference, enterprises were, nevertheless, permitted to make independent decisions about investment in research and development, rationalisation and improved production methods as well as investment decisions in the expansion of production which affected sectoral and regional economic structure, as long as it did not conflict with central conceptions. (44)

To sum up, the combination of a direct and indirect investment policy resulted in an investment boom in the early nineteen seventies (in 1969 investment rose by 30%; by 20% in 1970) which was difficult to curb, despite government credit controls and centrally defined investment projects. (45) Control of foreign trade was released by removing the obligatory plan indicators to exports and imports and by allowing increasing numbers of enterprises to engage in foreign trade without the assistance of a foreign trade organisation. By requiring enterprises to obtain import and export licences before being able to engage in foreign trade activities, however, enabled the Hungarian authorities to impose indirect restrictions from the centre. (46)

Had Hungary pursued its price policy fully in the nineteen seventies, massive price increases would have occurred, enterprises would have become visibly unprofitable and financial inequalities between workers in profitable and unprofitable enterprises would have arisen. As these consequences were at that time politically and socially unacceptable to a socialist state, a certain degree of governmental interventionism seemed to be inevitable.

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REFORM IN THE NINETEEN EIGHTIES

Introduction

At the beginning of the nineteen eighties the East European countries faced similar economic problems: high debt repayments on Western loans borrowed in the nineteen seventies, falling productivity and growth rates, stagnating export figures and import restrictions for hard currency goods. In order to overcome these problems, the CMEA countries had the following choice: to turn inward, thereby withdrawing further from trade with the West, or to "restructure" their economies with the aim of competing on world markets. The CMEA countries chose the latter in the first half of the nineteen eighties, causing them to seek greater socialist integration and "intensification of social production" within the CMEA. This move towards greater integration was reiterated by the Soviet leaders in 1985 and 1986 who spoke about "perfecting" socialism and "speeding up" the socio-economic development of the Soviet Union. A few years later, however, it became evident to the Soviet leadership, that fundamental changes leading to radical economic and political reforms were, nevertheless required if economic performance was to be improved. The choice made by the former Soviet leadership was, therefore, to reform and adapt their economic and political system in order to be able to operate more effectively in world markets as discussed in the previous chapter.

As already discussed, Hungary's reforms provided an example to the other East European countries in the nineteen eighties, and have therefore been examined in the following paragraphs.
Hungarian Reforms in the nineteen eighties

Despite the imposition of restrictions during the nineteen seventies, the Hungarian Central Committee reaffirmed its intention to continue with the reforms of the New Economic Mechanism in Spring 1984. The new reform activities included:

- a commitment to provide income incentives, and grant selected enterprises a greater degree of autonomy;
- a revision of the price system and turnover tax in order to achieve a closer ratio between consumer and producer prices;
- more flexible export and import regulations;
- greater scope for transferring capital between enterprises and sectors by creating a two-tier banking system in which the National Bank of Hungary controlled monetary policy and interest rates, whilst other newly created commercial banks dealt with credit, leasing and other specialised banking services. The aim was to enable greater flows of capital between enterprises, provide greater flexibility and competition;
- the creation of a stockmarket for bonds;
- the introduction of workers' councils to help run enterprises;
- ministerial reform involving the merger of several ministries resulting in the reduction of personnel by 50% and the transfer of decision-making powers to enterprises;
- permission for small private businesses to open, and create conditions for market forces by increasing competition and introducing risk of liquidation.

To sum up, these reforms were intended to promote the productivity and profitability of enterprises through wage incentives and greater enterprise autonomy. The creation of workers' councils was supposed to involve workers more actively in the management of enterprises as well as safeguarding their interests as workers within the firm. By establishing a capital market and a banking system with several commercial banks, the supply of money was to be improved and made more flexible and enterprises were
permitted to compare offers on business loans and credits made by the banks. A
reorganisation of the ministries meant further decentralisation and removal of bureaucratic
hurdles for enterprises. Finally, by allowing small private businesses, Hungary was able
to introduce the idea of capitalism on a small scale, whilst also going part way towards
meeting consumer demand.

Foreign Trade Reforms and the Rise of Joint Ventures

Major changes during the nineteen eighties to foreign trade included the granting of
foreign trade rights to a larger number of Hungarian companies (thus, the number of
companies with foreign trade licences rose from 129 in 1981 to 226 at the beginning of
1984). Furthermore, small manufacturing companies were also encouraged to participate
in foreign trade through foreign trading houses, especially created for them.(51) Changes
to the joint venture legislation, especially in the latter half of the nineteen eighties (1986
and 1989) which granted foreign partners greater tax incentives and investment
opportunities as well as those economic reform measures outlined earlier (e.g., liberalised
banking system, stockmarket, guarantees of profit transfers), resulted in a large increase
in the number of joint ventures with foreign partners (rising from 50 joint ventures in
1985 to 2000 in 1990).(52)

As the success of the Hungarian joint venture activities became evident, the other East
European countries, including the former USSR began to experiment with similar reforms.
Their joint venture legislation and economic reform measures were, however introduced
rather more slowly and demonstrated a more conservative approach. (For a detailed dis­
cussion of joint venture legislation in the CMEA see chapter 7). Only the former GDR
remained isolated in its refusal to grant permission for joint ventures with Western
partners because it did not want to encourage any West German investments in the GDR.
During the latter half of the nineteen eighties, therefore, joint ventures became the most talked about activity in East-West trade because East European governments hoped that they would attract foreign capital and enable enterprises to overcome import restrictions, as well as give them the opportunity of improving their export potential. Moreover, joint ventures were popular among reform-minded socialist countries because this type of industrial co-operation did not require major institutional or political reform. Joint ventures, nevertheless, enabled socialist enterprises which were engaged in a joint venture with a foreign firm to operate more independently within (and in the case of joint ventures in free trade zones, outside) the state system. Furthermore, joint ventures were given the right to apply for a foreign trade licence which enabled them to act independently from foreign trade organisations and benefit from tax exemptions or reductions. Finally, co-operation with a foreign partner meant that certain supply difficulties in the domestic market could sometimes be overcome by the foreign partner obtaining these supplies from abroad. (See chapter 2 for discussion of partner motivations for entering a joint venture agreement.)

REVOLUTION AND REFORM: THE EVENTS OF 1989

Introduction

Following the announcement by the Soviet authorities in 1985 to restructure the Soviet economy and their decision not to interfere in the economic and political matters of its East European neighbours, a wave of new political and economic reforms began to sweep across the countries of Eastern Europe which led to fundamental changes to their Soviet-style economic and political systems. Unlike the reforms of the nineteen sixties and nineteen seventies which tried to render the centralised economies of Eastern Europe more efficient, the post-1989 reforms aimed to break away from the old command system and move towards a more flexible market economy. Moreover, the removal of any political
and military restraints by the former Soviet Union, enabled the countries of Eastern Europe to choose freely their own political direction. (54) The revolutionary events occurring in 1989 brought about the collapse of the traditional political systems in the GDR, Czechoslovakia and Romania which resulted in free democratic elections taking place for the first time in 40 years. (55)

Having gained their new political freedom, the countries of Eastern Europe continued to undertake economic reforms. The main decision facing these countries at the end of the nineteen eighties, however, was whether to retain some aspects of socialism and opt for a socialist market economy, or whether to go the whole way towards a market economy. This continued to be much debated in the post-revolutionary parliaments of Eastern Europe. A study of table 4.1 illustrates the extent to which these countries have gone towards releasing central control by examining reform activities relating to the price system, privatisation, convertibility of currency, introduction of capital markets and revisions to the banking system. A comparative study of the individual countries’ reform efforts in these areas has been made in the following paragraphs.

Privatisation

To date, all countries have introduced proposals for privatising the economy to some extent, and include the setting up of small private businesses as well as the selling of state enterprises. Hungary and Poland took the lead in this activity, having allowed small private businesses to operate for some time. (For example, permission for Poland’s Polonian companies was granted in 1976, and Hungary gave permission for small private businesses to open in 1982.) The privatisation of state enterprises, however, began only after 1989, and were pursued most vigorously by Hungary and Poland in 1990, followed by Czechoslovakia in 1991. By comparison Bulgarian and Romanian privatisation attempts were much less successful. Although Romania introduced a law in 1990
permitting small businesses to operate, the response rate by the end of the decade had been very disappointing.\(56\) As for Bulgaria's privatisation proposals in 1990, they were rejected causing the Bulgarian prime minister to resign over the issue in December 1990.\(57\)

**Price Reform\(2\)**

This reform aimed at withdrawing state subsidies in an attempt to align consumer prices with producer cost prices. Once again, Hungary led the other East European countries, having halted subsidies already in 1987. Poland and Romania did so in 1990, whilst Czechoslovakia was expected do so in 1991. Bulgaria introduced only a partial price reform on consumer goods in 1990 owing to oil shortages brought about by reduced oil deliveries from the former USSR and embargoed deliveries from Iraq. To have removed subsidies entirely would, therefore, have had catastrophic consequences for their economy.\(58\) Only certain consumer prices, therefore, were increased by 25%.

**Currency Convertibility\(2\)**

To enable enterprises to operate more effectively in other market economies and attract foreign business activities in their own countries, convertibility of the national currency remains a pressing issue for the countries of Eastern Europe. However, the full effects of introducing full convertibility of currency have been experienced by the East German economy, where conversion to the D-Mark exposed the former GDR to the full impact of world prices, resulting in sharp increases in food, housing, energy and consumer prices, as well as increases in raw material and commodity prices for industry, without the corresponding increases in wages.\(59\)
Table 4.1

<table>
<thead>
<tr>
<th>Privatisation</th>
<th>Hungary</th>
<th>Poland</th>
<th>Czechoslovakia</th>
<th>Bulgaria</th>
<th>Romania</th>
</tr>
</thead>
</table>


| Currency conversion | Internal convertibility. | Internal convertibility. | None | None | None |

| Banking | 2-tier banking system. | 2-tier banking system. | No decision taken at end of 1990. | State bank only. | State bank only. |


| Foreign Investments | 100% foreign owned companies. Foreign shareholding possible. | 100% foreign owned companies. Foreign shareholding possible. | 100% foreign owned companies. Foreign shareholding possible. | 100% foreign owned companies. Foreign shareholding possible. | 100% foreign owned companies. No certain decision reached at end of 1990 to float state-owned firms. |

Consequently, the more progressively reforming countries, such as Poland and Hungary opted, in the first instance, for internal convertibility of their currencies. The other East European countries, Czechoslovakia, Romania and Bulgaria were not prepared, by the end of the decade, to expose their economies to the inevitable economic and social hardships which follow the withdrawal of subsidies and the introduction of partial convertibility to their currency.

Under the previous communist system, the banking system was characterised by centralised control which ensured that the distribution of finance was carried out in accordance with the economic plan, and credits and debt repayments were controlled by the State. The latter is still a task retained by the National or State Bank in Eastern Europe. Since 1989, however, some commercial banks have been set up which have introduced an element of competition into the banking services of East European countries. The effect of the presence of these commercial banks has been to provide an improved service to customers in areas such as interest rates, depreciation allowances, loans and credits as a result of competition for business between the banks.

Leaders in the introduction of a two-tier banking system (national bank for policy decisions and other banks for commercial and investment activities) were Hungary in 1987, followed by Poland in 1991. At the time of writing, however, the other countries had not published any details regarding the liberalisation of their banking systems.

A necessary requirement for the successful privatisation of enterprises is the establishment of capital markets which enable the free movement of capital and the floating of stocks.
and shares for foreign and home investors. Nevertheless, by the end of 1990 only Hungary had set up a stock exchange (opened in 1987) through which it issued bonds. (61) Company shares, however, were floated on the Vienna stock exchange. Except for Poland, the other East European countries had not announced any plans for creating a stockmarket in the near future. (62)

**Foreign Investment**

Whilst reforms in some of those areas mentioned above have been slow, the countries of Eastern Europe have been quick to change laws on foreign investments, granting improved conditions for joint ventures and permission to set up wholly owned foreign subsidiaries which aim to promote the inflow of foreign capital (see chapter 7 for legislative changes up to 1990) in an attempt to bolster their economies. Although these changes provide the necessary legal framework for foreign investments, the economic and political conditions, which are discussed in the following paragraphs, play an important role in attracting foreign investors.

Despite progress made by Hungary, Poland and Czechoslovakia these countries alongside Romania and Bulgaria faced daunting economic problems at the end of 1990 which have been summarised below:

- in 1989 Poland, Czechoslovakia (and the former GDR) had a GNP growth of 0.5%, whilst Hungary and Bulgaria had negative growth rates and Romania had zero growth rates;
- foreign debt in the region had grown from $71 billion in 1985 to $101 billion in 1989;
- agricultural output grew by only 1.2%;
- industrial output grew by a mere 0.5%. (63)
Furthermore, Western direct investment in the CMEA area, estimated to be $2 billion in 1989, was negligible compared to the US $500 billion which West German bankers' had estimated would be required to bring the East German economy alone up to the level of the West.(64)

These factors together with Comecon's switch to hard currency trading from 1st January 1991 give a bleak economic picture for the nineteen nineties.(65) As a result of hard currency trading among the CMEA countries, the price of oil from the former USSR has risen to the level of world oil prices, hitting the oil dependent countries in particular. This in turn will bring about further inflationary measures in the form of price increases to enterprises which may lead to possible bankruptcies. By contrast, the rise in oil prices should have some positive consequences for the former USSR's balance of payments.(66) Those countries, however, with severe hard currency shortages, as for example Bulgaria, will be obliged to return to using barter trade.(67)

INTRA-CMEA TRADE

Since its establishment in 1949, the Council for Mutual Economic Assistance played an important role in the foreign trade activities of the former socialist countries of Eastern Europe. This section sets out, therefore, to examine the aims of the CMEA, its impact on the foreign trade activities of the former Soviet Union and the countries of Eastern Europe, as well as its attempts at progressing from bilateral to multilateral trade.

The CMEA was originally founded to link the countries of Eastern Europe whilst consolidating the development of the centralised planning system within their countries. The former USSR's vast oil supplies and the non-convertibility of currencies among the members of the CMEA meant, however, that intra-CMEA trade developed mainly a barter trade system, with the former Soviet Union supplying oil and raw materials to the East.
European countries in exchange for industrial and consumer goods. (68)

In the early days of the nineteen fifties and nineteen sixties, the Soviet Union sold its oil to the other CMEA countries below world prices. However, with the onset of the first oil crisis in 1973, the Soviet Union began to align its prices with those of the world market, although they still lagged behind the world price for oil. The rise in Soviet oil prices, nevertheless, meant that the oil dependent CMEA countries were obliged to increase their production of goods for sale to the Soviet Union, leaving fewer goods for sale in Western markets, which were also in recession. Consequently, by the nineteen seventies and the nineteen eighties, the East European countries were heavily committed to intra-CMEA as demonstrated in table 4.2 overleaf.

The statistics in table 4.2 show that in 1983 (when trade was stagnating world wide and hard currency was in short supply) Bulgaria, Czechoslovakia and Poland conducted approximately three quarters of their foreign trade activities with other CMEA countries. In the same period, the GDR’s trade with the CMEA stood at over 60%, whilst both Hungary and Romania’s foreign trade seemed to be almost evenly balanced between its CMEA partners and the rest of the world.
Table 4.2 GEOGRAPHICAL DISTRIBUTION OF CMEA COUNTRIES’ FOREIGN TRADE (IN % SHARES IN CURRENT PRICES)

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<tbody>
<tr>
<td></td>
<td>Imports</td>
<td>Imports</td>
<td>Imports</td>
<td>Imports</td>
</tr>
<tr>
<td>SOVIET UNION</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Socialist countries</td>
<td>65.4 65.1</td>
<td>60.7 52.4</td>
<td>54.2 53.2</td>
<td>55.6 56.5</td>
</tr>
<tr>
<td>of which CMEA</td>
<td>55.4 57.0</td>
<td>55.6 48.3</td>
<td>49.0 48.2</td>
<td>50.7 51.7</td>
</tr>
<tr>
<td>Developed West</td>
<td>18.7 24.0</td>
<td>25.6 36.4</td>
<td>32.0 35.4</td>
<td>28.9 31.4</td>
</tr>
<tr>
<td>LDCs</td>
<td>15.9 10.9</td>
<td>13.7 11.2</td>
<td>13.8 11.4</td>
<td>15.5 12.1</td>
</tr>
<tr>
<td>BULGARIA</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Socialist countries</td>
<td>79.3 76.2</td>
<td>80.0 72.3</td>
<td>70.8 78.9</td>
<td>76.4 79.8</td>
</tr>
<tr>
<td>of which USSR</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Developed West</td>
<td>14.2 19.1</td>
<td>9.3 23.6</td>
<td>15.8 17.2</td>
<td>10.5 13.9</td>
</tr>
<tr>
<td>LDCs</td>
<td>6.5 4.7</td>
<td>10.7 4.1</td>
<td>13.4 3.9</td>
<td>13.1 6.3</td>
</tr>
<tr>
<td>CZECHOSLOVAKIA</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Socialist countries</td>
<td>70.6 69.4</td>
<td>71.6 69.8</td>
<td>69.6 70.2</td>
<td>74.6 79.2</td>
</tr>
<tr>
<td>of which USSR</td>
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<tr>
<td>Developed West</td>
<td>20.4 24.5</td>
<td>19.8 24.6</td>
<td>21.7 24.3</td>
<td>16.4 16.7</td>
</tr>
<tr>
<td>LDCs</td>
<td>9.0 6.1</td>
<td>8.6 5.6</td>
<td>8.7 5.5</td>
<td>9.0 4.1</td>
</tr>
<tr>
<td>GDR</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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(continued overleaf)
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<td>6.4</td>
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</table>

Table 4.2 contd.

*in 1979


N.B. The source does not state whether Intra-German Trade is included in these figures or not.

LDCs = Less Developed Countries
In an effort to progress away from barter trade, there were some attempts at introducing multilateral trade agreements. Moreover, the "convertible rouble" was used as an accounting unit to calculate the value of goods supplied and acquired by CMEA countries in order to overcome the problem of non-convertibility of the currencies among the CMEA countries.(69)

The first proposal at rendering intra-CMEA trade more multilateral was put forward by Khrushchev in the early nineteen sixties. He advocated the creation of a "united planning organ", responsible for co-ordinating multilateral trade activities between the CMEA members. This proposal, however, was rejected by Romania (because of its preference to expanding its trade with the West), thus failing to pass the unanimity vote required at that time for the acceptance of any proposals.(70) Despite the failure to set up a central planning organ for integrating and harmonising intra-CMEA trade, a degree of multilateral co-operation was achieved through associations involving the participation of several CMEA countries. (e.g., the Organisation for Co-operation in the Ballbearing Industry was set up in 1964 with the participation of all CMEA countries, except Romania).(71)

With the preoccupation of individual CMEA countries in the nineteen sixties and nineteen seventies with their own reform efforts which included promoting foreign trade with the West, intra-CMEA trade continued to be conducted as barter trade.(72) Nevertheless, a new attempt was made to strengthen CMEA integration in 1971 through the Complex Programme proposed during Brezhnev's time in office. This had the aim of promoting greater integration of socialist countries through multilateral co-operation in special projects. The programme also laid down rules for co-operation in specific areas such as engineering, mining and transportation. The main instrument for achieving this integration was to be through plan co-ordination of CMEA activities, including international Comecon projects in the resources sector such as the Mir power grid, the Druzhba oil pipeline, and the Soyuyz gas pipeline, the Yermakovo ferro-alloy and the Ust-Ilimsk cellulose plants.
in the USSR; and the Katowice iron and steel combine in Poland, the Devna soda factory in Bulgaria, and the Boehlen ethylene complex in East Germany.(73)

But despite these much cited examples, most of the CMEA trading activities still remained on a bilateral basis owing to the non-convertibility of the currencies of the CMEA countries and the fact that the "convertible rouble" was not convertible because the "convertible roubles" earned from trade with one country could not be used to purchase goods from another country.(74)

As already discussed at the beginning of this section, many of the smaller oil dependent CMEA countries were made to cut back their trade with the West in the nineteen eighties in order to pay for their oil requirements from the Soviet Union which had set a ceiling on the amount of oil deliveries made to CMEA countries, by limiting oil deliveries to the 1980 ceiling and charging hard currency for supplies in excess of the ceiling. Consequently, trade with the West stagnated and even declined (see following chapter for details), leading the countries of Eastern Europe to look for alternative means of acquiring Western technology in their battle to create new productive capacity.(75)

The decision announced in 1990 to conduct future intra-CMEA trade in convertible currency, which has already been referred to in an earlier section, signalled the end of fixed barter agreements between the CMEA countries, and led eventually to the dissolution of CMEA co-operation at the end of June 1991. (76) It seems, therefore, that in the future, individual East European countries are likely to "shop around" for competitive suppliers and new customers which may alter the former trade patterns depicted in table 4.2.
CONCLUSION

Despite attempts in the nineteen sixties and the nineteen seventies to reform the political and economic structure of their countries in an effort to improve economic output, the countries of Eastern Europe were unable to effect any significant changes. Only Hungary succeeded in introducing and sustaining a degree of flexibility in the economic management of the country with its New Economic Mechanism which laid the foundations for the later reforms in the latter half of the nineteen eighties.

As trade in the early nineteen eighties continued to stagnate and political control was being relaxed by the new Soviet leadership from 1985 onwards, a series of foreign trade reforms were introduced which were designed to re-activate trade with the West. Hungary in particular was in a better position than other CMEA countries to stimulate economic activity through foreign direct investments, having already established its New Economic Mechanism during the nineteen seventies. Encouraged by Hungary’s successes in overcoming some of the bottlenecks to imports through joint ventures, and the positive signals received by the former Soviet Union to these reforms, other East European countries began also to undertake economic reforms.

The relaxation of political control by the former USSR over Eastern Europe led to the overthrow of communist control in most of the East European countries after 1989 and has resulted in the introduction of more radical economic reforms by the former CMEA countries, aimed at decentralising their economies. By exposing their economies to the effects of market forces, however, these countries have been experiencing problems such as inflation, unemployment and falling growth rates. Moreover, the decision to abolish trade among the CMEA member countries by "convertible rouble" resulted in the dissolution of the CMEA and its bilateral trade agreements.
The importance of foreign trade for stimulating economic growth was already recognised by the countries of Eastern Europe in the nineteen sixties. However, the effect of the oil crisis in the nineteen seventies, the mounting debt and repayment problems experienced by some of the CMEA countries (Poland and Hungary in particular) resulted in hard currency shortages. Consequently, some of the more oil dependent CMEA countries began to turn inward in an effort to consolidate trade with their CMEA partners, notably the Soviet Union. East-West trade began, therefore, to decline and the technological gap widened between the East and West, causing them to look for ways of achieving import substitution, thereby curbing hard currency expenditure. The following chapter provides, therefore, the necessary background to the growth of joint ventures by outlining the development of East-West trade and industrial co-operation.
1. Höhmann H., 'Economic Reform in the 1970s - Policy with no alternative' chapter in
Nove A., Höhmann H., Seidenstecher G., The East European Economies in the 1970s,

For an examination of the weaknesses of the centralised planning system see,
- Nove A., 'USSR: economic policy and methods after 1970', chapter in Nove, Höhmann,
1988, pp.31 - 152


3. Ibid, p.3.

4. Leptin G., 'The German Democratic Republic', chapter in Höhmann H., Kaser M.,
Thalheim K.C. (eds.), The New Economic Systems of Eastern Europe, Hurst and

5. Melzer M., 'The GDR - economic policy caught between pressure of efficiency and


7. Ibid., pp.48 - 49.

8. Ibid, p.69.

- Nattland K., "Theoretische und praktische Aspekte des Zusammenhangs zwischen
Außenhandel und Wirtschaftswachstum in der DDR", in Beiträge zur Theorie und Praxis
von Wirtschaftssystemen, Festgabe für Thalheim K., Berlin (Germany), 1970, p.300.

10. Brus W., 'Aims, methods and political determinants of the economic policy of Poland 1970 - 1980' in Nove, Höhmann, Seidenstecher (1982), p.108. This theory was promulgated by,


12. Ibid., p.110.

13. Ibid., p.126.


15. Ibid, pp.176 - 177.


18. Ibid., p.110

19. Ibid., p.113.


22. Ibid., p.102, Poland’s overall trade balance with the West in 1970 was in deficit by only 160 million dollars. By 1975, however, the cumulative deficit in the period 1970 - 75 reached 6500 million dollars - thirteen times more than in the 1966 - 70 period; or eleven times more if the 1971 and 1973 dollar devaluations are eliminated.

23. Ibid., p.121.


27. Ibid., pp.206 - 207.

28. Ibid., pp. 207 - 208.


30. Ibid., p.224.


32. Ibid., pp.174 - 175.


34. Ibid., p.273.

35. Ibid., pp.271-272.

36. For a more detailed explanation of the socialist meaning of extensive and intensive growth see,


39. Ibid., pp.182 -183.

40. Ibid., pp.186 - 187.

41. Ibid., pp.184 - 186.


45. Ibid., p.196 - 203.


- Wass von Czege, "Ungarn: Auf dem Wege zur sozialistischen Marktwirtschaft" in Berichte des Bundesinstituts für ostwissenschaftliche und internationale Studien, Nr. 34, 1984, Bonn, p.1. According to Wass von Czege the annual price-increase rates for 1979 was 8.8%; 9.1% in 1980 which were considerably higher than the annual price-increase of 2.8% recorded for the period 1971 - 75. The trade balance in terms of US$ reached a record of more than 1.1 billion US$; Hungary’s net debt on international credit markets amounted to more than 3 billion US $, the annual interest payment exceeded 350 million
US $. In 1978 Hungary's export turnover rose by only 0.9% instead of the envisaged 11%, whereas import expenditure grew by 12.6% because of inflation in world markets.

47. Gabriel H., Quilitzsch S., "Umbruch in der UdSSR und in Osteuropa" in Osteuropa 8/90, p.699.

48. For a detailed discussion of the economic problems facing the CMEA countries see, - Wallace W., Clarke R., Comecon Trade and the West, Pinter, London, 1986, pp.115 - 133.

49. Ibid., p.51.


All the above authors record the importance stressed by socialist countries on the need for socialist integration for the future.


51. Ibid., pp.19, 26.


52. Wass von Czege (1984), p.19; compare also chapter 7 on Joint Venture legislation outlining Hungarian investment law, and chapter 8 on East-West joint ventures in Eastern Europe and the former Soviet Union.


55. Ibid., pp.702 - 703.


58. Ibid., p.2.


- WIR in Europa, "Was wird aus mir?", Nr. 11, Dezember 1990, pp.24 - 25.

60. For details of the socialist banking system see,

- Wilczynski (1972), pp.144 - 164.

61. The Times, "Countdown to Budapest’s Big Bang: Hungary’s economy (Part I)", 29 December, 1986, p. 7 and,

- The Times, "Hungary’s economy (Part II)", 30 December 1986, p.6.


63. The Financial Times, "The kick in the capitalist cocktail", 15 August 1990, p.4

64. Ibid.


- For a more detailed discussion see,

70. Schaefer (1972), p.4.


75. *Ibid.*, p.120.

CHAPTER 5

EAST-WEST TRADE AND INDUSTRIAL CO-OPERATION

INTRODUCTION

Having noted in chapters 3 and 4 the features of centrally planned economies, notably in the area of foreign trade, this chapter traces the growth in East-West trade between 1960 and 1988(1), and discusses possible developments of these activities in the nineteen nineties. As a major participant in East-West commerce, the former Soviet Union's trading activities are analysed in isolation, particularly in the nineteen eighties when falling oil prices had a negative impact on Soviet exports, and consequent imports, which contributed in turn to an overall stagnation in East-West trade. Following the discussion of East-West trade, an examination is carried out of the former CMEA countries' efforts to import and assimilate foreign technology in the nineteen seventies, and increase their industrial co-operation activities in the nineteen eighties. These surveys provide the necessary background to discuss the emergence of joint ventures as the type of industrial co-operation most favoured and actively promoted by the former socialist countries of Eastern Europe in the late nineteen eighties.

THE GENERAL PATTERN OF EAST-WEST TRADE (1960-88)

Introduction

1960 has been chosen as a starting date for this chapter as Western and Eastern attitudes changed considerably between 1960 and 1975, from confrontation to détente, leading to liberalisation of trade between East and West.(2) This section begins by tracing the growth of East-West trade between 1960 and 1988 (table 5.1) and subsequently discusses
the importance of East-West trade in relation to world trade in the nineteen eighties (see table 5.2). This is followed by an examination of the USSR's export performance in the nineteen eighties and a summary of predictions made regarding the development of East-West trade in the nineteen nineties.

**The development of East-West trade**

Table 5.1 gives a year by year outline of the growth of East-West trade and world trade between 1960 and 1988 and shows total CMEA exports and imports to have increased rapidly in the nineteen sixties and seventies (203% between 1960 and 1972, and 235% between 1972 and 1979). Eight of the nine years from 1972 up to and including 1980 had the highest annual percentage increases recorded over the 29 year period. Total imports by the former socialist countries and the Soviet Union rose by 321%, and total exports from these countries rose by 296%. In real terms the growth rate was considerably less because the unit value (price) index in the West rose by 109% between 1972 and 1978 as a result of the oil crisis in 1973, compared with an increase in the unit value (price) index of only 31% between 1960 and 1972. Moreover, the balance of trade shifted from a healthy surplus in the early nineteen seventies (US $1886 million fob in 1970; table 5.1) in the CMEA countries' favour to a substantial deficit in 1975 (US $5307 million fob; in table 5.1). Whilst the USSR managed to regain its positive trade balance in 1976, the other six socialist countries of Eastern Europe continued to record a negative trade balance between 1975 and 1988.

In the nineteen eighties, however, import and export figures of the developed market economies (and world exports) declined, especially between 1980 and 1985 (see table 5.1). Consequently, imports and exports from the former CMEA countries also stagnated, particularly between 1983 and 1985, as the socialist countries began to feel the knock-on effect of the world recession and the implementation of restrictive import policies. Although the latter aimed at overcoming the former CMEA countries' debt repayment
problems, import restriction nevertheless had a negative effect on their domestic production and export performance which contributed to their stagnating trade figures.

As Western markets began to recover from the recession experienced in the early nineteen eighties, East-West trade appeared to be recovering slightly in the latter half of the decade. Western exports to Eastern Europe and the former Soviet Union rose, therefore, from US $ 33.7 billion in 1985 to US $ 43.1 billion in 1988, whilst exports from Eastern Europe and the Soviet Union to the West rose from US $ 38.0 billion in 1985 to US $ 42.0 billion in 1988 (see table 5.1). These increases in East-West trade in the latter half of the nineteen eighties, however, were worth less in real terms than export volumes at the beginning of the nineteen eighties, owing to inflation and a weakened dollar. Moreover, CMEA exports rose as a result of the former USSR’s increasing its sale of Soviet oil and petroleum products by three million tons in 1986/87 (5); a period in which the spot price of Soviet crude oil recovered slightly from 1985 (see figures 5.1 and 5.2).
<table>
<thead>
<tr>
<th>Year</th>
<th>Total World Imports</th>
<th>Total SCEE Imports</th>
<th>Total SCEE Exports</th>
<th>Total USSR Imports</th>
<th>Total USSR Exports</th>
<th>Total 6 SCEE Imports</th>
<th>Total 6 SCEE Exports</th>
<th>Total DME Exports</th>
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<td>6,000</td>
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<td>8,120</td>
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<td>15,770</td>
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<td>8,740</td>
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<td>10,510</td>
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<td>11,540</td>
<td>126,530</td>
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<tr>
<td>1966</td>
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<td>239,140</td>
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<td>24,900</td>
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<td>10,630</td>
<td>13,910</td>
<td>14,270</td>
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<td>167,670</td>
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<td>1969</td>
<td>272,710</td>
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<td>27,500</td>
<td>10,050</td>
<td>11,660</td>
<td>15,190</td>
<td>15,840</td>
<td>191,240</td>
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Table 5.1 continued....
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<th>Year</th>
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<th>Total SCEE Exports</th>
<th>Total USSR Exports</th>
<th>Total 6 SCEE Exports</th>
<th>Total DME Exports</th>
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<td>30,523</td>
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<td>52,253</td>
<td>20,335</td>
<td>30,052</td>
<td>406,079</td>
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<td>1974</td>
<td>838,269</td>
<td>64,637</td>
<td>27,405</td>
<td>38,264</td>
<td>541,660</td>
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<td>1975</td>
<td>872,979</td>
<td>77,358</td>
<td>35,418</td>
<td>47,273</td>
<td>577,192</td>
</tr>
<tr>
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<td>989,451</td>
<td>84,110</td>
<td>37,169</td>
<td>50,303</td>
<td>642,102</td>
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<td>98,106</td>
<td>45,160</td>
<td>55,880</td>
<td>727,709</td>
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<td>1,297,518</td>
<td>112,434</td>
<td>52,216</td>
<td>60,218</td>
<td>871,987</td>
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<td>1,631,250</td>
<td>133,421</td>
<td>64,762</td>
<td>72,979</td>
<td>1,079,041</td>
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### Table 5.1 continued

#### World Trade (1980 - 88)

(All figures in millions of SUS fob)

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<th>Year</th>
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<th>Total World Imports</th>
<th>Total SCEE Exports</th>
<th>Total SCEE Imports</th>
<th>Total USSR Exports</th>
<th>Total USSR Imports</th>
<th>Total 6 SCEE Exports</th>
<th>Total 6 SCEE Imports</th>
<th>Total DME Exports</th>
<th>Total DME Imports</th>
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<tbody>
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<td>1980</td>
<td>1,995,068</td>
<td>161,294</td>
<td>156,357</td>
<td>68,522</td>
<td>76,449</td>
<td>92,772</td>
<td>79,908</td>
<td>1,406,549</td>
<td>1,256,480</td>
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<tr>
<td>1981</td>
<td>1,978,442</td>
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<td>159,276</td>
<td>72,960</td>
<td>79,003</td>
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<td>80,273</td>
<td>1,337,516</td>
<td>1,233,026</td>
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<tr>
<td>1982</td>
<td>1,836,739</td>
<td>159,824</td>
<td>166,132</td>
<td>77,752</td>
<td>86,912</td>
<td>82,072</td>
<td>79,220</td>
<td>1,242,002</td>
<td>1,154,801</td>
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<td>167,473</td>
<td>177,591</td>
<td>80,412</td>
<td>91,343</td>
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<td>86,248</td>
<td>1,232,057</td>
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<td>177,841</td>
<td>80,680</td>
<td>91,652</td>
<td>86,895</td>
<td>86,189</td>
<td>1,337,571</td>
<td>1,226,347</td>
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<td>1985</td>
<td>1,932,387</td>
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<td>174,962</td>
<td>83,140</td>
<td>87,281</td>
<td>90,582</td>
<td>87,681</td>
<td>1,386,556</td>
<td>1,478,368</td>
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<td>1986</td>
<td>2,128,081</td>
<td>192,856</td>
<td>193,829</td>
<td>88,871</td>
<td>97,247</td>
<td>103,985</td>
<td>96,582</td>
<td>1,551,336</td>
<td>1,478,368</td>
<td></td>
</tr>
<tr>
<td>1987</td>
<td>2,498,031</td>
<td>205,370</td>
<td>212,219</td>
<td>96,061</td>
<td>107,874</td>
<td>109,309</td>
<td>105,655</td>
<td>1,845,200</td>
<td>1,739,207</td>
<td></td>
</tr>
<tr>
<td>1988</td>
<td>2,832,894</td>
<td>222,604</td>
<td>223,234</td>
<td>107,229</td>
<td>110,559</td>
<td>115,375</td>
<td>112,675</td>
<td>2,080,519</td>
<td>1,984,979</td>
<td></td>
</tr>
</tbody>
</table>

**Sources:**
- United Nations Yearbook of International Trade Statistics, 1988, Vol. 1, Table A.

**N.B.:** Table B (UN Yearbook 1979) does not include intra-German trade; table A (UN Yearbook 1988) includes intra-German trade.

**SCCE** Socialist Countries of Eastern Europe

**DME** Developed Market Economies
Figure 5.1
Soviet Exports to the West (billion roubles)

Source: East European Statistics Service, No. 145, 10 May 1988, (East-West Publications, p.3)
Figure 5.2
Spot Price of Soviet Crude Oil, Grade: Urals (API 32) on the Medit

The importance of East-West trade

An analysis of data in table 5.1 and 5.2 on East-West trade and total world exports, taken from the United Nations' Yearbook of International Trade Statistics between 1960 and 1988(6), reveals the importance of East-West trade and its contribution to world exports. Based on the export figures in table 5.2, exports from the CMEA countries to developed market economies (DME) amounted to 29% of their total exports (in dollar value) at the beginning of the nineteen eighties and declined to 19% at the end of the decade. By comparison exports to the socialist countries of Eastern Europe (SCEE) by the developed market economies accounted for only 3.6% of their total exports at the beginning of the decade and declined to 2.2% at the end of the nineteen eighties.(7) These figures, however, may not reflect the real value of Soviet and East European exports and imports, owing to the complicated exchange rate system in operation at that time for Soviet and East European currencies, which caused their currencies to be considerably overvalued. Nevertheless, these trade figures suggest that East-West trade has been of considerable importance to the former CMEA countries and of minor economic significance to the developed market economies. Moreover, in relation to world exports, exports from the former socialist countries of Eastern Europe contributed between 7.8% and 9.1% of total world exports, whilst exports from the developed market economies contributed between 63% and 70% of total world exports.(See table 5.2)
Table 5.2  
East-West Exports in relation to World Trade  
World Exports by Commodity classes and by regions. Total trade (SITC, Rev. 2 and Rev. 3, 0 - 9)  
(Million US dollars fob)

<table>
<thead>
<tr>
<th>Year</th>
<th>*Total world exports</th>
<th>*Share of total SCEE's exports in world exports (%)</th>
<th>*Share of total DME's exports in world exports (%)</th>
<th>Total SCEE's exports to DME</th>
<th>Share of SCEE's total export turnover (%) delivered to DMEs</th>
<th>Total DME's exports to SCEE</th>
<th>Share of DME's total export turnover (%) delivered to SCEEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>1,995,068</td>
<td>7.8%</td>
<td>63.0%</td>
<td>44,795</td>
<td>29%</td>
<td>46,268</td>
<td>3.6%</td>
</tr>
<tr>
<td>1985</td>
<td>1,932,387</td>
<td>9.1%</td>
<td>65.0%</td>
<td>37,897</td>
<td>22%</td>
<td>33,735</td>
<td>2.7%</td>
</tr>
<tr>
<td>1988</td>
<td>2,832,894</td>
<td>7.8%</td>
<td>70.0%</td>
<td>41,919</td>
<td>19%</td>
<td>43,051</td>
<td>2.2%</td>
</tr>
</tbody>
</table>

* Based on export figures from United Nations’ Yearbook of International Trade Statistics 1988, Vol. 1, Table A


N.B. Table A includes Intra-German trade.
The USSR’s export performance in the nineteen eighties

The former Soviet Union’s exports have accounted for 41.5%, 48.5% and 49.5% of total CMEA exports in 1971, 1979 and 1988 respectively, and the USSR plays, therefore, the major role in any discussion of East-West trade. (See table 5.1). In examining Soviet exports in the nineteen eighties (see figure 5.1), it is evident that the former USSR’s energy exports (see line b in figure 5.1) have contributed significantly to its total exports, not only in value terms, but also in the overall development of the former Soviet Union’s trade (see line ‘a’ which follows line ‘b’). Moreover, the data suggests that the former Soviet Union has not been very successful in developing the exports of manufactured goods or services (see line c). The over-reliance on energy exports appeared to have been recognised by the former USSR itself (see chapter 3, foreign trade reforms) and subsequently led the country to introduce foreign trade reforms in an effort to improve its export output of manufactured goods.

East-West Trade in the nineteen nineties

Economic forecasts made in 1989 by the Deutsches Institut für Wirtschaftsforschung (DIW) and the United Nations as quoted in an article published by Business Eastern Europe(8), present two different views about the development of East-West trade in the nineteen nineties and are summarised in the following paragraphs.

a) The DIW forecast

Based on the fact that in the late nineteen eighties the former Soviet Union had been unable to meet some of its export orders, thereby earning itself a reputation for being unreliable among some Western importers, the DIW predicted limited expansion in East-West trade. Consequently, countries which might have been willing to increase their imports from the former Soviet Union previously, might hesitate to do so in the future.
because they fear they might not receive deliveries on time. This occasional inability on the part of the former Soviet Union to meet greater export orders was attributed to a lack of flexibility inherent in the economic system and industry of the former Soviet republics, which would require extensive restructuring and modernisation. On the basis of these findings, the DIW suggested that the former USSR would only be able to increase its export figures by selling more oil. This analysis of East-West trade is in many ways similar to assessments made by Wilczynski and Pisar over twenty years ago on the subject of the Soviet Union's export performance. According to their findings in 1969 and 1970 respectively, the Soviet Union had been unable to make sufficiently competitive components and manufactures to sell on Western markets. The only way the former Soviet republics could, therefore, improve their export performance in the long-term, according to the DIW, would be through the successful implementation of economic and trade reforms.

b) The United Nations' forecast

By contrast to the DIW, the United Nations has predicted a more positive outcome for East-West trade. Their predictions have been based on the assumptions that Western economies have been improving, and the former CMEA economies have been able to offer Western countries greater trading and investment opportunities as a result of the implementation of economic and foreign trade reforms.

Whilst the United Nations' evaluation of East-West trade in the nineteen nineties appears to be more optimistic than the DIW's, both sources, nevertheless, recognise the importance of economic and foreign trade reforms for improving the former CMEA countries' export performance.
To summarise, the findings in this section have shown that East-West trade in the nineteen eighties suffered because of:

(i) a world-wide recession in the early nineteen eighties, associated with a fall in oil prices in 1979 and a weakened dollar;

(ii) the implementation of restrictive import policies by the former CMEA countries which resulted in a decline in the production of goods for exporting.

Consequently, faced with hard currency shortages and falling exports the former socialist countries of Eastern Europe began to promote industrial co-operation agreements with Western partners in an effort to gain access to newer technology, and thereby improve their export performance.

TECHNOLOGY TRANSFER IN EAST-WEST TRADE

The desire to improve the technological level of the CMEA countries' output was already noted by researchers of East-West trade in the nineteen seventies, when it appeared that East European imports from the West were primarily capital intensive. For example, Hill noted that machinery and transport equipment, and manufactured goods accounted for some 20-30% of Western exports to the CMEA region (chemicals, and foodstuffs 10%, mineral fuels only 1%). He also recorded that during most of the nineteen seventies purchases of these goods by the CMEA countries increased at rates approximately equal to or higher than total Western exports of these products.

By comparison, Wienert and Slater calculated the increase in capital intensive goods during the nineteen seventies in value terms. Their estimates showed CMEA imports of investment goods to have been worth US $10 billion in 1970, SUS 31 billion in 1975 and US $50 billion in 1980, demonstrating a substantial increase in that decade. However, both authors noted that these increases were far less dramatic in real terms after
1975 than before because of inflationary prices which caused imports to rise more in value terms than in actual volume.

Nevertheless, the export statistics of the late nineteen seventies (see table 5.1) suggest that the former CMEA countries were still unable to earn sufficient hard currency from the sale of goods on Western markets to meet their import requirements. Moreover, East-West trade suffered a further set-back following the Soviet invasion of Afghanistan which led to the United States imposing trade sanctions on some exports from the former USSR and tightening export controls through Cocom on technologically intensive exports from the West to former CMEA countries. Consequently, Western markets became less accessible to goods from the former socialist countries of Eastern Europe. Furthermore, Cocom restrictions made it more difficult for the former CMEA countries to import goods embodying Western technology. This resulted in acute hard currency shortages for some Eastern European countries, namely Poland and Hungary, causing a fall in export outputs for these countries at the beginning of the nineteen eighties. The former socialist countries of Eastern Europe were forced therefore, to seek closer trade relations and cooperation with their CMEA partners (see chapter 4, section on Intra-CMEA trade). However, as the world economy began to recover from the recession in the mid-nineteen eighties, and East-West relations improved, the CMEA countries decided to look for ways of acquiring Western technology and know-how with the minimum hard currency expenditure. Consequently, the socialist countries of Eastern Europe sought once again to intensify industrial co-operation activities with Western partners in the latter half of the nineteen eighties.
INDUSTRIAL CO-OPERATION

Before examining the role of industrial co-operation, this section begins by defining the term and describing the various types of industrial co-operation as a way of clarifying these business arrangements, and explaining their relevance to joint ventures. The term used throughout this study to define industrial co-operation is the one defined by the United Nations in 1976, namely:

"...a contractual economic relationship between two or more enterprises of different nationalities, extending over a longer period, whereby a community of interests is established for the purpose of complementary activities relating to the supply of licences and equipment, development of new technologies, the exchange of information on and the use of those technologies, production and marketing with provision for the settlement in kind of whole or part of the obligations arising from co-operation activities."

The above definition describes several general types of industrial co-operation agreements, namely:

- supply of licences
- supply of equipment and/or plants
- joint research and development
- co-production and specialisation
- joint ventures

Moreover, the definition suggests that industrial co-operation is a business relationship requiring a longer commitment from the partners than for example a sales transaction (see figure 2.1). Emphasis is placed also on access to Western technology through the acquisition of licences or equipment, or joint research and development activities. In order to ensure good "use of those technologies", industrial co-operation agreements
provide not only access to technology, but also expertise in implementing it. Finally, payment "in kind of whole or part of the obligation" suggests that countertrade plays an important role in industrial co-operation contracts which grants flexible payment facilities to countries with restricted hard currency supplies.

According to the 1976 United Nations' definition, therefore, the different forms of industrial co-operation agreements referred to above involve the acquisition and implementation of technology, enabling "a community of interests between parties" to be established. The various types of industrial co-operation identified in 1976 in the United Nations' report are, therefore, described below.

Co-production and Specialisation

Co-production and specialisation involve the reciprocal supply of goods and services as well as research and development in an area of the Western partner's specialisation which sometimes lead to co-operation in marketing. In this type of agreement the East European firm usually sells the jointly-produced goods in other markets within Eastern Europe whilst the Western partner is responsible for sales in Western markets.

Supply of Licences

This form of industrial co-operation involves the supply of licences and/or know-how and often includes payment for the licence with products manufactured under the acquired licence. Moreover, licences are sometimes supplied as part of other types of industrial co-operation agreements, for example in the supply of plants or in joint venture contracts.

Licensing agreements may involve patent licences with imports of certain capital goods, know-how licences, turnkey plants and facilities, technical assistance and trademark
licences. Most licensing agreements, however, include the transfer of know-how or technology, and grant the recipient of the licence the right to use the technology purchased. Furthermore, a licensing agreement often includes a commitment by the seller of the technology to assist in implementing the technology.\(^{(17)}\)

**Joint Ventures**

Joint ventures are the most complex form of industrial co-operation agreements as they often include several and sometimes all types of industrial co-operation agreements outlined above. They also require a greater degree of investment and resourcing by the partners (see chapter 2 for discussion of these issues). Moreover, both parties are bound by a contractual partnership, to which the partners commit some of their assets (equity shareholding). Consequently, joint ventures, particularly those with equity shareholding, unlike other forms of industrial co-operation agreements commit the partners to operating jointly under one roof.

The main features which distinguish joint ventures from other types of industrial co-operations are therefore,
- the joint management of the venture;
- the profit and risk sharing according to an agreed formula;
- their joint marketing, servicing and production activities.\(^{(18)}\)

In a joint venture, therefore, both parties have influence over the decision-making processes basic to the venture’s economic success by managing the joint venture in accordance with the size of their shareholding.\(^{(19)}\) A joint venture is, therefore, probably the most complex form of industrial co-operation agreement because it involves both parties in the running of the business and may include some, or even all of the various types of co-operation outlined above. (See chapter 2 for discussion of particular problems
related to the shared joint venture model.)

Industrial co-operation agreements when compared with simple export transactions require, therefore, greater commitment from the partners as they have to spend time and resources setting up joint production, research and development and examining the marketing opportunities for the joint efforts. Moreover, whilst the Western partners have often to accept some form of countertrade settlement, which means having to wait longer for a return on their investment than they do with ordinary sales agreements, the East European partner becomes more greatly dependent on the Western organisation for technology and its implementation and has also to commit its limited hard currency supplies to the venture. (See chapter 2 for discussion of partner commitments in selling and acquiring technology.)

In assessing the role of industrial co-operation agreements in East-West trade, the subsequent paragraphs examine the value of industrial co-operation agreements in the past and the extent to which different countries have been engaged in this type of activity in the nineteen seventies and eighties.

In 1976 Wilczynski estimated that the value of East-West industrial co-operation agreements was worth US $ 1 billion (including agreements with Yugoslavia), amounting to approximately 2% of total East-West trade at that time. (20) By 1981 a report published on East-West trade by United Nations noted that East-West industrial co-operation agreements amounted to 5 - 7% of the total volume of East-West trade, illustrating a general increase in this type of activity by the latter half of the nineteen seventies. (21) However, some countries, for example, Poland and Hungary and West Germany were even more actively engaged in industrial co-operation agreements which are discussed in subsequent paragraphs. (22) Nevertheless, although the number of agreements rose from 180 to 1000 (an increase of 456%) in the period from the mid-nineteen sixties to 1980,
the contribution made to East-West trade by industrial agreements remained small overall.(23)

Tables 5.3 and 5.4 illustrate the different OECD and CMEA countries' shares in the total number of industrial co-operation contracts by the end of 1984. Of the OECD countries, Germany had concluded the greatest number of industrial co-operation agreements (25.6% of all East-West industrial co-operation agreements), followed by Italy with 11.7%, and the United States with 11.6%. Other Western countries, including the United Kingdom had each signed less than 10% of the total contracts.

The extent to which individual CMEA countries participated in East-West industrial co-operation agreements by 1984 is illustrated in table 5.4. By 1984 Hungary had signed 35.7% of the total contracts, followed by the Soviet Union with 29.8% and Poland with 11.8%. The remaining CMEA countries (Bulgaria, Czechoslovakia, the former GDR and Romania) had each concluded less than 10% of the total industrial co-operation agreements.
<table>
<thead>
<tr>
<th>Country</th>
<th>Type of contract and industry</th>
<th>Grand Total</th>
<th>of which:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Total A - F</td>
<td>A</td>
</tr>
<tr>
<td>Germany</td>
<td></td>
<td>25.6</td>
<td>100</td>
</tr>
<tr>
<td>Italy</td>
<td></td>
<td>11.7</td>
<td>100</td>
</tr>
<tr>
<td>United States</td>
<td></td>
<td>11.6</td>
<td>100</td>
</tr>
<tr>
<td>France</td>
<td></td>
<td>9.7</td>
<td>100</td>
</tr>
<tr>
<td>United Kingdom</td>
<td></td>
<td>7.3</td>
<td>100</td>
</tr>
<tr>
<td>Austria</td>
<td></td>
<td>7.1</td>
<td>100</td>
</tr>
<tr>
<td>Japan</td>
<td></td>
<td>5.7</td>
<td>100</td>
</tr>
<tr>
<td>Sweden</td>
<td></td>
<td>5.2</td>
<td>100</td>
</tr>
<tr>
<td>Switzerland</td>
<td></td>
<td>4.3</td>
<td>100</td>
</tr>
<tr>
<td>Other Western countries</td>
<td></td>
<td>11.8</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Legend: A: Licensing; B: Delivery of plant or equipment; C: Co-production and specialisation; D: Sub-contracting; E: Joint ventures; F: Joint tendering or joint projects.

Note: because of rounding, percentage shares may not add up to exactly 100.

## Table 5.4
Countries' Shares in the Total Number of Industrial Co-operation Contracts, with Breakdown by Industry (percentages)

<table>
<thead>
<tr>
<th>Industry</th>
<th>Total for seven countries</th>
<th>Bulgaria</th>
<th>Czechoslovakia</th>
<th>GDR</th>
<th>Hungary</th>
<th>Poland</th>
<th>Romania</th>
<th>USSR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemicals industry (2)</td>
<td>100</td>
<td>2.2</td>
<td>3.3</td>
<td>2.7</td>
<td>29.0</td>
<td>9.3</td>
<td>7.1</td>
<td>46.4</td>
</tr>
<tr>
<td>Metallurgy (3)</td>
<td>100</td>
<td>3.8</td>
<td>-</td>
<td>3.8</td>
<td>17.0</td>
<td>22.6</td>
<td>7.5</td>
<td>45.3</td>
</tr>
<tr>
<td>Transport equipment (94)</td>
<td>100</td>
<td>3.3</td>
<td>8.7</td>
<td>9.8</td>
<td>27.2</td>
<td>16.3</td>
<td>14.1</td>
<td>20.6</td>
</tr>
<tr>
<td>Machine-tools (5)</td>
<td>100</td>
<td>4.4</td>
<td>24.4</td>
<td>6.7</td>
<td>31.1</td>
<td>4.4</td>
<td>-</td>
<td>28.9</td>
</tr>
<tr>
<td>Mechanical engineering (6)</td>
<td>100</td>
<td>9.4</td>
<td>12.8</td>
<td>5.1</td>
<td>29.1</td>
<td>15.4</td>
<td>-</td>
<td>28.2</td>
</tr>
<tr>
<td>(5) + (6)</td>
<td>100</td>
<td>8.0</td>
<td>16.0</td>
<td>5.6</td>
<td>29.6</td>
<td>12.3</td>
<td>-</td>
<td>28.4</td>
</tr>
<tr>
<td>Electronics (7)</td>
<td>100</td>
<td>8.3</td>
<td>3.3</td>
<td>5.0</td>
<td>36.7</td>
<td>20.0</td>
<td>3.3</td>
<td>23.3</td>
</tr>
<tr>
<td>Electrical equipment (8)</td>
<td>100</td>
<td>4.4</td>
<td>14.7</td>
<td>-</td>
<td>60.3</td>
<td>7.3</td>
<td>1.5</td>
<td>11.8</td>
</tr>
<tr>
<td>(7) + (8)</td>
<td>100</td>
<td>6.2</td>
<td>9.4</td>
<td>2.3</td>
<td>49.4</td>
<td>13.3</td>
<td>2.3</td>
<td>17.2</td>
</tr>
<tr>
<td>Food and agriculture (1)</td>
<td>100</td>
<td>7.3</td>
<td>12.7</td>
<td>1.8</td>
<td>47.3</td>
<td>7.3</td>
<td>1.8</td>
<td>21.8</td>
</tr>
<tr>
<td>Light industry (9)</td>
<td>100</td>
<td>10.2</td>
<td>9.1</td>
<td>3.4</td>
<td>52.3</td>
<td>6.8</td>
<td>2.3</td>
<td>15.9</td>
</tr>
<tr>
<td>(1) + (9)</td>
<td>100</td>
<td>9.1</td>
<td>10.5</td>
<td>2.8</td>
<td>50.3</td>
<td>7.0</td>
<td>2.1</td>
<td>18.2</td>
</tr>
<tr>
<td>Other branches (10)</td>
<td>100</td>
<td>1.9</td>
<td>3.8</td>
<td>1.9</td>
<td>39.6</td>
<td>9.4</td>
<td>3.8</td>
<td>39.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td><strong>5.4</strong></td>
<td><strong>8.5</strong></td>
<td><strong>4.0</strong></td>
<td><strong>35.7</strong></td>
<td><strong>11.8</strong></td>
<td><strong>4.7</strong></td>
<td><strong>29.8</strong></td>
</tr>
</tbody>
</table>

Legend:
1. Food and agriculture industry (including beverages);
2. Chemicals industry including pharmaceuticals;
3. Metallurgy (including mining);
4. Transport equipment: includes aircraft, cars, lorries, tractors (even for agriculture), rolling stock, earth moving equipment, diesel engines (even stationary);
5. Mechanical engineering (all other non-electrical engineering);
6. Mechanical engineering (all other non-electrical engineering);
7. Electronics (computers and other office equipment, radio and television sets, communication equipment);
8. Electrical equipment (all other equipment including electric locomotives and household appliances);
9. Light industry (textiles, footwear, rubber, glass, furniture, consumer goods);
10. Other, such as construction, hotel management, tourism, etc.

Note: Because of rounding, percentage shares may not add up to exactly 100.

Thus, 65.5% of all industrial co-operation contracts with OECD partners had been concluded by Hungary and the former Soviet Union alone. An earlier study, however, of 218 inter-firm co-operation agreements carried out at Carleton University in 1975 showed that Hungary and Poland were the CMEA countries most actively engaged in inter-firm East-West industrial co-operation activities during the nineteen seventies.(24) However, Poland's participation in East-West industrial co-operation activities suffered a set-back because of its debt crisis in the early nineteen eighties which deterred many Western companies from investing or renewing industrial co-operation agreements with Polish firms which had run out at the end of the nineteen seventies.(25)

THE RISE OF JOINT VENTURES

Although Romania and Hungary had issued legislation in 1972 permitting foreign direct investment in the form of joint ventures, the other CMEA countries, and notably the Soviet Union, did not introduce joint venture provisions until the latter half of the nineteen eighties because of the ideological difficulty of reconciling the activities of mixed companies in a centrally planned economy. By the mid-nineteen eighties, however, having gained considerable experience of working with capitalist companies through industrial co-operation agreements and joint ventures in the West (see chapter 6), the other CMEA countries had become aware of the advantages which equity joint ventures based at home could offer.(26) These experiences together with the announcement by the former USSR and other former CMEA countries to undertake reforms (see chapters 3 and 4) led to a wave of joint venture laws being published in the latter half of the nineteen eighties. The effect of reform announcements and the importance given to joint ventures in the policy pronouncements of the former socialist countries of Eastern Europe seemed to kindle fresh interest from both sides in East-West trade.(27) This also led to inter-governmental support through the signing of economic, scientific and technical co-operation agreements at ministerial level which helped to promote co-operation at
According to research carried out by the United Nations (ECE 1988), many joint ventures which had been set up during 1986/87 had emerged from existing industrial co-operation agreements concluded in the nineteen seventies. The motives given by the partners for extending the industrial co-operation agreement to a joint venture were as follows:

- to expand or diversify production activities (see case study Schwarzkopf, chapter 9);
- to broaden the partners' marketing activities and include new market outlets (see case study Siemens, chapter 9);
- to support joint manufacturing with joint research and development activities (see case study Walters International, chapter 9);
- to provide a formal structure and contract for the transfer and implementation of technology;
- to overcome problems of payments (see case study APV, chapter 9).

The above cited reasons for extending the industrial-co-operation agreements underlined the partners' wish to broaden their activities as well as their willingness to take on more responsibility for their joint activities.

Finally, the many legislative changes to joint ventures in the former socialist countries of Eastern Europe (see chapter 7) occurred in response to Western pressure, and demonstrate the importance given to joint venture activities by the former CMEA countries. Moreover, the dynamic growth in the number of joint ventures which has taken place from the end of 1988 onwards (which is discussed in detail in chapter 8) indicates the CMEA countries' successful promotion of joint ventures, particularly at the end of the decade.
CONCLUSION

The evidence presented in this chapter demonstrates that East-West trade expanded most rapidly during the nineteen seventies as a result of the CMEA countries’ decision to promote foreign trade during a more relaxed period in East-West relations. In the early nineteen eighties, however, East-West trade suffered a set-back because of a world-wide recession, growing debt problems experienced by some of the CMEA countries, a worsening of East-West relations and the fall in oil prices which affected the USSR’s trade in particular with the West. Consequently, in their efforts to resume East-West trade activities in the mid-nineteen eighties, the former CMEA countries began to further promote East-West industrial co-operation, and in particular joint ventures at home, with a view to reactivating their stagnating trade with the West, with a minimum hard currency expenditure.

These joint venture activities of the former countries of Eastern Europe on their own territories in the latter half of the nineteen eighties is discussed in greater detail in part C of the thesis. The next chapter focusses on the experiences of socialist firms engaged in East-West inter-firm co-operation agreements in the West during the nineteen seventies; a period of considerable activity in East-West trade. These inter-firm activities enabled socialist countries to gain positive experience of working with capitalist firms in developed market economies, before introducing this type of industrial co-operation at home.
Chapter 5: Notes

1. The most recently published statistics, available at the time of writing, which included the former Soviet Union, were obtained from,
- United Nations Handbook of International Trade and Development Statistics, (Part One, 1.1, 1.2), Conference on Trade and Development (UNCTAD), Geneva, 1990. According to this source, the export and import figures for 1989 were as follows:

Value of Exports and Imports (in millions of US dollars, fob)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Imports by the SCEE</th>
<th>Total Imports by the USSR</th>
<th>Total Exports from the SCEE</th>
<th>Total Exports from the USSR</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>212,200</td>
<td>114,549</td>
<td>207,000</td>
<td>109,227</td>
</tr>
</tbody>
</table>


Proportion of Western export trade to socialist countries of Eastern Europe were noted as being 2% in 1952; 3.8% in 1970; 3.8% in 1979. See also chapter eight of thesis for discussion of East-West trade policies in the post-war era.


<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>45</td>
<td>47</td>
<td>48</td>
<td>49</td>
<td>52</td>
<td>55</td>
<td>59</td>
<td>89</td>
<td>100</td>
<td>109</td>
<td>123</td>
</tr>
</tbody>
</table>
4. Hill (1983), p.20, stated that trade deficits of socialist countries accounted for 16% of total East-West trade turnover in 1975, and 9% in 1978, showing the efforts made by the socialist countries to reduce their deficits with the West.

- Wienert, Slater (1986), p204, stated that trade deficits of Comecon countries, although 40% larger between 1976 - 80 than the period 1970 - 75, were in fact smaller in real terms.

See also discussion about Intra-CMEA trade in chapter four of the thesis (table 4.2).


- Hanson P., Trade and Technology in Soviet Western Relations, Macmillan, London, 1981, p.128. According to Hanson Soviet equipment investment from Western imports rose from around 2% in the mid-nineteen fifties to approximately 5.5% in the mid - to late nineteen seventies.


20. Polish managers interviewed by Stanley Paliwoda stressed the importance for Western companies engaged in East-West trade to enter into industrial co-operation agreements. The willingness to participate in industrial co-operation agreements was seen by the East European partners as a firm commitment to the East European market. For a more detailed discussion of the importance of industrial co-operation agreements in East-West trade, see,


24. Estimates given by,

- Hill pp. 117 - 118,


29. Business Eastern Europe, "Hungary Offers protection for Western Investments", 20 October, 1986, pp. 332 - 333. This article discusses inter-governmental support given to Western exporters through the signing of Investment Protection Agreements between the importing and exporting countries.

- Export Direction, "Getting ready for the Moscow spring", January/February 1987, pp.7 - 9, explains how government sponsored trade delegations can help promote trade contacts at high levels.

INTRODUCTION

As already noted in chapter 5, the CMEA countries became increasingly interested in developing East-West trade during the nineteen seventies, including inter-firm activities in developed economies. Socialist countries' direct investments in joint ventures or wholly-owned subsidiaries in the West form, therefore, an important stage in the study and evolution of East-West joint ventures, as these investments have played a part in the former CMEA countries' foreign policy and provide, therefore, a comprehensive overview of socialist companies' activities outside the CMEA region. Moreover, in order to provide a more international perspective and comparison of socialist joint venture activities, this chapter examines the joint venture activities of Western firms in the developed economies in the nineteen seventies and eighties, thereby highlighting general trends in this type of inter-firm co-operation during the specified period.

Whilst literature in the nineteen eighties on the subject of Comecon subsidiaries or mixed companies based in the West analysed the extent to which these companies could be defined as multinationals(1), this chapter begins by discussing briefly the size of shareholding preferred by the various socialist countries, the growth of CMEA joint ventures in the West, their activities and capitalization as well as their role in East-West trade.
SIZE OF EASTERN SHAREHOLDING

Introduction

Until 1990 no comprehensive data had been available giving details about the ownership pattern of Soviet and East European direct investments abroad. Hence, literature in the nineteen seventies and eighties on socialist direct investments in the developed economies made no distinction between wholly owned subsidiaries and mixed companies. Consequently, the author does not make any distinction between socialist joint ventures and wholly-owned subsidiaries in the West either, and refers to Eastern direct investments in the West as joint ventures.

Ownership structure of joint ventures

According to data published in 1990, 51.9% of the listed East European and Soviet companies abroad are either wholly-owned or have a majority shareholding by the East European and Soviet partner. (See table 6.1.) The former Soviet Union and GDR showed a particular preference for wholly-owned subsidiaries. Romania and Hungary have established a substantial number of shared joint ventures overseas (55.2% and 23.9% respectively). Minority shareholding, however, outside the former CMEA area has been the least common (only 10.7% of socialist companies abroad have a minority shareholding).
Table 6.1  Ownership Structure of Listed Companies (in %)

<table>
<thead>
<tr>
<th></th>
<th>Bu</th>
<th>Cz</th>
<th>GDR</th>
<th>Hu</th>
<th>Po</th>
<th>Ro</th>
<th>SU</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Eastern Equity</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>100%</td>
<td>28.3</td>
<td>32.0</td>
<td>38.5</td>
<td>33.6</td>
<td>21.1</td>
<td>13.0</td>
<td>32.8</td>
<td>29.4</td>
</tr>
<tr>
<td>Majority</td>
<td>15.1</td>
<td>12.0</td>
<td>17.9</td>
<td>17.2</td>
<td>30.1</td>
<td>10.3</td>
<td>34.4</td>
<td>22.5</td>
</tr>
<tr>
<td>50-50</td>
<td>1.9</td>
<td>8.0</td>
<td>5.1</td>
<td>23.9</td>
<td>7.3</td>
<td>55.2</td>
<td>15.6</td>
<td>14.8</td>
</tr>
<tr>
<td>Minority</td>
<td>9.4</td>
<td>5.4</td>
<td>15.4</td>
<td>12.7</td>
<td>17.1</td>
<td>6.9</td>
<td>5.5</td>
<td>10.7</td>
</tr>
<tr>
<td><strong>Western Equity</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>unknown*</td>
<td>32.1</td>
<td>16.0</td>
<td>17.9</td>
<td>11.9</td>
<td>11.4</td>
<td>6.9</td>
<td>7.0</td>
<td>13.3</td>
</tr>
<tr>
<td>Partner</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>unknown**</td>
<td>13.2</td>
<td>26.7</td>
<td>5.1</td>
<td>0.75</td>
<td>13.0</td>
<td>6.9</td>
<td>4.7</td>
<td>9.3</td>
</tr>
<tr>
<td><strong>All</strong></td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

* Cases where joint equity with Western partner established, but exact split undetermined.
** Cases where not established if ownership is shared with a Western partner.

Source: McMillan (1990), p.22

THE DEVELOPMENT AND GROWTH OF JOINT VENTURES IN THE WEST

Introduction

Although a few joint ventures existed before the Second World War, the socialist countries of Eastern Europe began foreign direct investments in the West mainly after 1965. This coincided with the former Soviet Union's strategy in the late nineteen sixties which aimed to expand the sale of manufactured goods to OECD countries. This strategy was especially welcomed by the smaller and more trade dependant countries in Eastern Europe such as Poland and Hungary. In the subsequent paragraphs, the growth of the number of socialist joint ventures in the West is examined.
Growth of joint ventures in the nineteen seventies and eighties

Figure 6.1 demonstrates that the former CMEA countries established the majority of joint ventures in the West in the nineteen seventies, although CMEA investments in the West declined considerably during the early to mid-nineteen eighties as a result of mounting debts and hard currency shortages experienced by the socialist countries which has been referred to in chapter 5 of the thesis. By the end of the nineteen eighties, however, the former CMEA countries showed renewed activity in joint ventures in the West, albeit on a smaller scale than during the nineteen seventies.

According to the data collected by McMillan (4) 500 companies had been set up outside the CMEA region by 1983. Their main function was to sell goods which had been imported from the home country. Approximately 200 of these companies were jointly owned with local Western partners. (4) As already mentioned above, between 1983 and 1986 only eight new socialist companies were set up in OECD countries (4 by Hungary, 2 by the Soviet Union, 1 by Bulgaria, 1 by Poland, 1 by Romania). Between 1987 and mid-1990, however, CMEA foreign direct investments rose from 808 to 900 companies, and of the 900, 625 are based in the West and 274 in the South. At the end of the nineteen eighties joint ventures investments outside the former CMEA region grew by 11.3%. (5) (See figure 6.1) Thus the flow of direct foreign investments by the former socialist countries of Eastern Europe seem to match the East-West trade activities in that same period. East-West trade increased considerably in the nineteen seventies, but stagnated in the nineteen eighties, although some signs of renewed trade activity occurred towards the end of the decade. (See table 5.2)
Figure 6.1  CMEA Direct Investment in the West: Periods of Growth*

* Based on date of initial Comecon investment in a branch, subsidiary, or other affiliated company abroad, percentage shares for various periods of cumulative total as of the end of 1983. Sample of 354 cases where date of initial investment established.

** Figures estimated by author on statistics obtained from sources below and exclude joint ventures outside the OECD region.

JOINT VENTURE ACTIVITIES

Introduction

This section examines the type of activities the socialist joint ventures have been engaged in outside the former CMEA area, their contribution in value terms to exports from Eastern Europe and the former Soviet Union to the West as well as the type of production joint ventures in the West.

Activities

A large proportion of socialist joint ventures in the West (63%) have been engaged in some form of trading or distribution activity, including product modification. (See table 6.2.) The second major activity has been in the financial services sector (32% of total companies), whilst only 4% and 1.2% of the socialist companies abroad have been engaged in manufacturing and resource extraction respectively. The high proportion of trading and distribution joint ventures, which is discussed in more detail in the subsequent paragraphs, suggests that these companies abroad enabled the former CMEA countries to export goods produced at home, outside the CMEA area. In 1988, the United Nations(6) estimated that socialist joint ventures distributed between 15-30% of their total exports to the West and in some sectors, such as machinery and equipment, oil and oil products, as much as 30-80%.

154
Table 6.2 Distribution of Listed Companies by Activity*

<table>
<thead>
<tr>
<th>Activity</th>
<th>Bu</th>
<th>Cz</th>
<th>GDR</th>
<th>Hu</th>
<th>Po</th>
<th>Ro</th>
<th>SU</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Representation</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>7</td>
<td>24</td>
<td>6</td>
<td>13</td>
<td>65</td>
</tr>
<tr>
<td>Trading (T)</td>
<td>29</td>
<td>51</td>
<td>21</td>
<td>76</td>
<td>46</td>
<td>20</td>
<td>38</td>
<td>301</td>
</tr>
<tr>
<td>T/distribution</td>
<td>3</td>
<td>5</td>
<td>1</td>
<td>8</td>
<td>9</td>
<td>1</td>
<td>11</td>
<td>38</td>
</tr>
<tr>
<td>T/servicing</td>
<td>7</td>
<td>17</td>
<td>8</td>
<td>0</td>
<td>6</td>
<td>1</td>
<td>12</td>
<td>51</td>
</tr>
<tr>
<td>T/product modification</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>11</td>
<td>13</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
<td>78</td>
<td>35</td>
<td>91</td>
<td>106</td>
<td>28</td>
<td>85</td>
<td>468</td>
</tr>
<tr>
<td>B. Financial Services</td>
<td>45</td>
<td>3</td>
<td>12</td>
<td>29</td>
<td>8</td>
<td>14</td>
<td>73</td>
<td></td>
</tr>
<tr>
<td>Transport services</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>6</td>
<td>19</td>
<td>1</td>
<td>34</td>
<td>74</td>
</tr>
<tr>
<td>Engineering/construction services</td>
<td>4</td>
<td>1</td>
<td>2</td>
<td>7</td>
<td>4</td>
<td>0</td>
<td>2</td>
<td>20</td>
</tr>
<tr>
<td>Technical services</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>2</td>
<td>0</td>
<td>9</td>
<td>13</td>
</tr>
<tr>
<td>Business services</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>11</td>
<td>4</td>
<td>1</td>
<td>7</td>
<td>24</td>
</tr>
<tr>
<td>Consumer services</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>11</td>
<td>7</td>
<td>0</td>
<td>7</td>
<td>31</td>
</tr>
<tr>
<td>Total</td>
<td>18</td>
<td>11</td>
<td>11</td>
<td>49</td>
<td>65</td>
<td>10</td>
<td>73</td>
<td>237</td>
</tr>
<tr>
<td>C. Fisheries</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>Resource Extraction</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>5</td>
<td>9</td>
</tr>
<tr>
<td>D. Manufacturing</td>
<td>5</td>
<td>3</td>
<td>0</td>
<td>16</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>29</td>
</tr>
<tr>
<td>Total</td>
<td>5</td>
<td>3</td>
<td>0</td>
<td>16</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>29</td>
</tr>
</tbody>
</table>

* For companies which engage in multiple activities, each activity is counted separately.

Source: McMillan (1990), p.18
Export activities of socialist joint ventures

The extent to which socialist joint ventures have been engaged in exporting goods abroad is illustrated by tables 6.3 and 6.4. The figures in table 6.3 show the relationship between the turnover of commercial companies and the annual value of exports, whilst the data in table 6.4 presents the goods distributed by Comecon marketing companies abroad according to their export product category. The relationship between the value of socialist joint ventures’ total turnover and their exports for the period between 1986 and 1988 was considerably high, amounting to 62% overall (see table 6.3), although for some countries, notably Hungary it was considerably higher (109%) and for some, namely Romania, it was much lower (29%). The categories of products distributed up to the end of 1983 were mainly machinery and equipment (35%), followed by other consumer goods (21%). Technology, know-how and licences, by contrast accounted for only 0.8% of their total distribution (see table 6.4).

Table 6.3

<table>
<thead>
<tr>
<th>Country</th>
<th>Estimated Total Annual Value of Turnover of Commercial Companies</th>
<th>Average Annual Value of Exports to OECD Countries 1986 - 88 (OECD statistics)</th>
<th>Percentage of Turnover to Export</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>301.9</td>
<td>750</td>
<td>40%</td>
</tr>
<tr>
<td>Czechoslovakia</td>
<td>2,508.3</td>
<td>3,531</td>
<td>71%</td>
</tr>
<tr>
<td>GDR</td>
<td>409.5</td>
<td>2,673</td>
<td>15%</td>
</tr>
<tr>
<td>Hungary</td>
<td>3,972.8</td>
<td>3,654</td>
<td>109%</td>
</tr>
<tr>
<td>Poland</td>
<td>2,987.0</td>
<td>5,006</td>
<td>60%</td>
</tr>
<tr>
<td>Romania</td>
<td>1,217.2</td>
<td>4,191</td>
<td>29%</td>
</tr>
<tr>
<td>Soviet Union</td>
<td>13,728.4</td>
<td>20,975</td>
<td>65%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>25,125.1</td>
<td>40,780</td>
<td>62%</td>
</tr>
</tbody>
</table>

Source: McMillan (1990), p.21
Table 6.4  Distribution by export product category of marketing companies abroad, end-1983 (percentages)*

<table>
<thead>
<tr>
<th>Category</th>
<th>Bu</th>
<th>Cz</th>
<th>GDR</th>
<th>Hu</th>
<th>Po</th>
<th>Ro</th>
<th>SU</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machinery and equipment</td>
<td>48.7</td>
<td>55.2</td>
<td>65.4</td>
<td>18.9</td>
<td>26.1</td>
<td>18.4</td>
<td>41.8</td>
<td>35.4</td>
</tr>
<tr>
<td>Raw and semi-processed materials</td>
<td>2.6</td>
<td>1.7</td>
<td>3.8</td>
<td>3.8</td>
<td>6.8</td>
<td>0</td>
<td>13.4</td>
<td>5.3</td>
</tr>
<tr>
<td>Petroleum and products</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>3.8</td>
<td>0</td>
<td>10.5</td>
<td>8.9</td>
<td>3.3</td>
</tr>
<tr>
<td>Pharmaceutical</td>
<td>5.1</td>
<td>3.5</td>
<td>3.8</td>
<td>12.7</td>
<td>4.5</td>
<td>21.1</td>
<td>4.5</td>
<td>7.6</td>
</tr>
<tr>
<td>Textiles</td>
<td>2.6</td>
<td>0</td>
<td>0</td>
<td>10.1</td>
<td>3.4</td>
<td>0</td>
<td>0</td>
<td>3.0</td>
</tr>
<tr>
<td>Agricultural goods and food products</td>
<td>15.4</td>
<td>1.7</td>
<td>0</td>
<td>16.5</td>
<td>11.4</td>
<td>10.5</td>
<td>4.5</td>
<td>9.4</td>
</tr>
<tr>
<td>Other consumer goods</td>
<td>7.7</td>
<td>27.6</td>
<td>19.2</td>
<td>30.4</td>
<td>20.5</td>
<td>7.9</td>
<td>19.4</td>
<td>21.0</td>
</tr>
<tr>
<td>Technology, know-how, licences</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1.3</td>
<td>0</td>
<td>2.6</td>
<td>1.5</td>
<td>0.8</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>17.9</td>
<td>10.3</td>
<td>7.7</td>
<td>2.5</td>
<td>27.3</td>
<td>29.0</td>
<td>6.0</td>
<td>14.2</td>
</tr>
<tr>
<td>TOTALS</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

* Distribution by principal product marketed of 395 companies, in both West and South.


Despite the low number of Comecon companies involved in the transfer of technology, there have, nevertheless, been successful cases of technology transfers from East to West as cited by Hill (7) in which he referred to Tungsram Manufacturers (Ireland). In this specific example, the joint venture was set up in Cork to manufacture electric light bulbs for the UK, Commonwealth, French and Belgian markets. Tungsram was responsible for providing the equipment and production technology and training the Irish labour force as well as maintaining a technical management role. The technology which was completely Hungarian was transferred to Ireland through the Tungsram company. Unfortunately, the
company had to cease operations in February 1984 owing to overcapacity and supply
difficulties brought about mainly by a downturn in market demand and high running costs.
Tungsram, nevertheless, remains an example of a large Hungarian manufacturer of
electrical products, which had been successful in setting up a number of overseas manufacturing companies in the West using Hungarian technology.(8)

Another example of a successful transfer of technology from East to West in the nineteen sixties, quoted by Hill(9), involved a licensing agreement between a Bulgarian enterprise and a British steel company. In this instance, the British steel company bought a Bulgarian licence for coating electrodes, used in electric furnaces for the production of steel. The set of machines used in the plant were built according to the Bulgarian licensor's specifications, and technical assistance was provided by the Bulgarians. This co-operation proved to be so successful that the company was able to coat some 85% of its total graphite electrodes used annually in the UK and 90% of those electrodes consumed in the Scandinavian market. Owing to its success in the European market, the British company went on to form a joint venture company in Canada to carry out trials for the US market.

Nevertheless, although McMillan noted that 23 of the 51 joint ventures, which had been set up in the nineteen eighties involved the transfer of technology from Eastern bloc countries to the country abroad, his data revealed that only four of those joint ventures had been established in the West. The majority had, therefore, been established in the South, suggesting that socialist countries were able to transfer technology more successfully to developing countries than to the West.(10)
PRODUCTION JOINT VENTURES IN THE WEST

By the end of 1983, 5.8% of the total number of Comecon-owned companies were engaged in production activities in Western markets. (See table 6.5). Moreover, a comparison between the data in table 6.2 and table 6.5, suggests that there has not been any expansion in manufacturing activities since 1983, which has resulted in an overall decline in the ratio between manufacturing and other activities. By 1983, therefore, only 3.9% of Comecon companies abroad were engaged in manufacturing activities, compared with 5.8% previously.

An examination of the former CMEA countries' participation in manufacturing activities abroad (see table 6.2) shows Hungary to have established the greatest number of manufacturing joint ventures abroad. 10.1% of Hungarian company activities have been in manufacturing compared with the average of 3.9% for all other CMEA countries. In 1983 the former USSR was the second most active country engaged in manufacturing. However, more recently Bulgaria occupied second place. (cf. table 6.2 and 6.5). By contrast the former GDR was not engaged in any production ventures abroad.
<table>
<thead>
<tr>
<th>COUNTRY AND COMPANY NAME</th>
<th>PRODUCT</th>
</tr>
</thead>
<tbody>
<tr>
<td>BULGARIA</td>
<td></td>
</tr>
<tr>
<td>Cetelef (France)</td>
<td>truck tires, foundry equipment</td>
</tr>
<tr>
<td>Contech C. Conradty-Technika Coating (FRG)</td>
<td>protective graphite coating</td>
</tr>
<tr>
<td>Rheinische Maschinenfabrik &amp; Eisengiesserei A. Roper (FRG)</td>
<td>foundry equipment, machine tools</td>
</tr>
<tr>
<td>Aelpirin Teoranta (Ireland)**</td>
<td>leather materials</td>
</tr>
<tr>
<td>CZECHOSLOVAKIA</td>
<td></td>
</tr>
<tr>
<td>Comitrade (Canada) #</td>
<td>mining equipment</td>
</tr>
<tr>
<td>Semex (FRG)#</td>
<td>specialised truck and other transport equipment</td>
</tr>
<tr>
<td>POLAND</td>
<td></td>
</tr>
<tr>
<td>Tasmanian Alkaloids (Australia)**</td>
<td>pharmaceuticals</td>
</tr>
<tr>
<td>Mecobel (Belgium)</td>
<td>automatic measuring devices</td>
</tr>
<tr>
<td>Unidal (Canada)**</td>
<td></td>
</tr>
<tr>
<td>SOVIET UNION</td>
<td></td>
</tr>
<tr>
<td>Scaldia-Volga (Belgium)</td>
<td>automobiles</td>
</tr>
<tr>
<td>Fextina (Finland)</td>
<td>refrigerators</td>
</tr>
<tr>
<td>Teboil (Finland)</td>
<td>lubricants</td>
</tr>
<tr>
<td>Actif-Auto (France)</td>
<td>machinery &amp; equipment</td>
</tr>
<tr>
<td>Rusbois (France)</td>
<td>wood products</td>
</tr>
<tr>
<td>Slava (France)</td>
<td>watches, clocks</td>
</tr>
<tr>
<td>HUNGARY</td>
<td></td>
</tr>
<tr>
<td>Aurora-Honig (Austria)</td>
<td>foodstuffs</td>
</tr>
<tr>
<td>Company</td>
<td>Products</td>
</tr>
<tr>
<td>---------------------------------</td>
<td>---------------------------------</td>
</tr>
<tr>
<td>Metex (Austria)</td>
<td>steel products</td>
</tr>
<tr>
<td>Tungsram (Austria)</td>
<td>lighting materials</td>
</tr>
<tr>
<td>3-F (Denmark)**</td>
<td>radio and television sets</td>
</tr>
<tr>
<td>Optifaro (FRG)</td>
<td>pharmaceuticals</td>
</tr>
<tr>
<td>Romed (FRG)</td>
<td>medical equipment</td>
</tr>
<tr>
<td>Tuttlinger (FRG)</td>
<td>medical equipment</td>
</tr>
<tr>
<td>Hellenic Alloysed Steels (Greece)**</td>
<td>metallurgical products</td>
</tr>
<tr>
<td>Tungsram (Ireland)</td>
<td>lighting materials</td>
</tr>
<tr>
<td>Byggin-Ungern (Sweden)</td>
<td>construction equipment</td>
</tr>
<tr>
<td>Action Tungsram (US)</td>
<td>lighting materials</td>
</tr>
<tr>
<td>Medicor USA (US)</td>
<td>medical equipment</td>
</tr>
</tbody>
</table>

*Cumulative list, as of the end of 1983; includes assembly operations but not modification of imported product.

** No longer operative, or Comecon equity liquidated.

# companies engaged secondarily in manufacturing.

Source: McMillan (1987a)
Although the former Comecon countries have established only a few production joint ventures in the West, they have been more actively engaged in production activities in the South because of the availability of raw materials. Other incentives for investing in the South included lower production costs and cheap local labour. With a shortage of labour sometimes occurring in the former CMEA countries in the nineteen seventies, developing countries were often seen as providing an alternative source of low-cost labour which was able to produce goods for the various home markets within Comecon.

Nevertheless, although Comecon joint ventures established in the West, have in the main been concerned with exporting and importing products for the home markets, McMillan observed a tendency, albeit small, for these joint ventures to extend their activities into production. He attributed this to the sometimes inflexible and unreliable supply of finished goods from home for sale in the foreign market, the often inferior quality of products which had not been sufficiently adapted to the foreign market’s requirements and the superiority of on-site production compared with supplying the market at arms-length.

These factors appear to have led Comecon companies in the West to seek ways of improving product performance in the foreign market. By extending the company’s activities, therefore, into manufacturing, assembling or finishing the Comecon goods abroad, the joint ventures have had a dependable supply of goods of better quality, which has enabled them to meet the product standards of the foreign country. Consequently, these companies in the West have been able to compete more effectively in the local market compared with conventional export procedures.
Expansion into production activities, nevertheless, required the availability of sufficient hard currency from the company's profits for the purchase of assembly production sites, parts, licences or know-how. As the profit margins of Comecon countries in the West have been maintained at low levels, the joint ventures have had to either ensure sufficient income from its profits, or additional hard currency supply from home to finance the expansion. The economic situation in the nineteen eighties, however, meant that for many socialist joint ventures neither solutions have been very feasible as profit margins have been kept very low generally, and the countries of Eastern Europe have been suffering from shortages of hard currency. Consequently, socialist direct investments abroad stagnated in the mid-nineteen eighties with only small direct investment activities occurring at the end of the decade. (See figure 6.1).

JOINT VENTURE CAPITALIZATION

An examination of the amount of start up capital invested in companies abroad by the socialist countries (see table 6.6) illustrates that financial services companies received the largest amounts of the total startup capital (71% or US $ 791,692 million). This suggests that companies outside the banking and financial services sector have been started with small amounts of capital, amounting on average to US $ 500,000 (i.e. ranging from US $ 10,000 to US $ 10 million). Moreover, owing to its greater hard currency reserves, the former Soviet Union was more strongly represented in the financial services sector abroad than any of the other East European countries.

163
Table 6.6  Estimated Value of Authorised Capital Invested in Listed Companies by Principal Activity*

(in thousands of current dollars)

<table>
<thead>
<tr>
<th>ACTIVITY</th>
<th>BULGARIA</th>
<th>CSSR</th>
<th>GDR</th>
<th>HUNGARY</th>
<th>POLAND</th>
<th>ROMANIA</th>
<th>SU</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial</td>
<td>16,437</td>
<td>62,318</td>
<td>15,108</td>
<td>15,781</td>
<td>24,129</td>
<td>5,902</td>
<td>78,026</td>
<td>217,701</td>
</tr>
<tr>
<td>Financial</td>
<td>11,384</td>
<td>12,067</td>
<td>21,855</td>
<td>37,777</td>
<td>64,494</td>
<td>47,961</td>
<td>596,154</td>
<td>791,692</td>
</tr>
<tr>
<td>Transport</td>
<td>1,099</td>
<td>69</td>
<td>2,175</td>
<td>1,285</td>
<td>2,285</td>
<td>134</td>
<td>29,634</td>
<td>36,681</td>
</tr>
<tr>
<td>Other Services</td>
<td>107</td>
<td>53</td>
<td>107</td>
<td>4,064</td>
<td>283</td>
<td>-</td>
<td>4,224</td>
<td>8,838</td>
</tr>
<tr>
<td>Extraction</td>
<td>557</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2,545</td>
<td>3,102</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>9,570</td>
<td>3,585</td>
<td>-</td>
<td>12,094</td>
<td>390</td>
<td>341</td>
<td>6,925</td>
<td>32,905</td>
</tr>
<tr>
<td>N.E.C.**</td>
<td>815</td>
<td>6,259</td>
<td>251</td>
<td>1,923</td>
<td>7,427</td>
<td>558</td>
<td>461</td>
<td>17,694</td>
</tr>
<tr>
<td>TOTAL</td>
<td>39,969</td>
<td>84,351</td>
<td>39,496</td>
<td>72,924</td>
<td>99,008</td>
<td>54,896</td>
<td>717,969</td>
<td>1,108,613</td>
</tr>
</tbody>
</table>

*Excluding branches in the West established by Soviet and East European enterprises and other organisations.

** Not elsewhere classified because multi-activity companies.

The aim of the financial joint ventures have been mainly to support Comecon’s trade in
the West, although these companies also developed particular operations within a broader
range of banking services. The Moscow Narodny Bank ("The Bank for East-West Trade")
for example specialised in attracting Western funds for the financing of East-West trade.
By contrast the Eurobank acted as an intermediary between banks, ensuring that hard-
currency funds from other East European banks were placed in Western banking
institutions in order to accrue interest. The activities of these Comecon companies have
also extended to include participation in international financing operations which are not
always directly related to East-West trade. However, expansion into these new banking
activities has meant that Soviet banks abroad have also been subjected to greater risks
(e.g., loan write-off).(16)

In further support of their export promotion, the former Comecon countries also invested
in land, sea and air transport operations, engaging directly in chartering or in operating
their own equipment to transport cargoes between former socialist countries and cross-
trade transactions. Table 6.6 shows that the former USSR was the main investor in this
sector, followed by Poland and Bulgaria. By investing in the transportation sector former
Comecon countries were able to reduce hard currency payments to foreign agencies in
commissions and fees.(17)

To sum up, therefore, the majority of former Comecon mixed or wholly-owned companies
in the West have been engaged in the service sector. The marketing and distribution
companies tended to reflect the export structure of the individual companies, whereas the
banking and transport companies had as one of their main functions, the task of
supporting the import and export oriented activities of the former CMEA countries abroad.

JOINT VENTURE GROWTH BY WESTERN COUNTRIES

Introduction

In order to put the growth and development of Comecon mixed or wholly-owned companies in the West into a more international context, the growth and development of Western joint ventures in the European Community is examined in the following paragraphs. Taking the information compiled by the United Nation’s document (18) on East-West joint ventures, it is possible to assess the development of joint ventures in the European Community during the crucial period of the nineteen seventies, when Comecon joint ventures abroad were increasing at their fastest rate.

Tables 6.7 and 6.8 show the growth of joint ventures in terms of total and average number of companies participating in a joint venture as well as which firms have been established by firms at home (national), by firms within the European Community region (Community) and by firms outside the European Community region (International).

Although during the 1973 - 80 period, an annual increase was recorded, the most significant growth period was clearly between 1973 - 76, when not only the total number of joint ventures increased annually, but also the average number of firms participating in joint ventures. After 1976, however, the number of joint ventures declined.
The increase in joint ventures during the early part of this period has been attributed to the growing competition within the enlarged market of the Community (19), which caused more firms to seek mergers with compatible partners in an effort to maintain their market position and rationalize their marketing and distribution costs. As for the slowing-down in the number of joint ventures between 1979 and 1980 this has been attributed to the recession experienced by Western countries after the oil crisis in 1979 which had the effect of reducing company activities.

Table 6.8 indicates that as firms began to recover from the recession in the early nineteen eighties, the number of joint ventures undertaken by Western firms grew correspondingly. A survey carried out by the United Nations(19) in 1983/84 showed joint venture partners to have been active in the industrial sector (numbers increased from 30 to 51). Commercial joint ventures, by contrast, were outnumbered three times. As the majority of the joint ventures established during this period were in technology-intensive sectors, led by electrical and electronic engineering (27%), followed by chemicals (16%), metal industries (14%) and mechanical engineering (13%), this section will confine its observations about joint ventures by Western firms to those in the industrial sector.
Table 6.7  Joint Ventures in the European Economic Community; National and International, 1973 - 1980 (wide sample)

<table>
<thead>
<tr>
<th>Year</th>
<th>National number of firms</th>
<th>Average</th>
<th>International number of firms</th>
<th>Average</th>
<th>Total number of firms</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973</td>
<td>119</td>
<td>4.0</td>
<td>429</td>
<td>2.3</td>
<td>548</td>
<td>2.7</td>
</tr>
<tr>
<td>1974</td>
<td>151</td>
<td>3.8</td>
<td>401</td>
<td>2.8</td>
<td>552</td>
<td>2.9</td>
</tr>
<tr>
<td>1975</td>
<td>237</td>
<td>4.9</td>
<td>313</td>
<td>3.4</td>
<td>550</td>
<td>4.0</td>
</tr>
<tr>
<td>1976</td>
<td>213</td>
<td>3.7</td>
<td>362</td>
<td>3.0</td>
<td>575</td>
<td>3.3</td>
</tr>
<tr>
<td>1977</td>
<td>194</td>
<td>3.8</td>
<td>288</td>
<td>3.0</td>
<td>482</td>
<td>3.3</td>
</tr>
<tr>
<td>1978</td>
<td>162</td>
<td>3.3</td>
<td>278</td>
<td>2.5</td>
<td>440</td>
<td>2.8</td>
</tr>
<tr>
<td>1979</td>
<td>216</td>
<td>3.7</td>
<td>223</td>
<td>2.8</td>
<td>439</td>
<td>3.3</td>
</tr>
<tr>
<td>1980</td>
<td>191</td>
<td>3.4</td>
<td>175</td>
<td>2.7</td>
<td>366</td>
<td>3.0</td>
</tr>
</tbody>
</table>

Table 6.8

Joint Ventures in the European Economic Community; National, Community and International.

June 1982 - May 1986 (Sample includes only 1000 largest EC firms and is limited to industry)

<table>
<thead>
<tr>
<th>Period</th>
<th>National</th>
<th>Community</th>
<th>International</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982/1983</td>
<td>23</td>
<td>8</td>
<td>15</td>
<td>46</td>
</tr>
<tr>
<td>1983/1984</td>
<td>32</td>
<td>11</td>
<td>26</td>
<td>69</td>
</tr>
<tr>
<td>1984/85</td>
<td>40</td>
<td>15</td>
<td>27</td>
<td>82</td>
</tr>
<tr>
<td>1985/86</td>
<td>34</td>
<td>20</td>
<td>27</td>
<td>81</td>
</tr>
</tbody>
</table>

Table 6.9  
Main motives for EC industrial joint ventures 1984/85 and 1985/86

<table>
<thead>
<tr>
<th>ACTIVITY</th>
<th>1984/85 (Number)</th>
<th>1985/86 (Number)</th>
<th>1984/85 (% of total)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production</td>
<td>8</td>
<td>12</td>
<td>11.9</td>
</tr>
<tr>
<td>Production and marketing</td>
<td>5</td>
<td></td>
<td>7.5</td>
</tr>
<tr>
<td>Research and development</td>
<td>10</td>
<td>10</td>
<td>14.9</td>
</tr>
<tr>
<td>Research and development and production</td>
<td>3</td>
<td>6</td>
<td>4.5</td>
</tr>
<tr>
<td>Rationalisation</td>
<td>14</td>
<td>10</td>
<td>20.8</td>
</tr>
<tr>
<td>Specialisation</td>
<td>7</td>
<td></td>
<td>10.4</td>
</tr>
<tr>
<td>Expansion</td>
<td>4</td>
<td>5</td>
<td>6.0</td>
</tr>
<tr>
<td>Other</td>
<td>4</td>
<td>5</td>
<td>6.0</td>
</tr>
<tr>
<td>Not specified</td>
<td>12</td>
<td>19</td>
<td>17.9</td>
</tr>
<tr>
<td>TOTAL</td>
<td>67</td>
<td>69</td>
<td>100.0</td>
</tr>
</tbody>
</table>

The United Nations' report on East-West joint ventures (20) suggests that a large number of joint ventures in the European Community in the nineteen eighties were formed with American and Japanese partners, whose aim has been to ensure their market presence within the Community's internal market. European companies for their part, were intent on keeping pace with the latest American and Japanese technological developments by forming joint ventures with them.

The main motives given by firms for entering into industrial joint ventures in the mid-nineteen eighties are summarised in table 6.9. The figures show rationalisation to have been the principal motive, (20.8% of the joint venture partners gave this as their motive), followed by research and development (14.9%).

COMPARISON BETWEEN EUROPEAN COMMUNITY AND SOCIALIST JOINT VENTURE ACTIVITIES

Introduction

This section compares the data presented in the previous sections relating to growth and development of CMEA and Western joint ventures and their activities in developed economies.
Growth and Development

Whilst a substantial increase in the number of joint ventures (or wholly-owned subsidiaries) was recorded in the nineteen seventies for both socialist and Western joint ventures outside the CMEA region, the economic problems in the nineteen eighties resulted in different patterns of growth for socialist and Western joint ventures. Owing to hard currency shortages among the CMEA countries, foreign direct investments were consequently curbed, whilst European Community companies having to face greater competition within the Single Market sought mergers and joint ventures as a solution to maintain or improve their market position. Consequently, Comecon joint venture activities declined, whilst European Community joint venture activities increased.

Activities

The majority of Comecon joint ventures acted as import and export agencies, often extending their activities into marketing and distribution, and occasionally into assembly and partial production. By contrast, Western joint ventures were active in the industrial sector, establishing joint ventures in an effort to rationalise their activities and acquire the latest technological developments in an ever increasing competitive and specialised market. Consequently, the motivation for establishing joint ventures by the former Comecon and Western countries within the developed economies were very different, and explains, therefore the reason for the greater degree of joint venture activity by Western firms in the European Community in the nineteen eighties.
EXPORT MARKETING ADVANTAGES OF JOINT VENTURES IN THE WEST

Having established many joint ventures in the developed economies primarily as export and import agencies, the former CMEA countries were able to overcome traditional trade barriers such as quota restrictions, anti-dumping regulations and non-inclusion of the MFN (Most Favoured Nation) tariff agreement. Moreover, joint ventures enabled former CMEA enterprises to acquire on the spot market research and sound knowledge of market conditions, consumer behaviour and product standards which meant that they were better equipped to estimate the sales potential of their products in these markets and target their markets. (Compare discussion in chapter 2 of joint ventures as a tool in market penetration.) By establishing their presence in the local market, therefore, former socialist companies were not only able to avoid certain quotas and tariffs, but they were also able, with carefully adapted marketing and advertising strategies, to overcome Western consumer prejudices towards products from Eastern bloc countries. Other advantages gained, by having a local presence, included being able to acquire information about the most effective means of distribution and suppliers in the foreign market as well as:

- access to partners’ assets (capital, warehouse facilities, office premises, etc.);
- local staff, familiar with the language and market condition;
- business contacts through partners;
- adoption of the partner’s trademark to assist in the marketing of East European products;
- ability to extend into production or assembly activities. (21)
Despite these export marketing advantages, socialist countries’ company activities outside the CMEA region as illustrated by figure 6.1, nevertheless, declined in the early to mid-nineteen eighties as a result of hard currency shortages.

CONCLUSION

The data in this chapter demonstrates that socialist companies (wholly-owned or mixed) in the West have on the whole been successful in exporting a significant proportion of the former CMEA countries’ total exports outside the region. Few former socialist companies, however, were engaged in the transfer of technology from East to West, except for a few companies, two of which have been mentioned in this chapter. Companies of the former socialist countries engaged in joint venture activities in the West have, therefore, been export-oriented on the whole, whilst Western joint ventures in the European Community have been primarily concerned with increasing their efficiency through rationalisation and combined research and development.

The experience gained by the former socialist countries from their joint venture activities in the West, however, enabled them to promote joint venture investments on their own territory and thereby to overcome hard currency shortages. The information in this chapter has served, therefore, as a useful introduction to the subsequent section of the thesis which examines the development and growth of East-West joint ventures in the East, and begins by discussing the legal provisions for joint ventures in the former CMEA area.
Chapter 6: Notes


3. Only a few companies set up in the nineteen twenties under Lenin's NEP remained or were re-established. However, less than 15% of the total number of investments in the West as recorded by 1983 were established before 1965. See,
4. McMillan (1987 a), p. 58, states that variations on this figure exist, which suggests that the actual number may be higher. For example, a study carried out by Knirsch on the Federal Republic of Germany recorded 157 joint venture companies compared to the 83 registered by McMillan. See,

- McMillan (1987 a), p.34.


5. According to McMillan there were a total of 827 socialist companies on the 1/1/1990 which increased to a total of 900 socialist companies by mid-July 1990. See,

- McMillan (1990), p.5 and,


14. Ibid., p.86.

For a more detailed study of Comecon company profitability in the UK and Ireland see -


N.B. Profit indicators on socialist companies in Britain in the early nineteen eighties also showed low profits, as shown below:

<table>
<thead>
<tr>
<th>Country of ownership</th>
<th>Company</th>
<th>Profit/turnover</th>
<th>Profit/assets</th>
<th>Profit/net assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>HUNGARY</td>
<td>London Chemicals</td>
<td>0.1</td>
<td>0.6</td>
<td>23.2</td>
</tr>
<tr>
<td>POLAND</td>
<td>Toolmex</td>
<td>7.1</td>
<td>11.7</td>
<td>50</td>
</tr>
<tr>
<td>POLAND</td>
<td>Polmach</td>
<td>0.7</td>
<td>3.9</td>
<td>15.2</td>
</tr>
<tr>
<td>POLAND</td>
<td>Ridpath Pek</td>
<td>0.9</td>
<td>363.8</td>
<td>865.7</td>
</tr>
<tr>
<td>POLAND*</td>
<td>Skorimpex</td>
<td>1.0</td>
<td>3.4</td>
<td>169.4</td>
</tr>
<tr>
<td>USSR</td>
<td>NAFTA(GB)</td>
<td>0.1</td>
<td>1.2</td>
<td>105.0</td>
</tr>
<tr>
<td>USSR</td>
<td>Anglo-Soviet</td>
<td>1.2</td>
<td>2.0</td>
<td>22.3</td>
</tr>
<tr>
<td>USSR</td>
<td>Technical &amp; Optical Equipment</td>
<td>6.9</td>
<td>0.05</td>
<td>0.5</td>
</tr>
</tbody>
</table>

* No clear figures available for net assets from Financial Accounts returned by Skorimpex for 1985.


- McInnes N., "Ivan the Capitalist" in Barron's, 13 December 1976.


- see chapter 2 of thesis, sections on 'Motivation' and 'Partner Selection'.
CHAPTER 7

PROVISION FOR JOINT VENTURES IN COMECON

INTRODUCTION

As a consequence of the growing importance given to industrial co-operation agreements, and particularly joint ventures in East-West trade, this chapter compares the legislative provisions (see tables 7.1 - 7.7) for foreign direct investments in the CMEA area up until 1990. Each Comecon country's legislative developments are examined individually, beginning with those countries with the greatest number of joint venture investments (former Soviet Union, Hungary, Poland), followed by those with smaller joint venture investments (Czechoslovakia, Bulgaria, Romania). The former GDR's joint venture provisions, however, are discussed at the end of the chapter because of its special status before November 1989 and after unification in October 1990. The aim of this chapter, therefore, is to analyse the development of the various joint venture legislations in the CMEA area and to assess their role in attracting foreign direct investments.

THE FORMER USSR

Introduction

Although at the end of 1990 the former Soviet Union had the largest joint venture investments with foreign partners in terms of foreign capital invested at the end of 1990 (see table 8.3) compared with other former socialist countries, it was the last CMEA country, except for the GDR, to permit joint ventures on its territory in January 1987.(1) Nevertheless, as already mentioned in chapter 5 (see section on the 'Rise of Joint Ventures') joint ventures were not an entirely new phenomena in Soviet history.
Concessions with the participation of foreign capital had operated in the nineteen twenties (see chapter 3 for details), and although the economic and political conditions under which concessions had functioned had been quite different from those for joint ventures in the nineteen eighties, their objectives were similar in many ways.

As discussed in chapter 3, the Soviet authorities had promoted concessions in the nineteen twenties in order to improve domestic production and increase output for the export market, thereby injecting new life into the economy, which had suffered severe disruptions as a consequence of the First World War and the 1917 Revolution and the subsequent Civil War. Similarly, the economic reforms introduced by the former Soviet government in the latter half of the nineteen eighties, including provisions for joint ventures, were aimed at improving the economic output of the former USSR and increasing its export potential by enabling Soviet enterprises to gain access to Western know-how and technology. (3) In both instances, joint ventures were seen as a tool for improving domestic production techniques and volumes of output. Despite 50 years having elapsed between the end of the concession period and the introduction of joint venture legislation, the former Soviet Union was, nevertheless, able to draw on its historical and theoretical knowledge of concessions as well as the recent joint venture experiences of other East European countries, notably Hungary, in an effort to promote joint ventures in the former USSR (see chapter 5, 'the rise of joint ventures', p.141 - also note 28 in chapter 5). The first Soviet joint venture provision was, therefore, introduced in January 1987, and followed by several amendments in September 1987, 1988, 1989 and 1991. The subsequent sub-sections discuss the initial joint venture legislation in 1987 and the later amendments.
Joint Venture legislation, January 1987

The first joint venture decree permitted up to 49% foreign shareholding which enabled the Soviet authorities to maintain control over the joint venture by retaining Soviet majority shareholding. Moreover, the 1987 decree contained other measures which also aimed at maintaining control over the joint venture. The joint venture had, therefore, to employ mainly Soviet personnel, the Chairman had to be a Soviet citizen, the joint venture could hire and fire staff only in accordance with Soviet law, the joint venture had to adhere to accounting procedures of the former USSR and finally the joint venture could only sell or buy in the Soviet market in roubles and through a foreign trade organisation.(4) Western companies responded to these restrictions with caution and misgivings, and only a few joint ventures (23 in total) had been registered by mid-1987.

In an analysis of the joint venture provision, the legal partnership Bartletts de Reya(5) identified objections and uncertainties for Western investors, namely:

(i) The application procedure for a joint venture was a time-consuming bureaucratic process (see table 7.1);

(ii) Joint venture contributions were valued in roubles "according to contract, taking into account world market prices." (clause 12). The term "contract" prices and how world market prices were to be applied were vague, making it difficult for investors to evaluate accurately their investment;

(iii) Soviet dominance in the boardroom (owing to the minimum Soviet shareholding of 51% and the fact that the Chairman was a Soviet citizen) made joint venture investment an unattractive proposition for some Western companies concerned with maintaining the brandname of their products (see case studies Schwarzkopf and Adidas in chapter 9);

(iv) The joint venture legislation did not make it clear, whether interest on loan contributions by foreign partners had to be paid out of earnings from foreign currency exports before allocation of profits to the joint venture partners;
(v) Access to the USSR market was not guaranteed since the joint venture was to operate outside the Soviet state planning system, making material supply to the joint venture difficult;
(vi) Clarification was needed regarding the power of the joint venture management to hire and fire its employees;
(vii) No system of quality control was mentioned in the decree;
(viii) Western partners wanted to be able to control the accounting methods and standards for the joint venture whereas the accounting rules were in accordance with Soviet regulations. Procedures for verification by Western accountants, and requirements for treatment in group accounts of Western or associated companies of profit and losses of joint ventures needed to be clarified;
(ix) It was unclear whether tax reductions or exemptions were to be granted during the feasibility study or later whilst negotiations were taking place; or whether this was to be completely at the discretion of the Ministry of Finance;
(x) The joint venture legislation did not state clearly which organisation was to be appointed for supervising the liquidation of the joint venture.

The above mentioned concerns to Western investors and the low number of joint venture registrations were, however, acknowledged by the Soviet authorities, causing them to re-examine their legal provisions for joint ventures.
Joint Venture Amendments since 1987

Having noted the slow response to the January 1987 decree the then Deputy Chairman of the State Foreign Economic Commission of the USSR Council of Ministers, Ivan Ivanov declared in TASS, in January 1988, the USSR’s intention to give the property of foreign investors the same status as Soviet property. Moreover the authorities provided guarantees of non-confiscation or expropriation of the property. This statement in TASS together with the subsequent legislative amendments as summarised by Geron (see table 7.2) resulted in the present provisions for joint ventures (see table 7.3 for summary), which have attempted to provide greater assurances and incentives to Western investors.

The amendments since 1987 as summarised in the tables 7.2 and 7.3 have, therefore, granted:

- the foreign investors the possibility of owning majority shareholding as well as holding the position of Chairman;
- better tax incentives, including longer tax holidays and lower taxation in certain sectors (e.g., manufacturing of consumer goods, medical equipment, see table 7.3 for others);
- the right, subject to approval by the joint venture board of directors, to hire and fire joint venture personnel;
- the right to decide on how the joint venture is to be audited;
- the opportunity of repatriating hard currency profits, providing they were earned in hard currency in the first instance.
Table 7.2 Changes to Soviet Joint Venture Legislation in the Period 1987 - 1989

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>a. with capitalist countries USSR Council of Ministers</td>
<td>a. All-Union Ministry and agencies. Republican Council of Ministers.</td>
<td>a. state enterprises, associations and organisations - with the consent of superior management body; co-operatives with permit by Republic Council of Ministers.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. with socialist countries on the basis of intergovernment agreements</td>
<td></td>
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</thead>
<tbody>
<tr>
<td>a. with capitalist countries - Soviet majority (51%)</td>
<td></td>
<td></td>
<td></td>
<td>foreign shareholding up to 99%</td>
</tr>
<tr>
<td>b. with socialist countries - not limited.</td>
<td></td>
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</tbody>
</table>

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</thead>
<tbody>
<tr>
<td>with permit from USSR ministry or agency, or Republican Council of Ministers (priority to Soviet partner)</td>
<td></td>
<td></td>
<td>by partner's agreement to any third party.</td>
<td></td>
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</tr>
</thead>
<tbody>
<tr>
<td>Chairman of the board or general director must be Soviet</td>
<td></td>
<td></td>
<td>Chairman or general director may be foreign.</td>
<td></td>
</tr>
</tbody>
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<tbody>
<tr>
<td>Majority Soviet</td>
<td></td>
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<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>According to Soviet law.</td>
<td></td>
<td></td>
<td>According to Joint venture management</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
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</thead>
<tbody>
<tr>
<td>According to Soviet standards</td>
<td></td>
<td></td>
<td>Not limited</td>
<td></td>
</tr>
</tbody>
</table>

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<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a. 30% domestic and 20% on repatriation (≈44%).</td>
<td>a. 10% and 20% (≈28%) in Far East</td>
<td></td>
<td>b. 3 year tax exemption in Far East</td>
<td></td>
</tr>
<tr>
<td>b. 2 year tax exemption from start of operation.</td>
<td>b. 2 year tax exemption from first profits</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

185
<table>
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<tr>
<th></th>
<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>INVESTMENT VALUATION</td>
<td>in roubles</td>
<td>in any currency</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DOMESTIC CREDITS IN HARD CURRENCY FOR EXPORTING INDUSTRIES</td>
<td>up to 4 years</td>
<td>up to 8 years</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DOMESTIC SALES AND PURCHASES</td>
<td>a. in roubles</td>
<td>a. any currency</td>
<td>b. through Soviet Foreign Trade Organisations</td>
<td>b. not limited to Foreign Trade Organisations</td>
</tr>
<tr>
<td>AUDIT</td>
<td>According to Soviet practice and by Soviet agency</td>
<td>Partners free to decide on how the joint venture is audited.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EXPORT OF GOODS OTHER THAN JOINT VENTURE'S OWN PRODUCT AND IMPORT OF GOODS OTHER THAN FOR JOINT VENTURES OWN NEEDS</td>
<td></td>
<td>Allowed</td>
<td>Special permit required.</td>
<td></td>
</tr>
</tbody>
</table>

According to Geron the September 1987 and 1988 amendments (see table 7.2) introduced more favourable joint venture terms by allowing greater operational flexibility. The latter amendment in 1989, however, re-introduced some restrictive regulations which limited joint ventures to exporting their own products only and importing only those goods required for the joint venture operations. Consequently joint ventures were prohibited from purchasing Soviet goods with rouble earnings for sale abroad in hard currency which could have been used by foreign partners to transfer their profit share.(7) (See chapter 10 where a number of Anglo-Soviet joint venture companies interviewed mentioned this as a drawback.)

Nevertheless, the positive response by Western businessmen to the earlier joint venture amendments resulted in a dramatic increase in the number of joint ventures (cf. table 8.2 where joint venture registrations increased from 23 in January 1988 to 700 in June 1988 and figures below). This correlation between the change in legislation and the number of joint ventures registered is demonstrated by the following figures:

<table>
<thead>
<tr>
<th>Joint Venture Amendments</th>
<th>No. of joint ventures</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 1987</td>
<td>23</td>
</tr>
<tr>
<td>end of 1988</td>
<td>191</td>
</tr>
<tr>
<td>first quarter of 1989</td>
<td>400+</td>
</tr>
<tr>
<td>September 1989</td>
<td>900</td>
</tr>
<tr>
<td>January 1990</td>
<td>1,247 (8)</td>
</tr>
</tbody>
</table>

Although these figures showed an apparently positive response by Western investors, only few joint ventures had actually begun operations (only 180 of the 900 registered joint ventures had begun operations by October 1989), and the startup capital for many joint ventures was quite low (cf. table 8.3).(9) The indication was, therefore, that Western investors were still not willing to risk large sums of capital in the Soviet market and that
joint ventures were slow to become operational because of long bureaucratic procedures.

Table 7.3  Summary of Soviet Joint Venture Provisions, 1990

<table>
<thead>
<tr>
<th>JVs since</th>
<th>1987</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal form</td>
<td>Limited liability and joint stock companies equity ratio. Majority shareholding by foreign partner possible, including up to 99% foreign ownership.</td>
</tr>
<tr>
<td>Scope of Activities and Foreign Trade Rights</td>
<td>Service and production, preference given to: export-oriented jvs, and jvs manufacturing consumer goods, medical equipment and medicaments, science-intensive products of macroeconomic importance, and jvs located in Far Eastern Economic Area (Art. 32, decree by Council of Ministers, 2.12.88). Foreign Trade Rights granted to all export-import companies.</td>
</tr>
<tr>
<td>Management</td>
<td>The chairman of the board of directors has no longer to be a Soviet citizen. JV activity decided by the board on the basis of unanimity decisions. Hire and fire of staff decided by the joint venture.</td>
</tr>
<tr>
<td>Capital Contributions</td>
<td>Limited liability: min. 500,000 roubles. Joint stock: min. 5000,000 roubles. Shares having nominal value of min. 1,000 roubles, governed by the charter. Foreign partners’ min. capital contribution to the JV is 100,000 roubles.</td>
</tr>
<tr>
<td>Financing Operations</td>
<td>Account may be held in foreign currency and in roubles at the State Bank's foreign trade bank. Credits obtainable from these banks or from foreign banks.</td>
</tr>
<tr>
<td>Accounting Principles</td>
<td>Soviet regulations apply. Reserve fund built up from transfer of profits. Depreciation deductions as per Soviet state enterprises (i.e., from profits). From 1991: provision for losses to be carried forward for 2 years. Changes in accounting procedures foreseen.</td>
</tr>
<tr>
<td>Taxation</td>
<td>Tax incentives: tax holidays for a &quot;definite period&quot; (Art. 32, decree 2.12.88) to jvs manufacturing consumer goods, medical equipment and medicaments, science-intensive products of macroeconomic importance. Also jvs in the Far Eastern Region obtain tax holiday in first 3 years. Goods imported for JV production &quot;may be subject to a min. tax or may be duty-free&quot; (Art. 31, decree 2.12.88). From 1991: issue of a list of approved deductible expenditure items; 20% withholding tax to be applied to both parties’ dividends.</td>
</tr>
<tr>
<td>Transfer of Profits and Repatriation of Capital</td>
<td>Transfer of profits guaranteed, provided they have been earned in hard currency. Art. 38, (decree 2.12.88) planed for partial convertibility of rouble. From 1991: establishment of an order of claims in the case of the liquidation of the JV.</td>
</tr>
</tbody>
</table>

Sources:


Department of Trade and Industry (May 1990).

Baker and McKenzie (April 1990), pp. 2 - 12.
Further amendments introduced in 1991 included more tax deductible expenditure items, the establishment of an order of claims in the case of liquidation of the joint venture, provision for losses to be carried forward for two years, and changes in taxation and accounting as well as the opportunity for Western companies to buy shares in Soviet joint stock companies. These legislative changes intended to grant greater investment protection to the foreign investor and encourage Western companies to invest greater amounts of capital into the Soviet economy.

HUNGARY

Introduction

Hungary was the second former CMEA country (after Romania) to issue legislation in 1972, permitting the establishment of joint ventures on its territory. Western response, however, to this joint venture legislation was very slow. The first joint venture was set up in 1973, followed by the second in 1974. The apparent lack of interest on the part of foreign investors may be attributed to the fact that decree no.28/1972 restricted joint venture operations to tourism and the services sector. Moreover, the foreign partner was required to contribute new technologies to help boost the joint venture’s export activities and was limited to a maximum 49% shareholding. Consequently, in an effort to attract greater foreign investments, the Hungarian authorities introduced various amendments in 1977, 1982, 1985 and lastly in 1988 which broadened the scope of joint venture activities to include production and banking and provided greater investment protection, tax incentives and easier procedures for registering the joint venture. (See table 7.4).

Although there have been several amendments since 1972, the subsequent paragraphs examine the most significant ones which occurred in 1985 and 1988.
Joint venture amendments since 1985

Having already extended the scope of joint venture activities in 1977 to include production, the 1985 amendments introduced tax holidays and incentives to foreign investors (particularly in the field of hotels and production) and guaranteed profit transfers through the Bank of Hungary in order to promote joint ventures to foreign investors. (13) In 1988 legislation was introduced which granted extensions to tax holidays, more liberal rules regarding profit transfers (see table 7.4) and the possibility for foreign parties to set up companies with 100% shareholding as well as the opportunity of buying shares in Hungarian owned enterprises. These latest measures were once again introduced to encourage rapid growth of foreign investments in Hungary. (14)

The latter amendments in the nineteen eighties as well as the flexible management structure and auditing rules resulted in the number of joint ventures increasing considerably. Consequently, from 1986 to the beginning of 1988 joint ventures increased from 50 to 102. The 1988 amendments which permitted 100% foreign shareholding produced an even better response. By mid-June 1989 the number of joint ventures rose to 420, by October 1989 to 600 and by the end of 1990 the United Nations ECE database had recorded over 5000 joint venture registrations. (See table 8.3) (15)
### Table 7.4 Summary of Hungarian Joint Venture Provisions: 1990

<table>
<thead>
<tr>
<th>JVs since</th>
<th>1972</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal form</td>
<td>Limited liability company, company limited by equity ratio shares, unlimited liability partnership, joint enterprise, deposit association. 1982 jvs in custom-free zones. 1988 majority foreign ownership. 1988 100% foreign ownership.</td>
</tr>
<tr>
<td>Scope of Activities and Foreign Trade Rights</td>
<td>1972 service sector only. 1977 onwards all branches of the economy. 1985 special tax incentives to attract investment in production and hotels. Foreign trade licence granted by Ministry of Finance (application within 30 days).</td>
</tr>
<tr>
<td>Management</td>
<td>Founders of all 4 forms of jv companies are assured similar management rights. No minimum Hungarian representation, no special post for Hungarian national.</td>
</tr>
<tr>
<td>Capital Contributions</td>
<td>Cash or in kind. Must have 30% of equity capital in cash.</td>
</tr>
<tr>
<td>Financing Operations</td>
<td>Credit regulations same as for Hungarian companies. National Bank of Hungary approves conditions of credits from foreign shareholder. Jv in custom-free zones can draw credits everywhere.</td>
</tr>
<tr>
<td>Accounting Principles</td>
<td>Agreed by parties and regulated in the law. Jv specific depreciation rates. Hungarian law requires jv to set up risk fund (15% of annual profit). Social insurance contributions same as Hungarian firms. Employers' Sharing Fund: 15% of annual profits.</td>
</tr>
<tr>
<td>Taxation</td>
<td>1985: 40% tax on profits. Reduced taxation for jvs in production and hotels 20% first 5 years, 30% in 6th year). Preferential field (e.g, electronics, pharmaceuticals, first 5 years tax free, in 6th year 20%). 1988: Hungarian government can grant even longer tax holidays. Double taxation agreement in force since 1976.</td>
</tr>
<tr>
<td>Transfer of profits and repatriation of capital</td>
<td>Any hard currency earnings of the foreign partner can be repatriated through the National Bank of Hungary. Upon jv ceasing operation, foreign partner's invested share repatriated through National bank of Hungary.</td>
</tr>
</tbody>
</table>

**Sources:**


Joint Venture Provisions in the nineteen nineties

Further amendments announced for the nineteen nineties by the Chairman of the Drafting Committee of the Hungarian Foreign Investment Law, Dr. Ferenc Madl, intend to provide a more liberal foreign exchange system. Companies should, therefore, be able to keep and use their foreign exchange earnings until such a time as convertibility is reached, and joint ventures should be granted automatic foreign trade authorisation with respect to convertible currency markets. The aim, therefore, is to allow greater flexibility in foreign trade and to allow joint ventures, or wholly-owned foreign subsidiaries, the right eventually to conduct foreign trade without state intervention through foreign trade organisations.

In analysing the development of Hungary’s joint venture legislation, the following observations can be made. Hungary was the first CMEA country in 1985 to introduce tax incentives and the possibility, albeit still limited, to transfer profits abroad as well as provide investment guarantees to foreign investors. The introduction of these measures resulted in the number of joint ventures increasing substantially. Finally, as with so many of its reform efforts, Hungary’s successful joint venture amendments appeared to provide the example for other CMEA countries to follow (e.g. see table 7.3 - the Soviet Union introduced greater tax benefits and majority shareholding).

POLAND

Introduction

Although foreign capital investments have been permitted in Poland since 1976 in the form of Polonian companies, legislation for joint ventures with foreign partners of non-Polish origin was not introduced until 1986. Moreover, the 1986 provisions resembled
the Hungarian model rather than the legislation for Polonian companies. Amendments to the Polish joint venture provisions followed in 1988 and 1989 in an effort to attract more foreign investments. This resulted in the number of joint venture companies (excluding Polonian companies) increasing at the following rate:

<table>
<thead>
<tr>
<th>Date</th>
<th>Number of joint ventures</th>
</tr>
</thead>
<tbody>
<tr>
<td>beginning of 1988</td>
<td>13</td>
</tr>
<tr>
<td>June 1989</td>
<td>190</td>
</tr>
<tr>
<td>October 1989</td>
<td>400</td>
</tr>
<tr>
<td>June 1990</td>
<td>1,231(17)</td>
</tr>
<tr>
<td>January 1991</td>
<td>2,480 (see table 8.2)</td>
</tr>
</tbody>
</table>

As the Polish authorities had gained some experience of foreign direct investments with Polonian companies, the legislation for Polonian companies is examined in the subsequent paragraphs before discussing its joint venture laws.

**Polonian Companies**

On the 6th February 1976 the Polish authorities passed legislation permitting Polish emigrés to make direct investments in the Polish economy (both corporate and individual). The aim of this legislation, besides improving cultural relations between Poles living abroad and the homeland, was to attract foreign capital.(18) Polonian activities were limited in the first instance to handicrafts, hotels, restaurants and other services (cf. Hungarian decree 28 in 1972) and required at least half of the foreign capital contribution to be in cash.(19) Amendments to the Polonian law followed in 1979 and 1982. The former permitted joint ventures to be set up between small Polish state or co-operative enterprises and Polish emigrés.(20) In practice, however, no such joint ventures were established until the 1986 legislation had been passed. As part of the 1982 economic
reforms, a law was introduced on 6th July 1982, extending foreign company activities into the following areas: production, exporting of manufactured goods and importing of goods for use on the domestic market. The 1982 legislation, nevertheless, continued to restrict foreign capital participation to small businesses, and required a minimum capital investment of 4 million zlotys to be paid by Polish citizens participating in the venture. Initially 50% tax was imposed on net profits and foreign partners were only permitted to transfer 50% of export earnings after imports had been paid for (providing the total transferred did not exceed 50% of the annual income after tax). Shortly afterwards, however, new tax regulations were introduced in July 1983 affecting Polonian companies only. Under the new tax legislation Polonian firms were required to pay 85% on their revenue and permitted to transfer only 25% of their export earnings. In 1985 the authorities also required the foreign investor to supply a minimum of $50,000 startup capital.

According to the then head of Interpolcom (Polish Chamber of Commerce), whose views were recorded by the author during a research visit to Warsaw in June 1987, high tax penalties and severe restrictions on profit transfers were imposed on the foreign partners of Polonians because they had made very low capital investments and were making large profits at the expense of the Polish economy. By imposing these restrictions and penalties, the authorities were ensuring that some re-investment in the Polish economy was taking place. The viewpoint of Polonian companies was, however, that they were being severely penalised by the Polish authorities for their successes.(21)

As a result of their experiences with Polonian companies, the Polish authorities preferred to issue a separate joint venture legislation in 1986 which was not intended as an amendment to the provision for Polonian companies. By separating joint venture legislation from the Polonian regulations, the authorities wanted to attract foreign investors other than Polish emigrés and establish new objectives which were to improve hard
currency earnings and increase exports through foreign know-how and technology, and capital investment.(22)

<table>
<thead>
<tr>
<th>JVs since</th>
<th>1986</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amendments</td>
<td>1988 and 1989</td>
</tr>
<tr>
<td>Legal form</td>
<td>Based on 1934 Commercial Code: limited and equity ratio stock companies. 100% foreign ownership permitted. Subsidiaries not covered by JV legislation. Majority shareholding.</td>
</tr>
<tr>
<td>Scope of Activities and Foreign Trade Rights</td>
<td>All service and production, except any activity which would &quot;endanger the state's economic interest&quot;, harm the natural environment or endanger the state's security or defence. No foreign exchange permit required.</td>
</tr>
<tr>
<td>Management</td>
<td>JV partners decide on organisation. JV must have supervisory council: 1 member elected by workers of JV.</td>
</tr>
<tr>
<td>Capital Contributions</td>
<td>In cash, including Polish currency obtained from the sale of foreign currency to a foreign exchange bank, or in kind, provided the property is transferred from abroad or purchased in zlotys obtained from the sale of foreign currency to a foreign exchange bank, or in Polish currency obtained from other sources, eg. state obligations from foreign credits.</td>
</tr>
<tr>
<td>Financing Operations</td>
<td>Hard currency may be bought at any foreign exchange bank (no permit required). JV can purchase in hard currencies surplus of export proceeds over import outlays obtained in previous fiscal year. Purchases of foreign currency up to 15% of remaining amount of profit for the previous fiscal year. Accounts held in foreign exchange banks in zloty and hard currency. Any accounts in foreign banks require foreign exchange permits.</td>
</tr>
<tr>
<td>Accounting principles</td>
<td>In the process of change.</td>
</tr>
<tr>
<td>Taxation</td>
<td>Three year tax holiday in certain sectors (determined by Ministry of Finance) can be extended by a further 3 years. Corporate income tax 40% tax deductible are investment outlays, donations for &quot;socially useful purposes&quot;, export activities.</td>
</tr>
<tr>
<td>Transfer of Profits and Repatriation of Capital</td>
<td>Repatriation of profits is possible. Zloty profits are placed with Polish banks and converted into hard currency at time of repatriation.</td>
</tr>
</tbody>
</table>

Sources:


Baker and McKenzie (April 1990), pp. 2 - 12.

Interpolcom (23 December 1988).
The 1986 joint venture provision

The 1986 joint venture provision, like those published by other CMEA countries, limited foreign shareholding to 49% and gave no clear assurances for profit transfers. Consequently, only 6 joint ventures had been registered by 1987. Owing to this poor response, Poland followed the example of Hungary and introduced amendments in 1988 and 1989 which permitted 100% foreign ownership, granted greater tax incentives and tax holidays, and improved profit transfer guarantees (see table 7.5). The effect of these amendments was similar to that experienced in Hungary and the Soviet Union. The number of joint ventures registered consequently rose from 6 joint ventures in 1987 to 2480 at the end of 1990 (see table 8.2).

CZECHOSLOVAKIA

Introduction

Czechoslovakia first published joint venture rules in 1986 which were based on existing Czechoslovak company laws.(23) Joint venture activities were limited to industrial production only. Other restrictions included specific guidelines on financial and auditing operations, and management control by the Czechoslovak partner through majority shareholding. Moreover, no clear guidelines were published regarding the transfer of profits and application procedures were very long and bureaucratic requiring approval to be granted by the State Planning Committee, the Ministry of Foreign Trade and The State Bank.(24)

By 1988 a new law was presented to the Czechoslovak parliament which came into effect in January 1989, granting tax concessions to investors as well as extending the scope of joint venture activities and permitting more flexible rules on the financial management of
the joint venture (see table 7.6). Despite these amendments, however, inflexible and strict rules continued to be applied to the management of the joint venture, requiring the foreign partner to participate in the management of production, sales and other activities. Finally, although some tax concessions were made, a 50% tax on gross profits was maintained which was still considered to be high by foreign investors. Whilst, therefore, the more favourable tax regulations, Czechoslovakia's stable economy and small debt repayments should have attracted foreign investors, the remaining inflexibilities and reservations about adequate provisions for the transfer of profits abroad and the lack of investment protection guarantees within the joint venture legislation caused the actual number of joint venture investments to remain small (see table 8.2: 7 in January 1988; 35 by June 1989).

**Joint Ventures in the nineteen nineties**

Following the political changes in 1989 in Czechoslovakia, joint venture amendments were introduced in 1990 which granted a reduction of the 50% profit tax, a two year tax holiday for certain joint venture activities (see 'taxation' in table 7.6) and majority and even 100% foreign shareholding. Moreover, proposals for hard currency auctions, enabling foreign investors to transfer joint venture profits abroad, albeit to a limited extent, were published.(25)

These latter amendments as well as the improved political and economic climate in Czechoslovakia have had a positive effect on Western investments. According to table 8.2 joint venture numbers rose from 120 in mid-June 1990 to 1600 by the end of that same year.
<table>
<thead>
<tr>
<th>JVs since 1986</th>
<th>1988 and 1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amendments</td>
<td></td>
</tr>
<tr>
<td>Legal form</td>
<td>Company limited by shares (to be replaced by equity ratio new law on joint stock companies). Equity associations. Czechoslovak physical persons to be allowed to set up jvs. Majority shareholding possible, including 100% ownership.</td>
</tr>
<tr>
<td>Scope of Activities and Foreign Trade Rights</td>
<td>Under 1988 foreign trade licence required. Activities in most sectors, except defence and areas relating to national security.</td>
</tr>
<tr>
<td>Management</td>
<td>Jv contract to specify participation of partners in the management of production, sales and other activities.</td>
</tr>
<tr>
<td>Capital Contributions</td>
<td>Cash or in kind.</td>
</tr>
<tr>
<td>Financing Operations</td>
<td>1988: jvs not subject to Foreign Currency Plan. Accounts in foreign currency may be held at Czechoslovak or foreign bank. Credits can be obtained at Czechoslovak bank, or at foreign bank, provided Czechoslovak State Bank has granted permission.</td>
</tr>
<tr>
<td>Accounting Principles</td>
<td>Financial management to be decided by jv in accord with the principles of Czechoslovak law.</td>
</tr>
<tr>
<td>Taxation</td>
<td>20% tax on earnings up to CKS 200,000 and 40% thereafter. Wages tax of 50% of total wages. 25% tax on dividends. Proposals for tax concessions: 50% tax on gross profits to be reduced, tax holiday for the first 2 years, tax differentials, depending on the sector of the economy.</td>
</tr>
<tr>
<td>Transfer of Profits and Repatriation of Capital</td>
<td>Repatriation of profits only possible if the jv has sufficient foreign currency reserves. 30% of foreign currency proceeds have to be given to the State. Possible changes: profits to be made transferable through hard currency auctions.</td>
</tr>
</tbody>
</table>

Sources:


Department of Trade and Industry (May 1990).

Baker and McKenzie (April 1990) pp.2 - 12
BULGARIA

Introduction

Although Bulgaria introduced joint venture legislation in 1980, no amendments were made until 1989. On the whole, the 1980 joint venture law appeared to have been more flexible than for example the first Czechoslovak or Polish laws, in that it permitted foreign majority shareholding, allowed joint ventures to engage in a wide scope of activities, and granted the joint venture the freedom to decide its management structure. It also offered reduced taxation at the discretion of the Ministry of Foreign Trade. In practice, however, not many joint ventures were established - by the beginning of 1988, eight years after the introduction of the joint venture provision only 15 joint ventures had been registered. Problems reported back by Western companies included interference from the authorities which made it difficult to control joint venture operations, and the slow and sometimes uncompromising decision-making process as a result of the unanimity clause which had to be applied to board decisions.

Joint Venture Amendments in 1989

Although amendments in 1989 (see table 7.7) brought about improvements such as 100% foreign shareholding, tax holidays and exemptions, profit transfer through foreign currency auctions and more flexible rules regarding the management of the joint venture, joint venture investments, nevertheless remained relatively small. According to table 8.2 the number of joint ventures rose from 25 in June 1989 to 140 by the end of 1990. Reasons for the relatively poor response to Bulgaria's latest joint venture provisions appeared, therefore, to be due to its poor economic situation, discussed in chapter 4, rather than its joint venture legislation.
Table 7.7  Summary of Legal Provisions for Bulgarian Joint Ventures: 1990

<table>
<thead>
<tr>
<th>JVs since</th>
<th>1980</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amendments</td>
<td>1989</td>
</tr>
<tr>
<td>Legal form</td>
<td>Company of limited liability and joint stock equity ratio company. Majority foreign shareholding and 100% foreign ownership possible, but at least half of the staff must be Bulgarian.</td>
</tr>
<tr>
<td>Scope of Activities and Foreign Trade Rights</td>
<td>Production and services, Jv contract permits foreign trade activities.</td>
</tr>
<tr>
<td>Management</td>
<td>Details specified in joint venture contract.</td>
</tr>
<tr>
<td>Capital Contributions</td>
<td>In cash or in kind.</td>
</tr>
<tr>
<td>Financing Operations</td>
<td>Accounts in local currency and foreign currency. Credits granted by Bulgarian and foreign banks.</td>
</tr>
<tr>
<td>Taxation</td>
<td>Tax holiday for the first 5 years for activity in the free trade zones, 20% thereafter. Tax holiday for the first 5 years for Jvs in high technology sectors (specified by the Council of Ministers), thereafter 30%. 15% tax on dividends, shares, interests, royalties, fees for technical services and rents in Bulgaria for foreign persons. Tax exemption given to: import of raw and prime materials and equipment intended for production of export goods, dividends received if used to buy Bulgarian shares and bonds, and part of the profit given to Bulgarian cultural, research and educational institutions, restoration of historical monuments in Bulgaria, and funds for relief to victims of natural disasters.</td>
</tr>
<tr>
<td>Transfer of profits and Repatriation of Capital</td>
<td>Art. 120: hard currency profits may be transferred; also foreign currency part of the repatriation liquidation quota. Exchange of currency is to be carried out through the Bulgarian National Bank.</td>
</tr>
</tbody>
</table>

Sources:
Department of Trade and Industry (May 1990).
State Council of the People’s Republic of Bulgaria, Decree 56 (9 January 1989).
ROMANIA

Introduction

Although Romania was the first CMEA country to publish joint venture provision in 1971, with amendments in 1972 and 1975 to rules on taxation of profits and the participation of Romanian economic units, no major amendments were made until 1990. Nevertheless, the initial joint venture legislation appeared to offer quite favourable terms permitting a wide range of activities, flexible sales and auditing rules and few restrictions on foreign capital contributions. Despite these apparently favourable terms Western investors, as in Bulgaria, found the unanimity vote at board meetings and the fact that the chairman of the board had to be a Romanian national very obstructive. (For details of joint venture dissolution owing to management restrictions see chapter 8.)

Moreover, the long and bureaucratic procedure for establishing a joint venture described in table 7.8 illustrates the three phases involved in the joint venture application before Romanian authorities granted joint venture approval.

These lengthy and rigorous negotiations were indicative of a tightly centralised system of economic management which inhibited flexible operations, and consequently rendered joint venture investments an unattractive proposition for Western investors.
### Table 7.8 Application Procedure for Joint Ventures in Romania

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Foreign Partner → Negotiations → Romanian Partner</td>
</tr>
<tr>
<td>II</td>
<td>Feasibility Study for Joint Venture → Authorisation given by Planning Commission (Ministry of Finance, Ministry of FT) → Negotiations</td>
</tr>
<tr>
<td>III</td>
<td>New version of documents → Legal advice approved by Ministry of FT → Council of Ministers approved by State Council</td>
</tr>
</tbody>
</table>

Decree authorising the setting up of a joint venture

Joint Venture Amendments in 1990

Until mid-1990, therefore, Romania had the lowest number of joint venture investments of all the former CMEA countries discussed in this chapter. Prior to the latest amendments in 1990, Romania had only five joint ventures remaining in operation, after four of the original nine joint ventures, established in the nineteen seventies and nineteen eighties, had ceased operations. (See chapter 8 for details of joint venture failures in Romania).(32) However, after the Romanian revolution and overthrow of Ceausescu in 1989, joint venture amendments were made in March 1990 (see table 7.9), the number of joint ventures increased from 5 in July 1990 to 1502 by the beginning of January 1991 (see table 8.2). Improvements to the joint venture legislation included the possibility of 100% foreign ownership, tax incentives and tax holidays, improved conditions for profits transfer, including the possibility for foreign investors to buy goods on the local market with local currency, for sale abroad in hard currency and simplification of the joint venture approval procedure.(33) Despite these improvements and the dynamic increase in the number of joint ventures, however, the amount of foreign capital invested remained relatively low at the end of 1990 (US$ 128.7 million - cf. table 8.3), demonstrating a reluctance on the part of foreigners to invest large amounts of capital in the Romanian economy owing to their concern over Romania's potential for economic development.(34)
Table 7.9
Summary of Legal Provisions for Romanian Joint Ventures: 1990

<table>
<thead>
<tr>
<th>JVs since 1971</th>
<th>Amendments 1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joint stock companies or limited liability equity ratio companies. Majority shareholding and 100% foreign ownership is allowed subject to approval of the Ministries of Finance and Foreign Trade.</td>
<td></td>
</tr>
<tr>
<td>Jv activities in most areas of the economy, except defence and drugs. Jv can export directly or through Foreign Trade Organisation.</td>
<td></td>
</tr>
<tr>
<td>1 - 2 delegates from the Ministry of Finance are on the jv's body controlling its accounting activities. Unanimous decisions by jv partners: Romanian president and workers' representatives on Board of Directors.</td>
<td></td>
</tr>
<tr>
<td>Cash and/or goods in kind.</td>
<td></td>
</tr>
<tr>
<td>Foreign currency credits from Romanian or foreign banks. All financial operations must go through Romanian Foreign Trade Bank. Jv can pay for jv sourced within Romania in 'lei'. Employees can be paid in whatever currency agreed upon by jv.</td>
<td></td>
</tr>
<tr>
<td>No provisions. Jv contract sets out principles.</td>
<td></td>
</tr>
<tr>
<td>50% reduction on profits reinvested for 5 yrs. First 2 yrs. tax holiday, with tax reductions possible for the following 3 yrs. Exact tax rates have not yet been worked out.</td>
<td></td>
</tr>
<tr>
<td>8 % of the annual lei profits due to the foreign partner can be transferred abroad in hard currency. Repatriation of all hard currency of invested profits to be allowed in the near future. All transactions to go through Romanian Foreign Trade Bank.</td>
<td></td>
</tr>
</tbody>
</table>

Sources: Romanian Ministry of Trade (decree 96/14, Appendix 10.1, 14 March 1990.)

Department of Trade and Industry, (File 14, 05.90).

Business Eastern Europe (April 2, 1990.)

THE GERMAN DEMOCRATIC REPUBLIC

Introduction

Following the opening of the Berlin wall, the Council of Ministers of the German Democratic Republic passed its first joint venture legislation on the 25th January, 1990 which was soon superseded, however, by the first state treaty on German economic and monetary union on 1 July 1990. Despite being in existence for only six months, a total of 1,970 joint ventures (of which 95% were with West German partners) were registered during that short period. In the following paragraphs the GDR’s special status in East-West trade prior to January 1990 and its bearing on the development of joint ventures is discussed. This is followed subsequently by an outline of the GDR’s short-lived joint venture provisions of 1990.

Joint Venture Provisions in the GDR before 1990

As a result of the division of Germany after the Second World War a special relationship developed between the two Germanies on many levels, including trade. Consequently, the GDR was granted favourable hard currency credit terms, including the 'Swing' (an interest free credit facility) by the West German government which sheltered the GDR from the severe hard currency shortages experienced by other CMEA countries, notably in the nineteen seventies. Moreover, under the regulations governing Intra-German Trade and the special provisions granted under the Treaty of Rome, goods could be moved between the two Germanies entirely customs free. These favourable credit facilities and trade terms led the GDR to seek fewer industrial co-operation agreements than other East European countries. Moreover, the GDR did not permit any East-West joint ventures on its territory before 1990 because this might oblige it to accept German/German joint ventures, which would have been politically unacceptable under the
Honecker regime. (38)

The 1990 Joint Venture Legislation

The 1990 joint venture legislation (see table 7.10) resembled the initial joint venture provisions by other CMEA countries in the nineteen eighties, permitting only 49% maximum foreign shareholding (although exceptions could be granted to a joint venture in the form of an Aktiengesellschaft or public co-operations) which ensured East German control over small and medium-sized companies or larger capital investments by public companies. Moreover, joint ventures were to operate outside the economic plan, making it difficult for them to obtain supplies in the GDR market. Except for a tax holiday in the first two years, taxes and contribution to the reserve fund which were in accordance with regulations for GDR companies, left only very small profit margins. On the positive side, however, the system for repatriating profits was quite favourable as the exchange rate was set at 1:1 for the East German Mark to the Deutschmark. In reverse, however, when exchanging Deutschmarks for cash inputs into the GDR market, the exchange rate worked to the foreign partner's disadvantage, thereby affecting the foreign partners' profit transfers. As for the length of time involved in obtaining approval for a joint venture, this took approximately three months as a general rule which was an acceptable time-scale for Western parties.

A major disincentive, however, for Western partners were the regulations governing workers rights in a joint venture enterprise. Besides requiring the consent of the labour union for the approval of a joint venture, the existing labour and social security laws of the GDR were applicable in matters of employment and social security benefits; workers had the right of co-determination (Mitbestimmung), and the management was required to provide "social measures" in respect to workers' employment. (39)
<table>
<thead>
<tr>
<th><strong>Jv since</strong></th>
<th><strong>1990</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Amendments</strong></td>
<td>Jv law phased out by economic and monetary union on 1 July 1990.</td>
</tr>
<tr>
<td><strong>Legal form</strong></td>
<td>GmbH (limited liability), AG (joint stock), general or limited partnership. Minimum foreign shareholding 20%, maximum 49%. Up to 3 months for approval of application by State Economic Committee or County Council (small jvs only).</td>
</tr>
<tr>
<td><strong>Scope of Activities and Foreign Trade Rights</strong></td>
<td>Dependent on economic and regional interest, but particularly high scientific-technical jvs, or providing modern high quality goods and services, effective environmental protection. Automatic foreign trade rights.</td>
</tr>
<tr>
<td><strong>Management</strong></td>
<td>Contract specifies partners' role in management. GmbH required one of the managing directors to be GDR citizen. AG: number of members on the Board dependent on shareholding. Transfer of jv interest had to be approved by all participants and GDR had right of first refusal.</td>
</tr>
<tr>
<td><strong>Capital Contribution</strong></td>
<td>Cash or in kind. Minimum capital stock of a GmbH 150,000 GDR Marks (approx. DM 50,000); of an AG 750,000 GDR Marks (approx. DM 250,000). No minimum capital required for partnerships. Foreign partners' share paid in hard currency.</td>
</tr>
<tr>
<td><strong>Financing Operations</strong></td>
<td>Accounts in hard currency possible with the GDR State Bank or with foreign banks. Credits for AG jvs granted in hard currency from GDR banks or foreign banks. No such credit arrangements for GmbHs. Employees paid in GDR marks.</td>
</tr>
<tr>
<td><strong>Accounting Principles</strong></td>
<td>Bookkeeping and accounts according to GDR rules. Balance sheet given in GDR marks and accompanied by a reconciliation of hard currency transactions. Tax holidays granted only by discretion of State Economic Committee. Capital reserve fund sourced from income (10% of capital stock), and cultural, social and bonus fund financed from pre-tax income. GDR tax laws applied.</td>
</tr>
<tr>
<td><strong>Taxation</strong></td>
<td>Combined effect of tax laws: a rate of 98.5%!</td>
</tr>
<tr>
<td><strong>Transfer of Profits and Repatriation of Capital</strong></td>
<td>Up to 50% of hard currency profits had to be offered for sale to the State. Any residual hard currency income freely transferrable abroad. Exchange of GDR mark profits possible upon consent by State Economic Committee (applicable to jvs in economic priority areas).</td>
</tr>
</tbody>
</table>

**Sources:**

Schlösser (February 1990).

Baker and McKenzie (April 1990), pp. 4 - 7.

Schmidt and Wegen (März 1990).
Despite these disincentives for Western investors, the response to the GDR provisions was very positive, albeit mainly from West German companies. This was mainly due to the convertibility of the GDR currency and the ease with which profits could be transferred. As mentioned earlier, however, the joint venture law was barely published, before it was superceded by West German laws on foreign investment. As for those joint ventures established before economic and monetary union on 1 July 1990, they were transformed into West German forms with the help of special "adjustment" regulations.

Future investors in the former GDR may choose henceforth from a variety of firm activities, including majority shareholding in a joint venture, the setting up of a subsidiary or branch, representations (no commercial activities permitted), or short term business establishments which may operate for a limited duration. (40)

CONCLUSION

The data presented in this chapter demonstrates that all the CMEA countries became committed after 1985 to providing a legal framework for joint ventures in the East with Western partners. In all cases, however, the initial joint venture provisions were restrictive for the foreign investor either because of limits on foreign shareholding, sphere of activities or slow bureaucratic application procedures. Moreover, some Western partners complained about interference from state authorities and lack of tax incentives and profit transfer guarantees. Consequently joint venture numbers remained small until amendments were first introduced by Hungary which granted majority foreign shareholding, taxation incentives and guarantees for profit transfers and investments. This resulted in a rapid rise in joint venture investments. The positive response to Hungary's amendments encouraged other East European countries to introduce similar changes to their joint venture provisions in an effort to attract Western joint venture investments. Consequently, the number of joint ventures have risen in these countries also, highlighting
the importance of flexible joint venture laws, tax incentives and speedy application procedures in attracting foreign direct investments. The positive effect of the joint venture provisions on foreign direct investments at the end of the nineteen eighties is discussed in greater detail in chapter 8 of the thesis which traces the rise in joint venture numbers and foreign capital investments.

Nevertheless, although the former CMEA countries have made great progress in their legal provisions for foreign investors, there are still major concerns for foreign investors. These include the non-convertibility of their currencies and the system for transferring profits which have already been discussed in chapter 3 and 4 of the thesis.

In conclusion, it seems, that the legal framework of joint ventures in the former CMEA countries has undergone considerable modifications, especially towards the end of the decade. The greatest change to the joint venture legislation in the former socialist countries has been the increase in the size of foreign shareholding permitted. Most countries have introduced legislation allowing up to 100% foreign shareholding. The political and economic changes which have accompanied these modification, however, have had the effect of liberalising foreign trade activities within the former Comecon countries. The combination, therefore, of flexible legislation, investment guarantees and a stable operational environment, seemed to have encouraged foreign companies to establish joint ventures in Eastern Europe and the former Soviet Union.
Chapter 7: Notes

1. Business Eastern Europe, "Facts and Figures on Soviet Joint Ventures", 2 April 1990, p.114. According to this article, the USSR Ministry of Finance had recorded the registration of 1,247 joint ventures by January 1990. The total capital investment of these joint ventures was estimated to be worth 3.3 billion roubles, of which the foreign share amounted to approximately 40%.


5. Bartletts De Reya Solicitors (May 1987), pp.5 - 23.


   - British Embassy, Commercial Department, note on "Television in the Soviet Union", Moscow, November 1989.

9. Ibid., (p.114).


12. Hungary signed Investment Protection Treaties with the Federal Republic of Germany, Belgium and Britain in 1986 and 1987, enabling Western governments to grant credit guarantees to cover political risk, trade embargoes, expropriation. See,


- Business Eastern Europe, "West Germans lead in Polish Joint Ventures", 4 June 1990, p. 188.

Also interview with Tadeusz Taminski, the President of the Chamber of Industry and Commerce "Inter-Polcom" about Law for Polonian companies, in Warsaw, June 1987.


21. Interviews held in June 1987 with:
- Tadeusz Kaminski, President of Inter-Polcom.
- A. Burzynski, Director of Legal Information and Service Centre, Polish Chamber of Foreign Trade.
- Baupol (Polonian Company)
- Plastomed (Polonian Company)


   - Specific restrictions affecting joint ventures in Bulgaria, included control by the Ministry of Foreign Trade of certain branches of investments, foreign exchange, manpower, raw material and energy supplies as well as prices.
34. Ibid., p.115.
38. The GDR Law on International Economic Agreements permits GDR enterprises to participate in joint activities with foreign partners. This law, however, was never applied for any joint venture activities with foreign companies. See,
- Gesetzblatt der DDR, Teil 1, Nr. 5, 10 January 1976. Paragraphs 200 - 217 (part 6, chapter 16), refer to company participation with foreign partner.


CHAPTER 8

JOINT VENTURES IN THE EAST: A LITERATURE SURVEY

Having noted in chapter five the trend among the former CMEA countries to promote industrial co-operation as a way of overcoming longer term hard currency and debt problems, this chapter examines the development of Western joint venture investments in the former CMEA area from 1972, when Romania first permitted direct foreign investment on its territory, to 1990. The study begins by analysing the growth in the number of joint ventures registrations and startup capital as well as presenting the available data on joint venture activities and the extent of individual Western countries' participation in East-West joint ventures. This is followed by a discussion of Western trade policies towards Eastern Europe and the former Soviet Union before and after 1989; and the possible effect of these policies on the participation of individual Western countries in East-West trade. Much of the statistical information presented in this chapter has been obtained from sources published by the United Nations Economic Commission for Europe(1) which have been complemented by data obtained from government publications and the trade press.

JOINT VENTURE GROWTH

Numbers

Tables 8.1 and 8.2 illustrate the growth in the number of joint ventures in the various CMEA countries between 1972 - 1987 (the period of slow growth) and 1988 - 1990 (period of accelerated growth).
Table 8.1 shows limited Western investment in Romania, Bulgaria and Hungary in the nineteen seventies (only 19 joint ventures by 1980). By the early nineteen eighties, however, as a result of a worldwide recession, hard currency shortages and debt repayment problems, the former CMEA countries began to promote Western joint venture investments during the first half of that decade..

Table 8.1 Estimated Growth and Geographic Distribution of East-West Joint Ventures in European CMEA Countries, 1972 - 1987.

<table>
<thead>
<tr>
<th>Year</th>
<th>Bulgaria</th>
<th>Cech.</th>
<th>Hungary</th>
<th>Poland</th>
<th>Romania</th>
<th>USSR</th>
<th>Accumulative Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>1972</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>1973</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>1974</td>
<td></td>
<td></td>
<td>2</td>
<td></td>
<td>1</td>
<td>7</td>
<td>11</td>
</tr>
<tr>
<td>1975</td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td>1</td>
<td>9</td>
<td>10</td>
</tr>
<tr>
<td>1976</td>
<td></td>
<td></td>
<td></td>
<td>2</td>
<td></td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>1977</td>
<td></td>
<td></td>
<td>1</td>
<td></td>
<td></td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>1978</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>1979</td>
<td></td>
<td></td>
<td>1</td>
<td></td>
<td></td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>1980</td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td></td>
<td>14</td>
<td></td>
</tr>
<tr>
<td>1981</td>
<td>1</td>
<td>4</td>
<td></td>
<td></td>
<td></td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>1982</td>
<td>1</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
<td>23</td>
<td></td>
</tr>
<tr>
<td>1983</td>
<td>1</td>
<td>10</td>
<td></td>
<td></td>
<td></td>
<td>34</td>
<td></td>
</tr>
<tr>
<td>1984</td>
<td>4</td>
<td>8</td>
<td></td>
<td></td>
<td></td>
<td>46</td>
<td></td>
</tr>
<tr>
<td>1985</td>
<td>1</td>
<td>14</td>
<td></td>
<td></td>
<td></td>
<td>61</td>
<td></td>
</tr>
<tr>
<td>1986</td>
<td>16</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>77</td>
<td></td>
</tr>
<tr>
<td>1987</td>
<td>7</td>
<td>2</td>
<td>50</td>
<td>13</td>
<td></td>
<td>19</td>
<td>168</td>
</tr>
<tr>
<td>TOTALS</td>
<td>15</td>
<td>2</td>
<td>111</td>
<td>13</td>
<td>9*</td>
<td>19</td>
<td>168</td>
</tr>
</tbody>
</table>


*Four of these joint ventures have ceased operations.
Consequently, the number of joint ventures increased from 19 to 77 joint ventures by 1986 (60 of which were based in Hungary). Following Hungary's joint venture amendments in 1985 granting Western companies more favourable investment terms, and the introduction of joint venture legislation in Poland (1986) and the former USSR (1987) the number of joint ventures more than doubled between 1986 and 1987, rising from 77 to 168 (see table 8.1). Moreover, table 8.2 shows that joint ventures have continued to increase sharply between 1988 and the beginning of 1991. During the earlier part of that period (January 1988 to June 1989), the number of joint ventures rose mainly due to foreign equity investments in the former Soviet Union, Hungary and to some extent Poland, which experienced average monthly increases of 135, 19 and 10 joint ventures respectively. The more dynamic increase in the number of joint ventures in the former Comecon area, however, occurred from the third quarter of 1990 onwards when the average monthly increase in the number of joint ventures was 1,114 joint ventures. By mid-1990, following the political changes of 1989, all former European CMEA countries, except Bulgaria were recording a large increase in the number of joint venture registrations. The relatively slow increase in the number of joint venture registrations in Bulgaria, even after 1989, may be explained by the political and economic hardships still experienced in 1990 and the breakup of intra-CMEA trade. (See chapter 4 for discussion of Bulgaria's post-1989 problems, p.104). By the beginning of 1991, therefore, the total number of joint venture registrations had reached 13,722, an increase of 8216% since the beginning of 1988.
<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>1.01.88</th>
<th>1.06.89</th>
<th>1.10.89</th>
<th>1.03.90</th>
<th>1.07.90</th>
<th>1.10.90</th>
<th>1.01.91</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soviet Union</td>
<td>23</td>
<td>700</td>
<td>1000</td>
<td>1400</td>
<td>1754</td>
<td>2051</td>
<td>3000</td>
</tr>
<tr>
<td>Average monthly increase</td>
<td>39</td>
<td>75</td>
<td>80</td>
<td>86</td>
<td>99</td>
<td>316</td>
<td></td>
</tr>
<tr>
<td>Hungary</td>
<td>102</td>
<td>420</td>
<td>600</td>
<td>1200</td>
<td>1600</td>
<td>3300</td>
<td>5000</td>
</tr>
<tr>
<td>Average monthly increase</td>
<td>19</td>
<td>45</td>
<td>120</td>
<td>100</td>
<td>567</td>
<td>567</td>
<td></td>
</tr>
<tr>
<td>Poland</td>
<td>13</td>
<td>190</td>
<td>551</td>
<td>1000</td>
<td>1550</td>
<td>1950</td>
<td>2480</td>
</tr>
<tr>
<td>Average monthly increase</td>
<td>10</td>
<td>90</td>
<td>90</td>
<td>138</td>
<td>133</td>
<td>177</td>
<td></td>
</tr>
<tr>
<td>Czechoslovakia</td>
<td>7</td>
<td>35</td>
<td>50</td>
<td>60</td>
<td>120</td>
<td>500</td>
<td>1600</td>
</tr>
<tr>
<td>Average monthly increase</td>
<td>2</td>
<td>4</td>
<td>2</td>
<td>15</td>
<td>127</td>
<td>367</td>
<td></td>
</tr>
<tr>
<td>Bulgaria</td>
<td>15</td>
<td>25</td>
<td>25</td>
<td>30</td>
<td>54</td>
<td>70</td>
<td>140</td>
</tr>
<tr>
<td>Average monthly increase</td>
<td>0.6</td>
<td>0</td>
<td>1</td>
<td>6</td>
<td>5</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td>Romania</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>570</td>
<td>1502</td>
</tr>
<tr>
<td>Average monthly increase</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>188</td>
<td>311</td>
<td></td>
</tr>
<tr>
<td>Total no. of jv</td>
<td>165</td>
<td>1,375</td>
<td>2,231</td>
<td>3,695</td>
<td>5,083</td>
<td>8,441</td>
<td>13,722</td>
</tr>
<tr>
<td>Average monthly Increase</td>
<td>71</td>
<td>214</td>
<td>293</td>
<td>347</td>
<td>1,119</td>
<td>1,760</td>
<td></td>
</tr>
</tbody>
</table>

### Table 8.3 Foreign Capital Invested in Joint Ventures in the Former CMEA Countries

*(in million US dollars)*

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>15.10.89</th>
<th>1.03.90</th>
<th>1.07.90</th>
<th>1.10.90</th>
<th>1.01.91</th>
<th>Average foreign capital per jv*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soviet Union</td>
<td>1845.6</td>
<td>2362.0</td>
<td>2921.0</td>
<td>3208.0</td>
<td>4615.0</td>
<td>1.5</td>
</tr>
<tr>
<td>Hungary</td>
<td>360.0</td>
<td>670.0</td>
<td>875.0</td>
<td>1020.0</td>
<td>1200.0</td>
<td>0.2</td>
</tr>
<tr>
<td>Poland</td>
<td>80.0</td>
<td>110.8</td>
<td>186.5</td>
<td>290.0</td>
<td>306.0</td>
<td>0.16</td>
</tr>
<tr>
<td>Czechoslovakia</td>
<td>85.0</td>
<td>98.2</td>
<td>152.0</td>
<td>340.0</td>
<td>850.0</td>
<td>0.5</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>----</td>
<td>----</td>
<td>----</td>
<td>----</td>
<td>74.1</td>
<td>0.5</td>
</tr>
<tr>
<td>Romania</td>
<td>----</td>
<td>----</td>
<td>----</td>
<td>66.0</td>
<td>128.7</td>
<td>0.09</td>
</tr>
<tr>
<td>TOTAL</td>
<td>2370.6</td>
<td>3241.0</td>
<td>4134.5</td>
<td>4824.0</td>
<td>7263.8</td>
<td>0.53</td>
</tr>
</tbody>
</table>

**NOTE:** Values in national currencies converted in US dollars at current official exchange rates.

*averages calculated with the help of joint venture numbers in table 8.2

Capitalisation

Even until the late nineteen eighties there was still a lack of data available giving precise details about foreign capital invested in joint ventures, although in 1988 the United Nations "guesstimated" that approximately US $ 400 - 500 million foreign capital had been invested in East-West joint ventures in the CMEA area.(3) Since the rapid increase in the number of joint ventures, however, a databank has been set up by the United Nations which by the beginning of 1991 had recorded US $ 7263.8 million foreign capital investments in joint ventures, amounting to an average of US $ 520,000 foreign capital invested per joint venture.(See table 8.3) The average foreign capital participation in the individual East European countries, however, vary. In the former Soviet Union the average foreign capital participation has been the highest (US $ 1.5 million) and lowest in Romania (US $ 90,000). This relatively low capitalisation in Eastern Europe has been attributed to Western companies' reluctance to invest large amounts of capital, before being able to ensure a safe return on their capital, and the high proportion of service joint ventures (especially in Hungary and Poland) in relation to manufacturing joint ventures which have tended to require fewer costly capital goods investments.(4)

JOINT VENTURES BY INDUSTRY AND ACTIVITY

This section aims to discuss joint venture activities in the individual East European countries according to their activities. Despite gaps in the available data, the different sample sizes and dates of publication, the author has, nevertheless, been able to make certain observations about their activities. In the subsequent paragraphs the data is examined country by country, beginning with the former USSR, for which the most recent data has been available, followed by Hungary, Poland, Romania and Bulgaria.
Table 8.4 gives a breakdown of joint ventures according to industry, Soviet and foreign capital participation. The data is based on a sample of 2050 joint ventures, published by the United Nations on 1st January 1991. According to the data, 50.2% (1029 joint ventures) have been engaged in manufacturing activities, followed by business activities (13% or 268 joint ventures), hotel and restaurants (6.4% or 138 joint ventures) and computer and related activities (5.7% or 117 joint ventures). Only few joint ventures have been established in mining and quarrying (7 joint ventures) or real estate (6 joint ventures) and finance (5 joint ventures). The highest foreign capital contributions, however, have been received by the financial intermediation sector (US $ 23.3 million per joint venture), whilst joint ventures in the hotel and restaurant sector have received only an average of US $ 200,000 per joint venture, followed by an average of US $300,000 per joint venture in education and an average of US $ 400,000 per joint venture in other business activities. By comparison, the average foreign capital investments in manufacturing joint ventures is higher (US $ 1.9 million).
### Table 8.4
Foreign Investment Projects in the USSR, by Industry

<table>
<thead>
<tr>
<th>ISIC rev.3 code</th>
<th>Industry</th>
<th>TOTAL mn SU roubles</th>
<th>FOREIGN mn SU roubles</th>
<th>EIGN mn US dollars</th>
<th>No. of joint ventures</th>
<th>AFCI per JV* (mn US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Agriculture, hunting, forestry</td>
<td>54.3</td>
<td>24.6</td>
<td>41.4</td>
<td>26</td>
<td>1.6</td>
</tr>
<tr>
<td>B</td>
<td>Fishing</td>
<td>52.8</td>
<td>24.4</td>
<td>39.6</td>
<td>10</td>
<td>4.0</td>
</tr>
<tr>
<td>C</td>
<td>Mining, quarrying</td>
<td>17.4</td>
<td>8.5</td>
<td>15.1</td>
<td>7</td>
<td>2.2</td>
</tr>
<tr>
<td>D</td>
<td>Manufacturing</td>
<td>3249.1</td>
<td>1215.9</td>
<td>1930.6</td>
<td>1029</td>
<td>1.9</td>
</tr>
<tr>
<td>41</td>
<td>Purification of water</td>
<td>7.6</td>
<td>3.8</td>
<td>6.0</td>
<td>3</td>
<td>2.0</td>
</tr>
<tr>
<td>F</td>
<td>Construction</td>
<td>166.0</td>
<td>80.0</td>
<td>110.2</td>
<td>94</td>
<td>1.2</td>
</tr>
<tr>
<td>G</td>
<td>Wholesale and retail trade</td>
<td>202.4</td>
<td>107.8</td>
<td>164.4</td>
<td>68</td>
<td>2.4</td>
</tr>
<tr>
<td>H</td>
<td>Hotels and restaurants</td>
<td>366.7</td>
<td>152.6</td>
<td>244.8</td>
<td>138</td>
<td>0.2</td>
</tr>
<tr>
<td>I</td>
<td>Transport, storage, communication</td>
<td>85.8</td>
<td>39.2</td>
<td>48.9</td>
<td>64</td>
<td>0.8</td>
</tr>
<tr>
<td>J</td>
<td>Financial intermediation</td>
<td>129.7</td>
<td>74.6</td>
<td>117.7</td>
<td>5</td>
<td>23.5</td>
</tr>
<tr>
<td>70</td>
<td>Real estate</td>
<td>17.4</td>
<td>8.716</td>
<td>8.26</td>
<td>6</td>
<td>1.2</td>
</tr>
<tr>
<td>71</td>
<td>Renting of machinery and equipment</td>
<td>19.7</td>
<td>9.5</td>
<td>15.1</td>
<td>25</td>
<td>0.6</td>
</tr>
<tr>
<td>72</td>
<td>Computer and related activities</td>
<td>103.3</td>
<td>48.3</td>
<td>70.2</td>
<td>117</td>
<td>0.6</td>
</tr>
<tr>
<td>73</td>
<td>Research and development</td>
<td>35.4</td>
<td>8.7</td>
<td>14.2</td>
<td>11</td>
<td>1.3</td>
</tr>
<tr>
<td>74</td>
<td>Other business activities</td>
<td>164.8</td>
<td>73.0</td>
<td>116.1</td>
<td>268</td>
<td>0.4</td>
</tr>
<tr>
<td>M</td>
<td>Education</td>
<td>12.0</td>
<td>5.4</td>
<td>8.5</td>
<td>22</td>
<td>0.3</td>
</tr>
<tr>
<td>N</td>
<td>Health and social work</td>
<td>116.1</td>
<td>49.1</td>
<td>75.4</td>
<td>46</td>
<td>1.7</td>
</tr>
<tr>
<td>90</td>
<td>Sewage and refuse disposal</td>
<td>15.5</td>
<td>7.7</td>
<td>12.4</td>
<td>11</td>
<td>1.2</td>
</tr>
<tr>
<td>92</td>
<td>Cultural and sporting activities</td>
<td>88.7</td>
<td>40.7</td>
<td>64.4</td>
<td>85</td>
<td>0.8</td>
</tr>
<tr>
<td>93</td>
<td>Other services</td>
<td>2.2</td>
<td>1.0</td>
<td>1.7</td>
<td>5</td>
<td>0.3</td>
</tr>
<tr>
<td>Other 1</td>
<td></td>
<td>42.1</td>
<td>26.4</td>
<td>42.6</td>
<td>10</td>
<td>4.3</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td>4948.9</td>
<td>2009.7</td>
<td>3151.6</td>
<td>2050</td>
<td>1.5</td>
</tr>
</tbody>
</table>

AFCI = Average Foreign Investment Capital per joint venture

1) Including activities not classified among industries

**Source:** United Nations, Economic Commission for Europe (Feb. 1991), p. 19

**Note:** as on 1 January, 1991. Figures may not add to totals because of rounding.
Other data (see table 8.5) which is more detailed in terms of the sector suggest that the greatest number of manufacturing joint ventures are in machinery and computer industries (111 and 110 joint ventures respectively). By contrast very few are active in basic metals, machine tools (5 joint ventures each), coke, refined petroleum nuclear fuel, agriculture and forestry machinery or textile machinery (4 joint ventures each).

The largest foreign capital contributions, however, have been made to manufacturing joint ventures in the chemical industry (US $ 253.6 million) and electrical equipment industry (US $ 220.4 million), with an average foreign capital contribution per joint venture of US $ 3.9 million and US $ 10.5 in respective manufacturing industries. (See table 8.5) Manufacturing joint ventures account, therefore, for 61.3% of total foreign joint venture capitalisation in the former Soviet Union, whilst non-manufacturing joint ventures, mainly in services have received 38.7% of foreign capital investments. (See table 8.4)

This recent sample confirms that foreign companies have invested predominantly in manufacturing joint ventures in the former USSR. These tend to be more capital intensive than the service sector (except for the financial sector), and account, therefore, for the higher average foreign capitalisation in the former Soviet Union.
### Table 8.5
Manufacturing Foreign Investment Projects in the former USSR, by branch

<table>
<thead>
<tr>
<th>ISIC rev.3 CODE</th>
<th>INDUSTRY</th>
<th>STATUTORY CAPITAL</th>
<th>FOREIGN</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>TOTAL</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>mn SU roubles</td>
<td>mn US dollars</td>
</tr>
<tr>
<td>15</td>
<td>Food</td>
<td>255.5</td>
<td>123.6</td>
</tr>
<tr>
<td>16</td>
<td>Tobacco</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>17</td>
<td>Textiles</td>
<td>34.8</td>
<td>23.6</td>
</tr>
<tr>
<td>18</td>
<td>Wearing apparel</td>
<td>82.0</td>
<td>54.6</td>
</tr>
<tr>
<td>19</td>
<td>Leather</td>
<td>166.7</td>
<td>54.4</td>
</tr>
<tr>
<td>20</td>
<td>Wood &amp; wood products</td>
<td>137.6</td>
<td>93.5</td>
</tr>
<tr>
<td>21</td>
<td>Paper, paper products</td>
<td>52.5</td>
<td>38.6</td>
</tr>
<tr>
<td>22</td>
<td>Publishing, printing</td>
<td>69.2</td>
<td>42.9</td>
</tr>
<tr>
<td>23</td>
<td>Coke, refined petroleum, nuclear fuel</td>
<td>76.7</td>
<td>33.5</td>
</tr>
<tr>
<td>24</td>
<td>Chemicals, of which:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>241</td>
<td>Basic chemicals</td>
<td>178.3</td>
<td>119.8</td>
</tr>
<tr>
<td>242</td>
<td>Other chemicals, of which:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2423</td>
<td>Pharmaceuticals</td>
<td>30.0</td>
<td>23.7</td>
</tr>
<tr>
<td>2424</td>
<td>Cosmetics</td>
<td>106.6</td>
<td>76.8</td>
</tr>
<tr>
<td></td>
<td>Other 1)</td>
<td>10.6</td>
<td>6.7</td>
</tr>
<tr>
<td>25</td>
<td>Rubber plastics</td>
<td>149.0</td>
<td>104.0</td>
</tr>
<tr>
<td>26</td>
<td>Non-metallic products</td>
<td>149.6</td>
<td>97.9</td>
</tr>
<tr>
<td>27</td>
<td>Basic metals</td>
<td>46.4</td>
<td>28.7</td>
</tr>
<tr>
<td>28</td>
<td>Metal products</td>
<td>167.3</td>
<td>66.1</td>
</tr>
<tr>
<td>29</td>
<td>Machinery, equipment N.E.C., of which:</td>
<td>330.4</td>
<td>178.4</td>
</tr>
<tr>
<td>291</td>
<td>General purpose machinery</td>
<td>101.2</td>
<td>45.8</td>
</tr>
<tr>
<td>292</td>
<td>Special purpose machinery, of which:</td>
<td>191.7</td>
<td>108.9</td>
</tr>
<tr>
<td>2921</td>
<td>Agriculture and forestry machinery</td>
<td>13.9</td>
<td>4.3</td>
</tr>
<tr>
<td>2922</td>
<td>Machine tools</td>
<td>87.0</td>
<td>55.1</td>
</tr>
<tr>
<td>2925</td>
<td>Food processing machines</td>
<td>19.2</td>
<td>11.4</td>
</tr>
<tr>
<td>2926</td>
<td>Textile machinery</td>
<td>24.1</td>
<td>10.7</td>
</tr>
<tr>
<td></td>
<td>Other 1)</td>
<td>37.5</td>
<td>23.6</td>
</tr>
<tr>
<td>30</td>
<td>Office equipment and computers</td>
<td>191.2</td>
<td>133.7</td>
</tr>
</tbody>
</table>

AFIC per $
Table 8.5 (continued) Manufacturing Foreign Investment Projects in the former USSR, by branch

| 31 | Electrical equipment | 328.3 | 127.7 | 220.4 | 21 | 10.5 |
| 32 | Communication equipment, of which: | | | | | |
| 3210 | Electronic components | 155.6 | 63.7 | 90.7 | 51 | 1.8 |
| 3220 | TV, radio transmitters | 52.1 | 30.1 | 34.5 | 8 | 4.3 |
| 3230 | TV, radio receivers | 2.4 | 0.8 | 1.2 | 7 | 0.2 |
| 33 | Other | 87.7 | 31.4 | 52.7 | 31 | 7.5 |
| 34 | Precision instruments | 140.1 | 61.4 | 97.6 | 71 | 1.4 |
| 35 | Motor vehicles | 40.2 | 12.2 | 19.1 | 17 | 1.1 |
| 36 | Other transport equipment | 21.5 | 4.1 | 6.1 | 12 | 0.5 |
| 37 | Furniture and manufacturing N.E.C. | 174.4 | 56.4 | 91.1 | 72 | 1.3 |
| 38 | Recycling | 27.1 | 9.0 | 14.7 | 14 | 1.1 |
| 39 | Other | 88.4 | 41.1 | 63.8 | 50 | 1.3 |
| **TOTAL** | | 3249.1 | 1215.9 | 1930.6 | 1029 | 1.9 |

* Average Foreign Investment Capital per joint venture
1) Including activities not classified in specific manufacturing ISIC group
2) Including activities not classified among manufacturing

Note: as on 1 January, 1991. Figures may not add to totals because of rounding.

Source: United Nations, (February 1991), p.21
Hungary

The data analysed in this section is based on a sample size of 178 joint ventures collected in the first quarter of 1989 when there were less than 420 joint ventures registered in Hungary. In this sample, 60% (or 108 joint ventures) were engaged in manufacturing and 40% in non-manufacturing activities.

Compared with Soviet joint ventures operating in the manufacturing sector, Hungarian manufacturing joint ventures have relatively low levels of capitalisation, constituting 35% of the sample's total capitalisation or US $ 92.2 million (see table 8.6). However, joint ventures engaged in financial services, hotels and restaurants, although fewer in number have received 48% or US $ 126.4 million foreign capital investment (see table 8.6). Average capitalisation for non-manufacturing joint ventures in this sample is, therefore, US $ 2.4 million.

To conclude, it appears from this sample that Hungarian service joint ventures, especially in the hotel and restaurant industry, have received higher average foreign direct investments than manufacturing joint ventures. This is the reverse situation to that experienced in the former Soviet Union, where manufacturing joint ventures have received on average higher amounts of foreign capital than service joint ventures.
Table 8.6 Manufacturing and Service Joint Ventures in Hungary

<table>
<thead>
<tr>
<th>INDUSTRY</th>
<th>US$ (MN)</th>
<th>NUMBER OF Jvs</th>
<th>% of foreign capital</th>
<th>AFIC* US$ (MN)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL</td>
<td>263.4</td>
<td>178</td>
<td>100%</td>
<td>1.5</td>
</tr>
<tr>
<td>Manufacturing, of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food</td>
<td>92.2</td>
<td>108</td>
<td>35.0%</td>
<td>0.9</td>
</tr>
<tr>
<td>Textiles</td>
<td>11.5</td>
<td>10</td>
<td>4.3%</td>
<td>1.2</td>
</tr>
<tr>
<td>Wearing apparel</td>
<td>9.3</td>
<td>4</td>
<td>3.5%</td>
<td>2.3</td>
</tr>
<tr>
<td>Leather</td>
<td>4.6</td>
<td>7</td>
<td>1.7%</td>
<td>0.7</td>
</tr>
<tr>
<td>Wood and wood products</td>
<td>0.4</td>
<td>2</td>
<td>0.2%</td>
<td>0.2</td>
</tr>
<tr>
<td>Paper and paper products</td>
<td>7.9</td>
<td>7</td>
<td>3.0%</td>
<td>1.1</td>
</tr>
<tr>
<td>Publishing and printing</td>
<td>1.2</td>
<td>3</td>
<td>0.5%</td>
<td>0.4</td>
</tr>
<tr>
<td>Chemicals</td>
<td>1.7</td>
<td>6</td>
<td>0.6%</td>
<td>0.3</td>
</tr>
<tr>
<td>Rubber and plastics</td>
<td>8.1</td>
<td>12</td>
<td>3.1%</td>
<td>0.7</td>
</tr>
<tr>
<td>Non-metallic products</td>
<td>0.8</td>
<td>3</td>
<td>0.3%</td>
<td>0.3</td>
</tr>
<tr>
<td>Basic metals</td>
<td>10.3</td>
<td>7</td>
<td>3.9%</td>
<td>1.5</td>
</tr>
<tr>
<td>Metal products</td>
<td>0.2</td>
<td>2</td>
<td>0.1%</td>
<td>0.1</td>
</tr>
<tr>
<td>Machinery and equipment N.E.C.</td>
<td>3.3</td>
<td>8</td>
<td>1.3%</td>
<td>0.4</td>
</tr>
<tr>
<td>Office equipment and computers</td>
<td>5.5</td>
<td>13</td>
<td>2.1%</td>
<td>0.4</td>
</tr>
<tr>
<td>Electrical equipment</td>
<td>6.5</td>
<td>3</td>
<td>2.5%</td>
<td>2.2</td>
</tr>
<tr>
<td>Communication equipment</td>
<td>1.1</td>
<td>4</td>
<td>0.4%</td>
<td>0.3</td>
</tr>
<tr>
<td>Precision instruments</td>
<td>8.8</td>
<td>5</td>
<td>3.3%</td>
<td>1.7</td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>5.3</td>
<td>3</td>
<td>2.2%</td>
<td>1.8</td>
</tr>
<tr>
<td>Other transport equipment</td>
<td>0.5</td>
<td>1</td>
<td>0.25%</td>
<td>0.5</td>
</tr>
<tr>
<td>Furniture</td>
<td>1.6</td>
<td>1</td>
<td>0.6%</td>
<td>1.6</td>
</tr>
<tr>
<td>Recycling</td>
<td>1.7</td>
<td>4</td>
<td>0.3%</td>
<td>0.4</td>
</tr>
<tr>
<td>Services, of which:</td>
<td>171.2</td>
<td>70</td>
<td>65.3%</td>
<td>2.4</td>
</tr>
<tr>
<td>Finance</td>
<td>79.0</td>
<td>70</td>
<td>30.0%</td>
<td></td>
</tr>
<tr>
<td>Hotels and restaurants</td>
<td>47.4</td>
<td>70</td>
<td>18.0%</td>
<td></td>
</tr>
<tr>
<td>Trade</td>
<td>10.5</td>
<td>70</td>
<td>4.0%</td>
<td></td>
</tr>
<tr>
<td>Health services</td>
<td>10.5</td>
<td>70</td>
<td>4.0%</td>
<td></td>
</tr>
<tr>
<td>Transport and communications</td>
<td>7.9</td>
<td>70</td>
<td>3.0%</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>15.8</td>
<td>70</td>
<td>6.0%</td>
<td></td>
</tr>
</tbody>
</table>

*Average Foreign Capital Investment per joint venture

Note: Figures may not add to totals because of rounding.
Poland

The data in this section is based on a sample size of 182 joint ventures compiled by the United Nations in 1989, and can be compared with the Hungarian sample because of its similar size and the fact that the data was published in the same year. According to the data in table 8.7 the majority of Polish joint ventures are operational in manufacturing (119 joint ventures) and have received the largest foreign capitalisation (US $ 20.6 million). Capitalisation of Polish manufacturing joint ventures is considerably smaller than Hungarian manufacturing joint ventures (cf. US $ 263.4 million for 108 Hungarian joint ventures and US $ 20.6 million for 119 Polish joint ventures). The average foreign capitalisation for manufacturing joint ventures in Poland is US $ 200,000 compared with US $ 900,000 in Hungary. Moreover, whilst non-manufacturing joint ventures in Hungary received US $ 171.2 million (or 65% of total foreign capitalisation), Poland’s non-manufacturing joint ventures have received US $ 7.4 million (or 27% of the sample’s total foreign capitalisation). The Polish joint ventures in this sample are predominantly active in the manufacturing sector (65%) and have attracted seventy-three per cent of the sample’s total capitalisation.
Table 8.7  Foreign Investments in Poland, by Sector of Economic Activity

<table>
<thead>
<tr>
<th>ISIC CODE Rev.3</th>
<th>STATUTORY CAPITAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>SECTOR</td>
<td>Total mn PLZ</td>
</tr>
<tr>
<td>A Agriculture, hunting and forestry</td>
<td>1421.2</td>
</tr>
<tr>
<td>B Fishing</td>
<td>169.0</td>
</tr>
<tr>
<td>C Mining and quarrying</td>
<td>75.0</td>
</tr>
<tr>
<td>D Manufacturing</td>
<td>25155.6</td>
</tr>
<tr>
<td>41 Purification of water</td>
<td>0.0</td>
</tr>
<tr>
<td>F Construction</td>
<td>479.0</td>
</tr>
<tr>
<td>G Wholesale and retail trade</td>
<td>1238.4</td>
</tr>
<tr>
<td>H Hotels and restaurants</td>
<td>2657.2</td>
</tr>
<tr>
<td>I Transport, storage and communication</td>
<td>325.4</td>
</tr>
<tr>
<td>J Financial intermediation</td>
<td>50.0</td>
</tr>
<tr>
<td>71 Renting of machinery and equipment</td>
<td>0.0</td>
</tr>
<tr>
<td>72 Computer and related activities</td>
<td>114.5</td>
</tr>
<tr>
<td>73 Research and development</td>
<td>32.4</td>
</tr>
<tr>
<td>74 Other business activities</td>
<td>306.0</td>
</tr>
<tr>
<td>M Education</td>
<td>0.0</td>
</tr>
<tr>
<td>N Health and social work</td>
<td>0.0</td>
</tr>
<tr>
<td>90 Sewage and refuse disposal</td>
<td>0.0</td>
</tr>
<tr>
<td>92 Cultural and sporting activities</td>
<td>570.8</td>
</tr>
<tr>
<td>Other</td>
<td>31.5</td>
</tr>
<tr>
<td>TOTAL</td>
<td>32626.0</td>
</tr>
</tbody>
</table>

*Average Foreign Investment Capital

Note: On 1 June, 1989. Figures may not add to totals because of rounding.

Bulgaria

Information about Bulgaria's joint venture activities is based on the data received about seventy joint ventures by Business Eastern Europe at the end of 1990. According to the data (see table 8.8) Bulgarian joint ventures are mainly operational in machine building (21%), electronics (21%), followed by food and agriculture (10%), light industry (10%), chemicals (7%), consulting (5%), tourism (4%), construction (3%), and others (19%). Although the total number of joint ventures is relatively low compared to other East European countries (see table 8.1), foreign capitalisation is on average higher than capitalisation in Poland (compare US $ 500,000 average capitalisation in Bulgarian sample with US $ 160,000 in Poland and US $ 200,000 in Hungary in table 8.3). The comparatively sound level of foreign equity contributions is probably due, however to Bulgaria's 1989 joint venture decree which discriminates against joint ventures with shareholding of less than 49% and less than US $ 100,000 foreign capitalisation, whilst joint ventures with at least 49% foreign shareholding and statutory capital in excess of US $ 100,000 are granted a 30% rate on profit tax. Although these restrictions have ensured a basic level of foreign capitalisation, they may have had the effect of keeping the number of joint ventures lower than in other Eastern European countries which do not have these restrictions.
Table 8.8 Joint Ventures in Bulgaria, by Economic Activity

<table>
<thead>
<tr>
<th>ECONOMIC ACTIVITY</th>
<th>NO OF JVS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machine building</td>
<td>15</td>
</tr>
<tr>
<td>Electronics</td>
<td>15</td>
</tr>
<tr>
<td>Food and Agriculture</td>
<td>7</td>
</tr>
<tr>
<td>Light industry</td>
<td>7</td>
</tr>
<tr>
<td>Chemicals</td>
<td>5</td>
</tr>
<tr>
<td>Consulting</td>
<td>3</td>
</tr>
<tr>
<td>Tourism</td>
<td>3</td>
</tr>
<tr>
<td>Construction</td>
<td>2</td>
</tr>
<tr>
<td>Others</td>
<td>19</td>
</tr>
<tr>
<td>TOTAL</td>
<td>70</td>
</tr>
</tbody>
</table>

Romania

Of the 1679 Romanian joint ventures recorded by April 1991, 1443 (or 85.9% of them) have been registered in foreign trade and services. The remaining 14.1% (or 236 joint ventures) are registered for activities in manufacturing, food processing, electronics and construction (see table 8.9). The very low proportion of joint ventures in manufacturing explains the small average foreign capitalisation of US $ 90,000 per joint venture (see table 8.3) as services and trade activities usually require less investment of capital goods.

Table 8.9 Joint Ventures in Romania, by Economic Activity

<table>
<thead>
<tr>
<th>ECONOMIC ACTIVITY</th>
<th>NO. OF JVS</th>
<th>FOREIGN CAPITAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign trade and service</td>
<td>1443</td>
<td>----</td>
</tr>
<tr>
<td>Manufacturing, food processing, electronics</td>
<td>236</td>
<td>----</td>
</tr>
<tr>
<td>and construction</td>
<td></td>
<td>US$ 150</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1679</td>
<td>(average per</td>
</tr>
<tr>
<td></td>
<td></td>
<td>jv $0.09)</td>
</tr>
</tbody>
</table>

Source: Business Eastern Europe (3 June 1991) p.173

Czechoslovakia

The data available on the activities of 52 Czechoslovak joint ventures has been obtained from Business Eastern Europe (26 June 1989 and 23 June 1990) and summarised in table 8.10 below. The majority of joint ventures (37 joint ventures) are engaged in non-manufacturing activities. Manufacturing joint ventures, nevertheless, have attracted an equal number of joint ventures as the hotel and tourist industry (15 joint ventures each), the two largest sectors in the sample (see table 8.10). Although few details were available about Czechoslovak joint ventures at the time of writing, it is clear from table 8.3 that the
average foreign statutory capital per joint venture has been US $ 500,000. This comparatively sound level of capitalisation (compared with Romania and Poland's low capitalisation) may be explained by the relatively high proportion of joint ventures in manufacturing and hotel construction which usually require substantial capital investments compared with service industries (cf. Poland and Soviet Union).

Table 8.10  Joint Ventures in Czechoslovakia, by Activity

<table>
<thead>
<tr>
<th>ACTIVITY</th>
<th>NO. OF JVS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Protection of environment</td>
<td>3</td>
</tr>
<tr>
<td>Business services</td>
<td>6</td>
</tr>
<tr>
<td>Hotel and tourism (incl. construction of hotels)</td>
<td>15</td>
</tr>
<tr>
<td>Television and motion pictures</td>
<td>1</td>
</tr>
<tr>
<td>Agricultural activities</td>
<td>4</td>
</tr>
<tr>
<td>Research and development</td>
<td>3</td>
</tr>
<tr>
<td>Services</td>
<td>5</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>15</td>
</tr>
<tr>
<td>TOTAL</td>
<td>52</td>
</tr>
</tbody>
</table>


Despite the lack of compatible data for a conclusive comparison between the former CMEA countries, the data presented in the previous paragraphs permit the following observations to be made:

a) The Soviet Union’s manufacturing joint ventures have attracted the largest foreign statutory capital than any other country. The average foreign capitalisation of a manufacturing joint venture in the Soviet Union is double that of a manufacturing joint venture in Hungary (and 9.5 x more than in Poland).
b) Over 60% of the joint venture samples in the former Soviet Union, Hungary and Poland have been active in manufacturing, whilst in Czechoslovakia and Romania service joint ventures have predominated. Although the data on joint ventures in Bulgaria does not categorise them into manufacturing and non-manufacturing activities, the levels of capitalisation and the fact that a number of joint ventures are engaged in machine building and electronics suggest that a good proportion of them are likely to be in manufacturing.

c) Poland’s general low level of capitalisation (even in manufacturing joint ventures) suggests that Western companies have been reluctant to invest larger sums of money in the Polish economy because of its debt repayment problems.

d) Despite the large number of joint ventures in Romania foreign capital investment has been low. This is attributed to the fact that large numbers of joint ventures have been engaged in trade and service activities. As explained earlier on in the chapter, service joint ventures normally have lower capital requirements than manufacturing joint ventures. Moreover, the unstable political and economic situation in the first half of 1990 acted as a disincentive to potential foreign investors. (See chapter 4, section 'Foreign Investment'.)
WESTERN PARTICIPATION IN JOINT VENTURES

Introduction

This section examines the participation of OECD countries, and in particular the participation of the G-7 countries (the United States, Germany, United Kingdom, France, Italy, Canada and Japan) in joint ventures based in Eastern Europe. Their level of investment is assessed by the number of joint ventures they are engaged in and the amount of capital they have invested in each of the former CMEA countries in Europe.

Soviet Union

Table 8.11 shows that the G-7 countries have founded nearly half of the total number of joint ventures (926 joint ventures or 45.2% of total numbers) and contributed nearly half of the total foreign capital (US $14,268 or 45.2%) in Soviet joint ventures. The following individual OECD countries have established the greatest number of Soviet joint ventures:

- Germany 281 joint ventures
- United States 247 joint ventures
- Finland 183 joint ventures

The largest foreign capital investments, however at the end of 1990 had been made by the United States (US $360.2 million or 11.3% of total foreign capital investments in joint ventures), followed closely by Finland with US $356.9 million (11.3% of total foreign capital), Germany with US $346.1 million (10.9% of total foreign capital) and Italy with US $289.8 million (9.2% of total capital).
Hungary

The United Nations’ sample of joint ventures in 1989 (178 joint ventures) suggests that Austria established the greatest number of joint ventures (49 joint ventures) in Hungary, followed by Western Germany (37 joint ventures), Switzerland (18 joint ventures), the United States (11 joint ventures), Sweden (10 joint ventures) and the Netherlands (8 joint ventures). The largest foreign capital investment, however, was made by the Republic of Korea which invested US $ 95 million, followed by Western Germany (US $ 28.6 million), Austria (US $ 28.5 million), Switzerland (US $ 18 million) and the Netherlands (US $ 9.8 million).(10)

Poland

Western countries’ participation in Polish joint ventures (see table 8.12) shows that Germany established not only the largest number of joint ventures (981 joint ventures, 43% of total number), but also invested the largest amount of capital (US$ 108.9 million, 38% of total foreign capital). Germany is followed by Sweden, Poland’s second greatest joint venture investor, having established 256 joint ventures and invested US $ 32.5 million; and the United States which established 214 joint ventures and invested US $ 29.3. Overall foreign capitalisation, however, in Poland has remained small, totalling US $ 289.4 at the beginning of 1991. The largest average capital investments have been made by Israel (US $ 350,300), followed by the Netherlands (US $ 246,600), Japan (US $ 203,600), Switzerland (US $ 160,700) and Italy (US $ 147,900).
<table>
<thead>
<tr>
<th>COUNTRY/REGION</th>
<th>TOTAL MN SU Roubles</th>
<th>FOR MN SU Roubles</th>
<th>FOREIGN MN US$</th>
<th>NO. OF JVS</th>
<th>*AFCI MN US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Europe, of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EEC</td>
<td>3037.0</td>
<td>1168.4</td>
<td>1870.9</td>
<td>1228</td>
<td>1.5</td>
</tr>
<tr>
<td>Belgium</td>
<td>94.6</td>
<td>37.2</td>
<td>42.1</td>
<td>22</td>
<td>1.9</td>
</tr>
<tr>
<td>Denmark</td>
<td>6.7</td>
<td>2.0</td>
<td>3.2</td>
<td>8</td>
<td>0.4</td>
</tr>
<tr>
<td>France</td>
<td>276.1</td>
<td>113.4</td>
<td>181.2</td>
<td>70</td>
<td>2.6</td>
</tr>
<tr>
<td>Germany</td>
<td>564.1</td>
<td>218.6</td>
<td>346.1</td>
<td>281</td>
<td>1.2</td>
</tr>
<tr>
<td>Greece</td>
<td>8.8</td>
<td>4.3</td>
<td>6.9</td>
<td>10</td>
<td>0.7</td>
</tr>
<tr>
<td>Ireland</td>
<td>19.4</td>
<td>9.0</td>
<td>13.8</td>
<td>6</td>
<td>2.3</td>
</tr>
<tr>
<td>Italy</td>
<td>427.6</td>
<td>178.4</td>
<td>289.8</td>
<td>130</td>
<td>2.2</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>2.3</td>
<td>0.9</td>
<td>1.4</td>
<td>7</td>
<td>0.2</td>
</tr>
<tr>
<td>Netherlands</td>
<td>57.0</td>
<td>21.9</td>
<td>34.4</td>
<td>24</td>
<td>1.4</td>
</tr>
<tr>
<td>Portugal</td>
<td>0.3</td>
<td>0.1</td>
<td>0.2</td>
<td>1</td>
<td>1.0</td>
</tr>
<tr>
<td>Spain</td>
<td>60.2</td>
<td>24.8</td>
<td>39.7</td>
<td>29</td>
<td>1.4</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>172.4</td>
<td>71.9</td>
<td>115.4</td>
<td>112</td>
<td>1.0</td>
</tr>
<tr>
<td>EFTA</td>
<td>1063.0</td>
<td>418.0</td>
<td>685.4</td>
<td>468</td>
<td>1.5</td>
</tr>
<tr>
<td>Austria</td>
<td>244.8</td>
<td>89.3</td>
<td>143.0</td>
<td>115</td>
<td>1.2</td>
</tr>
<tr>
<td>Finland</td>
<td>509.3</td>
<td>214.4</td>
<td>356.9</td>
<td>183</td>
<td>2.0</td>
</tr>
<tr>
<td>Norway</td>
<td>9.5</td>
<td>2.5</td>
<td>4.2</td>
<td>8</td>
<td>0.5</td>
</tr>
<tr>
<td>Sweden</td>
<td>184.2</td>
<td>59.4</td>
<td>95.7</td>
<td>66</td>
<td>1.5</td>
</tr>
<tr>
<td>Switzerland</td>
<td>96.8</td>
<td>43.4</td>
<td>71.1</td>
<td>78</td>
<td>0.9</td>
</tr>
<tr>
<td>Liechtenstein</td>
<td>18.4</td>
<td>9.0</td>
<td>14.6</td>
<td>18</td>
<td>0.8</td>
</tr>
<tr>
<td>Other Europe</td>
<td>232.6</td>
<td>67.9</td>
<td>111.1</td>
<td>60</td>
<td>1.9</td>
</tr>
<tr>
<td>Canada</td>
<td>125.6</td>
<td>53.3</td>
<td>86.7</td>
<td>53</td>
<td>1.6</td>
</tr>
<tr>
<td>Japan</td>
<td>69.5</td>
<td>28.7</td>
<td>46.4</td>
<td>33</td>
<td>1.4</td>
</tr>
<tr>
<td>United States</td>
<td>526.8</td>
<td>251.4</td>
<td>360.2</td>
<td>247</td>
<td>1.5</td>
</tr>
<tr>
<td>Developing Countries</td>
<td>235.9</td>
<td>104.0</td>
<td>148.9</td>
<td>130</td>
<td>1.1</td>
</tr>
<tr>
<td>Economies in transition (former CMEA countries)</td>
<td>431.3</td>
<td>173.8</td>
<td>273.4</td>
<td>154</td>
<td>1.8</td>
</tr>
<tr>
<td>Non-European Planned Economies</td>
<td>80.3</td>
<td>37.0</td>
<td>58.6</td>
<td>46</td>
<td>1.3</td>
</tr>
<tr>
<td>Other countries</td>
<td>56.4</td>
<td>27.6</td>
<td>43.3</td>
<td>35</td>
<td>1.2</td>
</tr>
<tr>
<td>Multi-party 1)</td>
<td>385.2</td>
<td>165.1</td>
<td>262.5</td>
<td>121</td>
<td>2.2</td>
</tr>
<tr>
<td>Unknown</td>
<td>0.9</td>
<td>0.3</td>
<td>0.6</td>
<td>3</td>
<td>0.2</td>
</tr>
<tr>
<td>TOTAL</td>
<td>4948.9</td>
<td>2009.7</td>
<td>3151.6</td>
<td>2050</td>
<td>1.5</td>
</tr>
</tbody>
</table>

1) Foreign investment projects with foreign partners from two or more countries
Note: as on 1 January, 1991. Figures may not add to totals because of rounding.
* Average foreign capitalisation per joint venture.

Table 8.12  Foreign Participation in Polish Joint Ventures

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>NO. OF JVS</th>
<th>TOTAL CAPITAL (millions of US $)</th>
<th>*AFCI (thousands of US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>981</td>
<td>108.9</td>
<td>111</td>
</tr>
<tr>
<td>Sweden</td>
<td>256</td>
<td>32.5</td>
<td>127</td>
</tr>
<tr>
<td>USA</td>
<td>214</td>
<td>29.3</td>
<td>137</td>
</tr>
<tr>
<td>Austria</td>
<td>200</td>
<td>22.0</td>
<td>110</td>
</tr>
<tr>
<td>Great Britain</td>
<td>145</td>
<td>13.9</td>
<td>96</td>
</tr>
<tr>
<td>Italy</td>
<td>131</td>
<td>19.4</td>
<td>148</td>
</tr>
<tr>
<td>France</td>
<td>130</td>
<td>14.3</td>
<td>110</td>
</tr>
<tr>
<td>Netherlands</td>
<td>108</td>
<td>26.7</td>
<td>246.6</td>
</tr>
<tr>
<td>Switzerland</td>
<td>90</td>
<td>14.4</td>
<td>160.7</td>
</tr>
<tr>
<td>Israel</td>
<td>20</td>
<td>7.0</td>
<td>350.3</td>
</tr>
<tr>
<td>Japan</td>
<td>5</td>
<td>1.0</td>
<td>203.6</td>
</tr>
<tr>
<td>TOTAL</td>
<td>2280</td>
<td>289.4</td>
<td>127</td>
</tr>
</tbody>
</table>

* Average Foreign Investment Capital per joint venture

Source: Table adapted from Pole Position (April 1991), p.6
Bulgaria

At the time of writing only a few statistics were available, giving the breakdown of foreign joint venture investments in Bulgaria. Figures published in Business Eastern Europe at the beginning of 1991 (11) revealed, however, that the greatest number of joint ventures were established by Austria (16 joint ventures), followed by the United Kingdom (12 joint ventures), Italy (11 joint ventures), Germany (10 joint ventures) and the United States, France and Switzerland (5 joint ventures each). No figures, however, were published at the time of writing, giving the amounts of capital contributed by the different foreign countries.

Romania

A report in Business Eastern Europe established Germany as Romania's leading investment partner, having invested US $ 22.4 million by April 1991, followed by Italy (US$ 16.3 million), the Netherlands (US $ 11.5 million), Greece (US $ 10.1 million) and Switzerland (US $ 9.2 million).(12) No data was available, however, for the number of joint ventures registered by these foreign countries individually.

Czechoslovakia

By June 1990 the data on Czechoslovak joint ventures gave only the number of joint ventures established by companies of different Western countries. Austria and Germany took the lead with sixteen and thirteen joint ventures respectively, followed by France (5 joint ventures), the Netherlands (4 joint ventures), the United Kingdom and Denmark (3 joint ventures each), Switzerland and Belgium (2 joint ventures each) and finally Sweden, Italy and Canada (1 joint venture each) as well as one multi-partner joint venture. As with Romania and Bulgaria, no statistical data was available giving the size of foreign
capital investments per country.

On the basis of the data presented in the above paragraphs about foreign participation in joint ventures in Eastern Europe the following observations have been made:

a) German firms appeared to have established the greatest number of joint ventures in Eastern Europe and the former Soviet Union;
b) Austrian firms seemed to be the dominant Western joint venture partner in Hungary, Czechoslovakia and Bulgaria, where they often had the largest number of joint ventures;
c) although Germany often established the largest number of joint ventures in the former CMEA area, it did not always make the largest capital investments. Nevertheless, it has competed favourably with other Western countries including the United States and often ranks among the top three joint venture investors (in terms of invested statutory capital);
d) the largest average foreign statutory capital investment has been made by the Republic of Korea (US $ 30.3 million for one joint venture in the former Soviet Union and US $ 95 million for two joint ventures in Hungary);
e) the average Western statutory capital investment per joint venture has remained small in general, ranging between US $ 100,000 - 500,000, except for the former USSR where it ranged between US $ 1.2 and 2.2 million.
WESTERN INSTITUTIONAL SUPPORT

Introduction

Having examined individual Western countries' participation in joint ventures based in Eastern Europe and the former Soviet Union this section discusses the influence of institutional support on East-West trade and industrial co-operation. The term 'institutional support' is used by the author to refer to export credits and financial support granted by state or government organisations to their exporters and customers. The role of trade delegations, exhibitions and fairs which are organised by governments, and although important in maintaining good East-West trade relations, has, however, been excluded because they do not provide exporters with any direct financial supports.

In the subsequent paragraphs, therefore, the policies of Western governments on East-West trade and the support given to firms engaged in trade with the Eastern bloc in the post-war era, and particularly since the changes in Eastern Europe and the Soviet Union are presented. The institutional support of the United States, the Federal Republic and the United Kingdom are referred to in particular because the United States and Germany have played an important role in East-West relations in the post-war era(13), and the British government's recent support provides useful background for the study of Anglo-Soviet joint ventures in chapter ten.

Historical Background

Since as early as 1917, it appears that trade finance has been used by Western governments as a political lever with the aim of achieving either "denial and leverage" or "export promotion" in East-West trade.(14) In adopting a policy of leverage, for example, governments release trade credits to would-be importers only when political conditions
set by the exporting government are fulfilled.(15) By contrast, however, when
governments are committed to trade promotion, they undertake much of the risk of
lending, thereby reducing the cost to exporters of financing trade which in turn makes
their exports more attractive to importers.(16)

In the following paragraphs the development of US and West European policies on
East-West trade are presented with examples of both conflicts and co-operation between
the United States and Western Europe.

By receiving financial and economic help from the United States after the Second World
War in the form of Marshall Aid and support in finding new markets in developing
countries after losing markets in Eastern Europe in the nineteen fifties (17), a number
of countries, particularly West Germany, became financially, and to some extent
politically, dependent on the United States. Consequently, there was little opposition to
some of the US restrictive trade policies towards the former socialist countries of Eastern
Europe in the early post-war years.(18)

During the latter half of the nineteen fifties, following improvements to their economies,
some West European countries began, however, to re-establish some of their old trading
links with Eastern Europe and the former Soviet Union. This led not only to occasional
conflict with the United States, which preferred to restrict trade and finance to exporters,
but also with a number of other West European countries, which were competing for the
same business in Eastern Europe. As, therefore, individual West European countries
began to compete amongst each other for trade with Eastern Europe, they extended long-
term credit facilities and reduced the amount of cash for down payments. In 1958 in an
attempt to limit competition among Western exporters, the United States tried to appeal
to West European governments, asking them to adhere strictly to a five year period for
official direct credits and guarantees, and demand from the former USSR at least twenty
per cent of the purchase price as a cash down payment for all imported goods. This five-year rule, however, was soon violated by West European governments because they feared a decline in East-West trade as CMEA countries sought long-term credits from Japan.(19)

Britain was the first country to break the five-year rule, when in 1960 it responded to East European requests for long-term loans by introducing its "matching policy", a policy which committed the British government to match any terms of finance offered by any other foreign competitor involving long-term financing. The ECGD (the Export Credit Guarantee Department) also undertook to finance sales by foreign subsidiaries of British firms in order to improve its competitive position.(20) Whilst other West European countries (e.g. Italy and France) joined the United Kingdom in breaking ranks with US policy, West Germany continued to follow the US in denying trade and finance to Eastern Europe and the Soviet Union during the nineteen sixties.

For a period in the latter half of the nineteen sixties the United States also began to change its policy on trade with the former CMEA countries. The aim of the new policy was to erode East European unity by intensifying rather than restricting trade relations in an effort to break up the CMEA.(21) During the Nixon administration in the nineteen seventies, however, when policies of détente were being actively promoted, the emphasis was rather on integrating the former Comecon countries more into the world economy through trade in an attempt to safeguard world peace.(22) The United States had, therefore, for a short period moved closer in its East-West policies to those of Western Europe. Following Soviet restrictions on Jewish emigration and Soviet activities in Angola and Africa, however, public opinion in the United States towards the Soviet Union and Eastern Europe swung back resulting in a reversal of American liberal trade practices.(23)
Having supported American détente efforts and pursued its own 'Ostpolitik', a policy which aimed at reconciliation rather than confrontation, the Federal Republic was no longer willing to follow the United States' return to restrictive practices with the CMEA countries. Consequently, conflicts arose between West Germany and the United States. An example, of a major conflict between the US and West Germany over the former Soviet Union revolved around the construction of the Urengoi natural gas pipeline which provided Soviet gas to Germany. The Americans had opposed the gas pipeline because they feared that Western Europe would become dependent upon Soviet gas deliveries. The view taken by West Germany, however, was that oil and gas imports from the former USSR would spread their general dependence on foreign energy. Moreover, as their energy imports from the Soviet Union only amounted to 5% of their total energy imports, West Germany did not think that this would make them dependent on Soviet energy supplies.(24)

Despite conflicting policies over East-West trade, agreement and co-operation have been achieved in two important areas. Since May 1982 the United States and European governments (mainly OECD countries) have agreed to adhere to guidelines set by the Arrangement on Guidelines for Officially Supported Export Credits (first formed in 1978) which sets minimum rates (adjusted every six months) for export credits. This co-ordinated action between US and West European governments is also repeated in the Co-ordinating Committee for Multilateral Export controls (CoCom) which was established in January 1950, mainly among NATO member countries. Within this framework, members agree to co-ordinate national export controls lists, designed to prevent the sale or transfer of technology which might pose a threat to national security.(25)
Western Institutional Support since 1989

Since 1989 Western governments have been meeting together to discuss how best to support Eastern Europe and the former Soviet Union in their efforts to restructure their economies. This has led to several joint as well as individual initiatives by Western governments, although, as in the past, conflicts between the United States and some Western governments over financial packages and export credits have continued. In the subsequent paragraphs those areas in which joint co-operation has been achieved are summarised. This is followed by recent examples of divergent policies on East-West trade and export credit restrictions.

(i) Joint Co-operation
The first joint initiative came from the 24 member countries of the OECD, the Group of 24 (which includes the European Community and EFTA countries, the United States, Canada, Australia, New Zealand, Japan and Turkey) at their summit meeting in July 1989, when the Group of 24 (G-24) pledged to help East European countries (initially Hungary and Poland) in their efforts to create pluralist societies in their respective countries. As a result of this meeting, the member countries of G-24 made the following funding available in 1990 which is presented in table 8.13.

Despite, the tendency in the past by the United States to withhold financial support to Eastern Europe and the former Soviet Union, table 8.13, nevertheless, shows that the United States has made the greatest contribution of the G-24 countries (60.7% of all grants), followed by Denmark (22.2% of all grants), Switzerland (8.6% of all grants and Japan (4.7% of all grants). This suggests a softening in the United States’ policy towards Eastern Europe and a rapprochement between United States and West European policies. The remaining countries in table 8.13 have made up the remaining 3.8% of the total grant figure. The United Kingdom has contributed the least out of the G-24 countries.
Table 8.13  Group of 24 Aid: Firm commitments by the Group of 24 to grant aid to Poland and Hungary, as from August 1990.

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>GRANTS (mn ecu)</th>
<th>LOANS (mn ecu)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>3.47</td>
<td>----</td>
</tr>
<tr>
<td>Denmark</td>
<td>106.9</td>
<td>----</td>
</tr>
<tr>
<td>Germany</td>
<td>1.4</td>
<td>----</td>
</tr>
<tr>
<td>Italy</td>
<td>1.33</td>
<td>33.2</td>
</tr>
<tr>
<td>Spain</td>
<td>1.0</td>
<td>----</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>0.3</td>
<td>----</td>
</tr>
<tr>
<td>Austria</td>
<td>2.1</td>
<td>----</td>
</tr>
<tr>
<td>Canada</td>
<td>8.4</td>
<td>----</td>
</tr>
<tr>
<td>Japan</td>
<td>22.5</td>
<td>----</td>
</tr>
<tr>
<td>New Zealand</td>
<td>0.05</td>
<td>----</td>
</tr>
<tr>
<td>Switzerland</td>
<td>41.4</td>
<td>----</td>
</tr>
<tr>
<td>Turkey</td>
<td>0.54</td>
<td>----</td>
</tr>
<tr>
<td>USA</td>
<td>292.8</td>
<td>----</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>482.19</strong></td>
<td><strong>83.20</strong></td>
</tr>
</tbody>
</table>

Other international organisations which have been established to assist Eastern Europe, include the International Finance Corporation (IFC) and the International Bank for Reconstruction and Development (IBRD), both of which are an arm of the World Bank. The IFC provides loans and risk capital for private sector enterprises operating in Poland, whilst the IBRD grants loans for financial reform, export development and environmental management.

Encouraged by the G-24, the European Community also set up its own programme of assistance in 1990, called Phare (an acronym for 'Poland and Hungary: assistance for restructuring the economy') which initially applied to Hungary and Poland only, but has since then been extended to include Czechoslovakia, Bulgaria and Yugoslavia. Between 1991 and 1993 the Phare programme is expected to grant 2 billion ecu mainly to support projects in the following priority areas:
- supply of agricultural equipment, pesticides and products;
- removal of restrictions on exports from the East European countries covered by the scheme;
- vocational training in all forms, but particularly in banking and financial services;
- studies of ways to improve the environment.(27)

Other joint efforts by the European Community countries include the granting of loans of up to 1 billion ecu by the European Investment Bank to Hungary and Poland, as well as a total of 10 billion ecu from the European Bank for Reconstruction and Development (EBRD), which was founded in 1991. The money from EBRD is to provide equity finance to private sector companies already established in the region which are interested in expanding existing operations and increasing their investments. EBRD will itself be able to have 30% of its investments in equities.(28)
Besides these joint projects individual OECD countries have established their own national grants and loan schemes. The British government, for example set up the Know-How Fund in July 1989 for Poland which now also extends to Hungary, Czechoslovakia, Bulgaria and the former Soviet Union. The money from the Know-How fund is to assist British businesses wanting to invest in the long term in Eastern Europe and provides a grant of up to a maximum of £50,000 for feasibility studies and management training for East European business partners. The money from this fund acts as pump-priming for British business investments in Eastern Europe.(29)

(ii) Conflicting Policies

Although the above paragraphs indicate greater international co-operation and support for the economies in transition in Eastern Europe, the events leading up to the Group of 7 countries’ talks (members include the US, Canada, Japan, France, Germany, United Kingdom and Italy) in July 1991 are presented to highlight the tendency still, by the United States and the United Kingdom, to use financial aid as a political lever.(31)

The main dispute between the Group of 7 (G-7) in the run up to their meeting in London in July 1991 concerned the request made by former President Gorbachev to attend the G-7 talks as an observer, after having made a request to the G-7 countries for US $ 100 billion Western aid. The United States and the United Kingdom were opposed to former president Gorbachev’s presence at the G-7 talks, as the United States in particular, feared that it would be harder for the G-7 countries to refuse the former Soviet leader aid if he were present. Moreover, President Bush had hoped to dissuade the G-7 countries from granting the former USSR this aid, unless certain conditions such as the implementation of plans for currency convertibility and further reduction in arms control were met by the former Soviet Union.(31) This action was, however, rejected by Germany, Italy and France whose policy was to grant the request unconditionally. In the end these latter countries managed to persuade the other G-7 countries to allow Gorbachev to attend and
negotiate a financial aid package. (32)

(iii) Export Credits

In view of the former USSR’s mounting debts, which were expected to reach US $ 75 billion by 1992, and its repayments on US $ 15 -20 billion debts servicing, Western countries were forced in 1991 to reassess their guarantees to exporters to the former USSR. (33) Only the British government, however, decided in May 1991 to withdraw insurance on exports to the former Soviet Union. (34) The consequences of this action on the performance of British exporters to the Soviet Union were felt immediately, especially as the other West European governments had decided to continue granting export guarantees to their exporters. Thus in April 1991 for example, the decision by the ECGD not to grant export insurance cover to a privately-owned British company, initially chosen to build the £150 million British-Soviet Trade Centre in Moscow, resulted in that British company losing the contract to a French contractor who was able to offer a more favourable export credit package, protected by Coface (the French state-owned credit insurance agency). (35) The importance of government supported export credits in East-West trade is clearly illustrated by this example and may explain why other West European countries have been more successful in East-West trade and joint ventures than countries which withhold export credits. (36)

Institutional support can also be measured in terms of guaranteed bank loans. Recent figures published by the European Financial Digest (37) in 1991 have shown that out of a total of US$ 41.2 billion bank loans to the former USSR, German banks have accounted for almost 25% (or US$ 11 billion) of the total loans. Moreover, 2/3 of the US $ 11 billion have been guaranteed which illustrates German support for its exporters to the former Soviet Union. By comparison, French banks have the largest exposure of non-guaranteed lending at US $ 6 billion, whilst Japanese exposure is US $ 4.5 billion and the United Kingdom registered banks have lent US $ 4 billion, 80% of which has,
however, been backed by the British government. By contrast, American exposure at US $500 million is considerably less than any of the Western countries quoted here (by at least a factor of 8), which suggests that the United States has still been reluctant to grant guaranteed financial support. (37)

CONCLUSION

The rapid growth in the number of joint ventures during the latter half of the nineteen eighties has occurred for two main reasons. Favourable joint venture terms were introduced by all former CMEA countries by 1989 and radical political changes in these countries in 1989 enabled them to introduce measures aimed at liberalising trade relations with the West.

Despite the high number of joint venture registrations, the amount of equity capital invested by Western companies in the former CMEA area has, nevertheless, remained relatively low, particularly in Poland, Romania and Bulgaria. This suggests, that Western companies still consider equity investments in Eastern Europe to be risky, and has resulted in a greater number of non-capital intensive joint ventures in the poorer East European countries.

The need for financial aid has, however, been recognised by Western countries, including the United States, and joint organisations have, therefore, been set up to co-ordinate policies and resources in an effort to assist these economies in becoming market economies and encourage further investments by Western companies. The influence of institutional support on a country's export performance is reflected not only in the trade figures, but also in joint venture investments. Consequently, the consistently strong representation of German companies in East-West joint ventures (as well the Federal Republic having the highest trade turnover with the former CMEA countries out of all the
G-7 countries) suggests that the Federal Republic grants its exporters to Eastern Europe greater institutional support than any other West European country. By comparison, it appears that the United Kingdom has been more conservative in granting institutional support to its exporters to the former socialist countries of Eastern Europe. This has resulted in trade contracts being lost to other West European competitors, and may also account for Britain often lagging behind Austria, France and Italy in the number of joint venture investments. The United States, on the other hand, has managed despite its restrictive trade policies towards the former USSR and Eastern Europe to participate as actively in joint ventures in Eastern Europe as the Federal Republic of Germany, particularly in the former Soviet Union and Poland, both in terms of numbers and invested capital. Moreover, American participation in joint international organisations and meetings, set up to provide aid to Eastern Europe and the former Soviet Union, nevertheless demonstrates concern and a commitment to extending support to the former socialist countries of Eastern Europe in their efforts to restructure their economies.
Chapter 8: Notes

4. Ibid., p.46
   - Manufacturing joint ventures in Hungary have contributed only 35% of total flow of foreign statutory capital into Hungary. See,
5. Ibid., p.31.
As from January 1991, Bulgaria has eased restrictions, giving ventures with smaller foreign investments the same privileged status within the economy as larger projects (i.e. 40% profit tax reduced from 50%).


9. Data based on information published in

- Business Eastern Europe, "Czechoslovak list Western Joint Ventures", 26 June, 1989, p.205, and


13. West German trade involvement with the former USSR: at least 100,000 jobs are dependent on total exports to the former Soviet Union (cf. 600,000 among all OECD members). Moreover, certain sectors (e.g. steel and engineering groups such as 'Mannesmann' which had geared much of its steel pipe capacity to Soviet orders in 1982) were heavily dependent on Soviet orders. For further discussion of German/Soviet trade see,


15. In April 1991 the British government withdrew export credit guarantees completely on medium term loans. Exporters also faced a 50% increase on premium rate as a result of economic and political conditions in the Soviet Union. See,

16. In June 1991 it was announced by German economics Minister, Möllemann, that generous state-backed credits were to be given to the former USSR for buying German goods. See,


- Crawford (1987), pp.296 - 297. According to the author Italy responded in 1961 by granting credit with possible maturities up to 12 years.


24. Ibid., p.173.


27. Ibid., p.33.


- Independent, "G-7 opposition to Gorbachev at summit", 23 May 1991, p.31.


33. Estimates made by Georg Krupp, director in charge of Eastern Europe at the Deutsche Bank, see,


- Bundesministerium für Wirtschaft, "Der Deutsche Osthandel", Studienreihe, Nr. 70, Bonn, 1989, p.84.

37. Compare total loans to the former Soviet Union of US $41.2 billion with total loans to Latin America of US $200 billion. See,
- European Financial Digest, "French are largest Unsecured Soviet Creditors", no. 41, 5 April, 1991, p.3.

38. Ibid., p.3
CHAPTER 9

CASE HISTORIES OF EAST-WEST JOINT VENTURES

IN THE EAST: 1986 - 1989

INTRODUCTION

Following a research visit to Hungary in June 1986 to study companies’ responses to the 1985 joint venture amendments, the author came to a number of conclusions which led to the collection of the early case studies. These conclusions have been listed below:

(i) the positive joint venture amendments in 1985 suggested that joint ventures were being promoted as a foreign trade activity by the Hungarians;
(ii) the increase in the number of joint ventures, as a consequence of the 1985 amendments (from 46 in 1984 to 77 in 1987 - table 8.1), illustrated Western companies’ growing interest in East-West joint venture activities;
(iii) the subject of East-West joint ventures had remained relatively under-researched because of the low numbers of East-West joint ventures prior to the nineteen eighties, in the CMEA area (19 joint ventures in total - see table 8.1).(1)

Consequently, the author decided to extend her research and add new data to the subject of East-West joint ventures, by focussing on Western company experiences in the CMEA area and presenting the data in the form of case studies. The subsequent sections describe the aims and objectives of the first case studies, the methodology employed to obtain the information and some of the difficulties encountered during the research. This is then followed by the case study collection and a summary of the findings.
Aims

The aims of the first case study collection were to provide practical illustrations of East-West joint ventures in Eastern Europe and the former Soviet Union, to present Western firms' views of their joint venture experiences, and to obtain views of companies from more than one Western country about joint ventures in the former CMEA area.

Objectives

Having identified certain issues of particular relevance and importance for joint ventures in chapter two and in the literature search on East-West joint ventures in chapter 8, the objectives of the case study material were to obtain information on the following:

- the type of joint venture model chosen by the partners;
- the amount of statutory capital invested by the Western partner;
- the location of the joint venture (country, area);
- the extent of the Western partners' business experience in Eastern Europe and the former Soviet Union before participating in the joint venture;
- the length of time the joint venture had been operational (in the case of the Soviet Union, whether it was already operational);
- the activities of the joint venture (e.g., service, manufacturing);
- the Western firm's reasons for entering into a joint venture with a Soviet or East European partner;
- the Western firm's opinions of their partners' motivations for entering into a joint venture with them;
- the contributions made by the partners to the joint venture;
- the markets for the joint venture activities (i.e., based in the East European country, Soviet Union or third countries);
- the percentage of hard currency sales;
- the degree of countertrade business involved;
- Western firms' views of any operational difficulties as a result of legislative restrictions;
- Western firms' views of management and control of the joint venture (particularly in view of the fact that only the shared and dominant East European joint venture models existed).

**Method**

The author chose to obtain the case study material by interviewing a sample of companies from several West European countries, using a structured questionnaire for the interview. Once the interview had been completed, the company received a written version of the case study for comment. In the subsequent paragraphs the reasons for choosing the structured interview technique in obtaining the case study material, the choice of companies selected for the interviews and the difficulties encountered during the field research are presented.

a) Structured interviews

Structured interviews were conducted with a selection of Western firms because:

(i) it seemed an appropriate technique for collecting detailed case study information from a relatively small number of joint ventures;
(ii) the structured interview method enabled comparative data to be obtained, through the use of standard questions;
(iii) the structured interview allowed some flexibility, without becoming unfocussed;
(iv) by conducting a personal interview with the companies, the companies were able to overcome any suspicions they might have had about the author's motives for obtaining information about their joint venture activities;(2)
b) Company selection

One of the aims of the research was to provide case studies from more than one West European country. Consequently, besides the three British firms actively engaged in joint ventures at the time, companies in West Germany, Austria, France, Italy, the Netherlands, Switzerland and the United States were contacted by a letter introducing the author, her research project and requesting their contribution to the area of research by participating in a structured interview with the author, or by filling in the questionnaire (see appendix 1). Where the letter was sent to French and German-speaking countries, the letter was translated into the target language in order to maximise responses. Owing to the non-availability of total joint venture numbers, or a list of company names, 25 companies were selected according to:

(i) press reports which named Western companies engaged in joint venture activities;
(ii) their nationality, so as to include a mix of nationalities;
(iii) their size, choosing medium to large sized companies because they were considered more likely to be engaged in manufacturing activities, requiring greater capital investment and reliance on labour and supplies in Eastern Europe, rather than the small service joint ventures which predominated in Hungary and were less complex operations.

Of the 25 companies contacted, eight companies agreed to be interviewed, including one French company, only considering the joint venture option (and which has been excluded from the case studies because it did not enter into a joint venture partnership), and two Austrian companies which could not be visited by the author, but returned the interview questionnaire and have, therefore, been included in this sample. Although the results of eight companies are included in this collection, the case studies give information about nine joint ventures (APV Paracal is engaged in two joint ventures in Hungary and Bulgaria) as well as other industrial co-operation agreements in the former CMEA area.
c) Difficulties

The difficulties encountered during the first field research included the non-availability of information relating to the total number of joint ventures and who the Western partners were, engaged in this type of activity. Moreover, the phenomenal increase in the numbers of joint ventures did not come to light until databanks were set up in 1989 to update and keep pace with the growing numbers. Other difficulties included financial as well as time constraints in interviewing companies outside the United Kingdom.

As a result of the rapid changes in Eastern Europe the author decided to up-date the existing case studies at the end of 1990 by contacting the participating firms in the case studies by letter to see if any of the information provided between 1986 and 1988 had changed. Owing to a poor response at the beginning of 1991 (only Siemens replied), the author contacted the Western firms again by telephone at the beginning of 1992 obtaining additional up-dated information which has been included in the case studies below.
CASE STUDIES (1986 - 1988)

Introduction

The case studies are presented under headings which relate to the questions put to the companies interviewed (see appendix 1 for example of questionnaire) and provide information on the following:

(i) the Western company's background and experience in East European markets;
(ii) the Western company's equity shareholding and the type of joint venture model;
(iii) the Western partners' statutory capital contributions;
(iv) the activities of the joint venture;
(v) the joint venture's markets or outlets;
(vi) both partners' objectives for entering into the joint venture agreement;
(vii) the contributions made to the joint venture by the partners;
(viii) the management and control of the joint venture activities;
(ix) quality control;
(x) profit transfer for the Western partner.

Additional information obtained as interviews sometimes exceeded the boundaries of the questionnaire has also been included where applicable, and all up-dated information is presented, where applicable, at the end of each case study.
Sequence of Case Studies

The case studies in this chapter appear in the order outlined below:

United Kingdom:  Walters International Ltd.
                 APV Paracal
                 Rank Xerox

Federal Republic of Germany:
                          Siemens
                          Schwarzkopf
                          Adidas

Austria:
         Bramac
         Voith AG
United Kingdom

1. Walters International: Hungary

Shared Joint Venture

(49:51 equity shareholding by Walters International and Videoton respectively)

<table>
<thead>
<tr>
<th>Statutory capital</th>
<th>£500,000</th>
<th>in 1985</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£1 million</td>
<td>in 1986</td>
</tr>
</tbody>
</table>

Company Background:
The British company was a medium sized company based in High Wycombe, specializing in the manufacture of matrix printers for use with computer systems. Despite the fact, that it had no previous experience of trading in the CMEA area, Walters International was the first British company to set up a joint venture in 1985 in Hungary.

As neither partner had previous trade contacts with each other, it was decided to set up a licensing agreement first so that the production of computer printers could begin as early as 1984 whilst joint venture negotiations were in progress. This gave both partners the opportunity of working together before being committed to each other by a joint venture, and enabled production to begin immediately.

Joint Venture Activities:
The joint venture manufactures matrix printers under licence by Walters International and carries out joint research and development for product improvements.

Markets:
The joint venture supplies the Hungarian market through which it also attempts to sell to other East European countries, namely Czechoslovakia and Yugoslavia. Some of the work
resulting from the partners joint research and development has been built into Walters International’s own designs which have helped to improve the marketing and sales potential of Walters International products on Western markets.

Motivation of Walters International:
The main reason for wanting to set up a joint venture with a Hungarian partner has been to extend the product life cycle of the matrix printers and to take advantage of new technology developed by the joint venture. Access to new markets was also mentioned.

Motivation of Videoton:
According to Walters International the main motivation of the East European partners was to obtain Walter’s licence and initial know-how which would help them to develop and expand their range of computer peripherals.

Partner Contributions to the Joint Venture

<table>
<thead>
<tr>
<th>WALTERS INTERNATIONAL</th>
<th>VIDEOTON</th>
</tr>
</thead>
<tbody>
<tr>
<td>licence</td>
<td>manufacturing premises</td>
</tr>
<tr>
<td>manufacturing know-how</td>
<td>technical personnel</td>
</tr>
<tr>
<td>capital investment</td>
<td>research and development</td>
</tr>
<tr>
<td>technical personnel</td>
<td>managerial personnel</td>
</tr>
<tr>
<td>sales and marketing know-how</td>
<td></td>
</tr>
</tbody>
</table>

Management and Control:
Management decisions are reached jointly by both partners and Walters International is satisfied with the management structure of the company.

Quality Control:
Quality control of the Videoton built computer printers is carried out by Hungarian engineers who are trained at Walters International’s plant in the United Kingdom. The
western partner is very satisfied with the Hungarian engineers' abilities to carry out quality control.

Profit Transfer:
Walters International are satisfied with the arrangements and guarantees by the Bank of Hungary for the transfer of their share of the profits. As part of the joint venture arrangement, the British company is involved in a buy-back arrangement of some product items and components which are then sold on Western markets.

Update on Walters International (1992)

After a couple of unsuccessful attempts at receiving updated information on this Hungarian joint venture, the author discovered that Walters International had gone into receivership in January 1992. Consequently, the author contacted Videoton in the UK. According to their information, the joint venture had been bought by another company, suggesting that Walters International's and perhaps also Videoton's shareholding had been taken over by the purchaser. The author tried to confirm this, by telephoning Walton in Budapest, but was informed that the company had moved addresses.
(49:51 equity shareholding between British and Hungarian partners:  
25% APV International, 24% APV Paracal, 21% Tatbanya Colliery, 20% GEPSZEV,  
10% Komplex foreign trade organisation.)

Statutory Capital — not divulged

Company Background:
APV Paracal is a multinational company based in Crawley, a manufacturer of plant and equipment for the food and pharmaceutical industries. It has been trading with Eastern Europe since 1967. APV had co-operated with its joint venture partners before registering the joint venture through sub-contracting agreements for the manufacture of components for dairy machinery. Other co-operation agreements with its Hungarian partners included the building and equipping of food processing plants for Hungarian and other former CMEA customers. These industrial co-operation agreements involved many countertrade deals through which APV agreed to receive payment by delivery of Hungarian made machine tools and other industrial products.

Joint Venture Activities:
The joint venture supplied and installed food-processing equipment in Hungary for forint and in other former Comecon countries for hard currency.

Motivation of APV:
The British partners’ objectives in entering a joint venture agreement has been to consolidate existing trade relations, strengthen APV’s market position in Hungary as well as gain access to other CMEA markets and reduce payment by countertrade goods because the profit transfer guarantees enable APV to transfer its hard currency profits to the parent
company.

Motivation of Hungarian Partners:
According to APV the partners were primarily interested in gaining access to their technology and know-how as well as having the opportunity to sell in other markets for hard currency.

Markets:
Supply and engineering contracts are carried out mainly in Hungary, other East European countries including Yugoslavia. The joint venture has also been looking to expand into the Austrian market.

Contributions to the Joint Venture:

<table>
<thead>
<tr>
<th>APV</th>
<th>HUNGARIAN PARTNERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>technology</td>
<td>technical staff</td>
</tr>
<tr>
<td>technical know-how</td>
<td>market access</td>
</tr>
<tr>
<td>marketing know-how</td>
<td>manufacturing premises</td>
</tr>
<tr>
<td>capital</td>
<td>raw materials</td>
</tr>
<tr>
<td></td>
<td>low cost labour</td>
</tr>
</tbody>
</table>

Management and Control:
APV is satisfied with the joint management of the joint venture and expressed full confidence in the management expertise of its Hungarian partners.

Quality Control:
Hungarian technical staff are considered to be highly skilled and motivated, but to ensure APV's technical know-how is transferred and implemented successfully to its Hungarian partners, regular exchanges of technical staff take place which also ensures that effective quality control is achieved.
Profit transfer:
Through the profit transfer guarantees granted by the Hungarian authorities, APV has been able to reduce its receipt of countertrade goods for payment and transfer its hard currency earnings through the Bank of Hungary.

**Update: APV Hungary (April 1992)**

Since 1986, the British partner increased its shareholding from 49% to 60%, leaving the Hungarian partners with a 40% shareholding. Consequently, the joint venture capital has increased to 25 million forints. Owing to the improved joint venture provisions in Hungary, the joint venture has expanded its activities to include manufacturing of equipment and machinery for the food processing and dairy industry. The joint venture’s markets remain the same, mainly in Hungary and other East European countries.

3. **APV: Bulgaria**  
Shared Joint Venture

(55:45 equity shareholding by APV and Bioinvest respectively: counted as shared joint venture model because Managing Director had to be Bulgarian national.)

Statutory capital invested £120,000 in 1985

Company Background:
See details above.
Joint Venture Activities:
The joint venture is engaged in offering engineering and consultancy services in biotechnology, refrigeration, air-conditioning and food engineering.

Markets:
The joint venture is mainly active in the Bulgarian market, but sells to other socialist countries in hard currency.

Motivation of APV:
An opportunity to invest in the bio-technology market in Bulgaria.

Motivation of Bioinvest
According to APV the motivation of the East European partner has been to gain access to Western technology and hard currency markets.

Contributions to the Joint Venture

<table>
<thead>
<tr>
<th>APV</th>
<th>BIOINVEST</th>
</tr>
</thead>
<tbody>
<tr>
<td>technology</td>
<td>technical personnel</td>
</tr>
<tr>
<td>marketing know-how</td>
<td>knowledge of the local market</td>
</tr>
<tr>
<td>capital</td>
<td>local resources</td>
</tr>
</tbody>
</table>

Management and Control:
Despite the 55:45 shareholding in APV’s favour, there have been problems with control and decision-making in the management of the joint venture. Unofficially, there seemed to be more bureaucratic state interference in the joint venture than in Hungary which has affected APV’s control of the joint venture and slowed down management decisions.
Quality Control:
At the beginning of the joint venture, it was difficult to find adequately trained Bulgarian technical personnel to employ. This meant that technology was not being transferred effectively to the joint venture which has affected the quality of the services of the joint venture.

Update: APV Bulgaria (April 1992)

There had been no changes to this joint venture since 1987, but the company implied that its Bulgarian partner, Bioinvest, was in the process of becoming privatised. Consequently, the future of the joint venture looked unsure.

4. Rank Xerox: Soviet Union

Shared Joint Venture

(49:51 equity shareholding by the British and Soviet partners)

Statutory capital £150,000 - £250,000

Company Background:
Rank Xerox is a multinational company manufacturing and assembling business equipment. It has been active in East European markets since 1968 and has established a market presence in Eastern Europe and the USSR as a supplier of copying machines. Rank Xerox negotiated a joint venture in 1988 (which became operational in 1989) with a view to setting up a second joint venture subsequently.
Joint Venture Activities:
The first joint venture consisted of a series of copy shops which provide photocopying services locally as well as copying materials from Russian archives. Subject to the agreement of the Soviet authorities Rank Xerox hoped to set up a second joint venture which would manufacture and assemble copiers.

Some difficulties:
At the beginning Rank Xerox had hoped to set up joint venture which would have included the activities of the first and the potential second joint venture, but having to negotiate with two separate Soviet ministries for one joint venture proved too difficult because of non-communication between the two ministries. Consequently, Rank Xerox settled for the registration of one joint venture with a view to registering the second one later. In this way, Rank Xerox managed to overcome bureaucracies created by Soviet ministries.

Markets:
The joint venture sells business equipment to the former Soviet and East European markets, although the Soviet partners in the joint venture are seeking to gain access to hard currency markets outside Eastern Europe. The responsibility for the export market, however, rests with the Soviet partners. The partners have managed to harmonise their different objectives by agreeing the following. Rank Xerox provides the equipment, know-how to the former Soviet market, whilst the Soviet partners copy the archives which are sold on Western markets.

Motivation of Rank Xerox:
The company's main reason for setting up a joint venture has been to expand and protect its market share as well as establish further business contacts. Of considerable importance has also been the Soviet partner's interest in forming a joint venture with Rank Xerox.
Motivation of Soviet Partners:
The Soviet partners have been greatly motivated by the possibility of gaining access to Rank Xerox's distribution channels in the West, achieving import substitution through the joint venture, possibly expanding its hard currency exports as well as gaining access to newer technology and know-how. Although of lesser importance, the partners also value the training of technical personnel which is carried out by Rank Xerox, and the acquisition of Western management skills.

Contributions to the joint venture

<table>
<thead>
<tr>
<th>RANK XEROX</th>
<th>SOVIET PARTNER</th>
</tr>
</thead>
<tbody>
<tr>
<td>capital equipment (machines)</td>
<td>fixed assets (premises, etc.)</td>
</tr>
<tr>
<td>technical personnel</td>
<td>technical personnel</td>
</tr>
<tr>
<td>managerial personnel</td>
<td>managerial personnel</td>
</tr>
<tr>
<td>licences</td>
<td>direct labour (machine operators, workers, service technicians for machines)</td>
</tr>
<tr>
<td>know-how</td>
<td></td>
</tr>
<tr>
<td>up-to-date technology</td>
<td></td>
</tr>
<tr>
<td>modern management techniques</td>
<td></td>
</tr>
<tr>
<td>materials for setting up assembly (parts and components)</td>
<td></td>
</tr>
</tbody>
</table>

Management and Control:
Equal numbers of partners are present on the board of directors, and although the chairman of the board is a Soviet citizen Rank Xerox is content with the management of the joint venture.

Quality Control:
Rank Xerox has insisted that the responsibility for quality control lies with them and not their Soviet partner. This has been written into the contract.
Profit transfer:
At the time of the interview the Soviet joint venture legislation did not contain any profit transfer guarantees. The joint venture was based, therefore on a countertrade deal, whereby Rank Xerox was paid back in parts. In addition, prior to 1990 Rank Xerox was able to repatriate profits by purchasing goods for roubles on the Soviet market (e.g. wood) which it then sold to associated industries in the West. Purchasing goods in roubles were, however, no longer permitted during 1990 and 1991. (See comments by Anglo-Soviet joint ventures on this ban, company numbers 3 and 4, under 'Repatriation of profits')

Other issues:
- Rank Xerox has obtained special clauses in the contract which protect the rights of Rank Xerox staff based in the Soviet Union.
- At the time of the interview in 1988 Rank Xerox did not think that Soviet joint venture provisions had been disadvantageous for foreign investors, but needed improving.

Update: Rank Xerox (1991)

The 1989 joint venture proved to be a commercial success and is now wholly-owned by Rank Xerox. It has expanded its operations through the opening up of new copy shops which offer similar services as the joint venture did previously. The company is however, developing a new distribution system and is recruiting new dealers to promote and sell the company’s products to customers. The company found it relatively difficult, however, to recruit personnel with awareness of Western business practice and sales techniques, and set up a joint venture in Moscow to provide business training. The joint venture was signed with the National Institute for the Graphic Arts.
Another joint venture has also been established in Czechoslovakia (Brno) which provides complementary training in sales and service techniques as well as technical instruction on the maintenance requirements of the machines. These two joint ventures provide the copy shops with local personnel which have been trained in the Rank Xerox methods of doing business as well as having received technical knowledge of Rank Xerox equipment. Since the creation of the Commonwealth of Independent States, Rank Xerox cites the Baltic and the Muslim states as those offering the most potential for business.
West Germany

5. Siemens: Hungary  

Shared joint venture 1974 - 1990

(49:51 equity shareholding by German and Hungarian partners respectively:
49% Siemens, 1.9% Electromodul, 28.5% Remix Radio-Technical Company, 20.6%
others)

100% Siemens subsidiary from 1990
(see updated information at end of case study)

Statutory capital investment  38.8 million forint  in 1988
(Siemens’ contribution not divulged)  (16 x more than in 1974)

Company Background:
Siemens is a large multinational company specialising in many areas, particularly
electronics and has been active in the Hungarian market for over a hundred years. It is
also represented in other former CMEA countries. In 1969 Siemens opened up an office
in Budapest which eventually formed the base for the Sicontact joint venture in 1974.
Siemens was among the first Western companies to set up a service joint venture in 1974.

Joint Venture Activities:
The joint venture was mainly a service and consultancy business in the electronics
industry. The type of work carried out included:
- consulting on the implementation of transferred know-how in Hungarian factories;
- helping with quality assurance;
- advising on the implementation of systems (e.g., automation, measuring and control
  systems for the supply of domestic water, protection of the environment, improving
  communications).
In 1980, after the Hungarian joint venture legislation was modified in 1979 to permit production joint ventures, Siemens and its Hungarian joint venture partner Interco-operation Ltd. decided to form a separate undertaking for the manufacture of passive electronic components. Although this manufacturing company operates separately from Sicontact the two companies have equity links through common ownership. Two additional Hungarian partners were taken on, Remix Radiotechnikai, a production enterprise and Electromodul, the foreign trade organisation for electronic components.

Markets:
Hungary has been the joint venture’s main market, with occasional sales in Western Germany. The joint venture sells 80% in soft currency and 20% in hard currency markets. Siemens has, therefore, been engaged in countertrade deals to ensure sufficient hard currency earnings have been achieved for profit transfers.

Motivation of Siemens:
Siemens was interested mainly in improving its sales in Hungary and furthering its good business contacts in order to secure its market position in Hungary, although its partners' enthusiasm also helped to persuade Siemens.

Motivation of Hungarian Partners:
According to Siemens, the Hungarian partners were primarily interested in acquiring know-how and technology from Siemens, having their staff trained by Siemens and attracting Western capital.
Partners Contributions to the joint venture

<table>
<thead>
<tr>
<th>SIEMENS</th>
<th>HUNGARIAN PARTNERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>know-how</td>
<td>labour (office and secretarial)</td>
</tr>
<tr>
<td>technology</td>
<td>technical personnel</td>
</tr>
<tr>
<td>managerial personnel</td>
<td>managerial personnel</td>
</tr>
<tr>
<td>technical personnel</td>
<td>fixed assets (production premises)</td>
</tr>
<tr>
<td>capital</td>
<td></td>
</tr>
<tr>
<td>capital goods (machinery and equipment)</td>
<td></td>
</tr>
</tbody>
</table>

Management and Control

The board of directors was composed of one managing director from Siemens and one representing the Hungarian partners. At the time of the interview, Siemens expressed satisfaction with the management of the joint venture (N.B. although one of the 'reasons' for changing from joint venture to subsidiary has been to facilitate management decisions).

Quality Control:

Siemens stressed the importance of having staff with good technical abilities, especially in this type of service activity. The Hungarian staff have, therefore, been trained by Siemens in order to acquire Siemens' techniques and know-how. In this way, Siemens has been able to assure good quality control.

Profit transfer:

Siemens has been satisfied with the profit transfer guarantees by the Hungarian authorities, although it has had to be engaged in countertrade arrangements in order to achieve the necessary hard currency profits for repatriation.
Other Issues:
- Siemens' major competitors in the Hungarian market are French and Japanese electronics companies.
- Cocom regulations have sometimes restricted joint venture activities, but this has affected all Western companies engaged in this type of industry.
- The Investment Guarantee Agreement signed between Hungary and Germany was considered helpful, but not crucial in deciding whether or not to engage in joint venture activities in Hungary.

Update on Siemens(1991)

Sicontact became a wholly-owned subsidiary in 1991 because Siemens wanted to expand their activities following the improved political and economic situation in Hungary. As their Hungarian partners lacked sufficient capital to participate in these expansion plans the partner agreed to sell its equity shareholding to Siemens. Siemens believes that the wholly-owned subsidiary enables them to achieve better quality control and speedier management decisions.

Activities:
The activities of the subsidiary are in consulting, service, distribution and development of software.
6. Schwarzkopf: Hungary

Shared joint venture

(51:49 equity shareholding by German and Hungarian partners respectively: 51% Schwarzkopf, 46% Caola Cosmetics and Chemical company, 3% Chemo-Caola foreign trade organisation.)

Statutory capital investment not divulged

Company Background:
Schwarzkopf is a multinational cosmetics company which has been trading in Eastern Europe since 1968, and was first represented in Czechoslovakia. It now operates throughout Eastern Europe and Yugoslavia and has concluded licensing agreements with all former CMEA countries. The joint venture agreement was signed on 31.01.85 and production began on 12.02.86, twelve months later. An important achievement by Schwarzkopf at the time was obtaining the 51% foreign shareholding which has enabled the joint venture products to be sold under the Schwarzkopf brandname.

Schwarzkopf’s earlier industrial co-operation agreements in Hungary began with a three year licensing agreement in 1977 for the production of one of Schwarzkopf’s soap products. This agreement was extended in 1980 and again in 1981 to include the production of hair preparations, colour rinses, shampoos, washing agents, home hair permanents and body creams.

Joint Venture Activities:
The joint venture was set up to distribute the products manufactured under licence in Hungary. Moreover, the joint venture opened retail shops in Budapest and a Schwarzkopf hair salon.
The joint venture is dependent on imports of chemical substances (approximately 40%) from the West because of the inferior quality of chemicals available in Hungary. Other necessary supplies not obtainable on the Hungarian market are obtained from companies operating under Schwarzkopf licensing agreements elsewhere and "swopped" for goods made in Hungary (e.g. pumps produced in Czechoslovakia are exchanged for bottle tops manufactured in Hungary). In this way Schwarzkopf has managed to reduce the amount of hard currency imports required for the joint venture.

Markets:
The joint venture has sold to both the Hungarian and German market. 70% of the products destined for the Hungarian market have been sold through hard currency shops, whilst only 30% of the joint venture sales have been made in forint. The forint sales have involved Schwarzkopf in countertrade arrangements such as the ones mentioned above, where certain parts have been obtained from other Schwarzkopf licensees elsewhere in the former CMEA area. These countertrade deals have been dealt with by Schwarzkopf's responsible in-house department.

Motivation of Schwarzkopf:
The company's main objectives were to improve its business opportunities in Hungary and to further secure its market position there. It had enjoyed good co-operation agreements previously and used the joint venture as a cheaper production base for goods destined for the German market.

Motivation of Hungarian Partner:
According to Schwarzkopf the Hungarian partners were able to substitute hard currency imports through the joint venture whilst at the same time meeting the demand in Hungary for Schwarzkopf goods. It also gave them access to Western technology and know-how and new export opportunities.
Partner Contributions to the joint venture

<table>
<thead>
<tr>
<th>SCHWARZKOPF</th>
<th>HUNGARIAN PARTNERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>licences</td>
<td>scientists</td>
</tr>
<tr>
<td>brandname</td>
<td>managerial personnel</td>
</tr>
<tr>
<td>know-how</td>
<td>technicians</td>
</tr>
<tr>
<td>better quality chemicals</td>
<td>production premises</td>
</tr>
<tr>
<td>managerial personnel</td>
<td></td>
</tr>
</tbody>
</table>

Management and Control:
The joint venture's managing director is a full-time Schwarzkopf employee and with a 51% shareholding the casting vote is in the hands of Schwarzkopf. The company is satisfied with the management of the joint venture on this basis.

Quality Control:
This is the responsibility of Schwarzkopf. One of the most important issues for ensuring quality is the quality of the chemicals used in the products. As already mentioned above, Schwarzkopf imports the chemicals from the West as supplies in the former CMEA countries have sometimes been inferior in quality.

Profit Transfers:
Schwarzkopf has been satisfied with the profit transfer guarantees granted by the Hungarian authorities, and as a large proportion of its products are sold in Germany and for hard currency, few countertrade arrangements have been necessary.
(i) Sales Turnover

The joint venture turnover had exceeded its original projections as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Estimates (in mil. forint)</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>year 1 (1986/87)</td>
<td>60</td>
<td>75</td>
</tr>
<tr>
<td>year 2 (1987/88)</td>
<td>75</td>
<td>122</td>
</tr>
<tr>
<td>year 3 (1988/89)</td>
<td>100</td>
<td>160 (projected)</td>
</tr>
</tbody>
</table>

(ii) Staffing

In 1988 the personnel of the joint venture consisted of approximately 30 Hungarians who had all been trained in West Germany at the Schwarzkopf company. The staff are usually given a two week in-service training per year. For technicians the in-service training is usually four weeks per year.

Joint Venture Potential in the former Soviet Union

Schwarzkopf has been active in the former Soviet Union selling its BAC and DANE brand products, but at the time of the interview it was also considering a joint venture agreement for the distribution of Schwarzkopf products in roubles in return for the supply of raw materials.

Schwarzkopf’s opinion of joint ventures in the former USSR in 1988 was that the joint venture legislation gave a broad framework for Western investors. Nevertheless, foreign investors were still confronted with the problem of having to find suitable export markets for the joint venture products or services. Finally, there were no guarantees for the transfer of profits. This acted as a major disincentive for foreign investors.
Update: Schwarzkopf (April 1992)

The Hungarian joint venture became a wholly-owned Schwarzkopf subsidiary at the beginning of 1992. Schwarzkopf bought the partner’s equity shareholding because its major Hungarian partner (Caola Cosmetics) was being privatised and rumoured to be taken over by a Western competitor to Schwarzkopf. Moreover, improved investment opportunities in Hungary encouraged Schwarzkopf to buy the remaining shares.

The activities and the markets of the company in Hungary have remained the same, although additional personnel (approximately 12 - 15 people) have been engaged in the marketing and distribution departments.

As for establishing a joint venture in the former Soviet Union, the company is still negotiating and waiting for more favourable investment conditions.

7. Adidas: Hungary Shared Joint Venture

(51:49 equity shareholding by Adidas and Hungarian partners: 51% Adidas, 15% Tricotex, 10% Hungrocoop, 9% Artex, 15% Hungarian Foreign Trade Bank)

<table>
<thead>
<tr>
<th>Statutory capital investment</th>
<th>1 million DM</th>
<th>in 1986</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales turnover</td>
<td>2.5 million DM</td>
<td>in 1987</td>
</tr>
</tbody>
</table>

Company Background:

Adidas is a German manufacturer of sportswear and sports articles. It has been trading in Hungary since the nineteen fifties, and succeeded in establishing regular and substantial sales in the nineteen seventies and nineteen eighties by selling sports goods, with the help of Konsumex foreign trade organisation, to hard-currency shops. Before establishing a
joint venture in 1986, Adidas had signed a licensing agreement with Hungarocoop to produce sports shoes. A similar agreement was also made with Artex to manufacture Adidas clothing in Hungary. The foreign trade organisation Tricotex was responsible for Adidas exports from Hungary. Following the success of the production of Adidas goods, a joint venture was formed between Adidas and its above mentioned Hungarian business partners.

Joint Venture Activities:
The joint venture is responsible for the distribution of Adidas goods. It runs a very successful retail shop in the exclusive shopping area in central Budapest where it sells its branded goods manufactured under licence in Hungary as well as goods imported from West Germany.

Markets:
The joint venture goods are sold mainly on the Hungarian market. Only 5% of turnover achieved in Hungary is earned in hard currency. Most of sales are in Hungarian currency. Countertrade plays, therefore, an important role in maintaining the balance of the hard currency accounts. Some of the goods produced in Hungary are also sold back onto the West German market for hard currency, without competing too much against goods produced at home.

Motivation of Adidas:
Adidas have been encouraged to enter into a joint venture partnership because they already had very good business contacts there and their partners had approached them about the joint venture. Other important motivating factors included the possibility of improved sales and good joint venture conditions in Hungary. The joint venture was also seen as an opportunity to strengthen Adidas' market position in Hungary, especially against other foreign competitors (e.g. PUMA), by selling under its own brandname.
Motivation of Hungarian Partners:
According to Adidas the Hungarian partners were primarily motivated by the demand for Adidas products in Hungary and the possibility of gaining access to Adidas' distribution outlets in the West. The joint venture also provided the partners with import substitution, access to Western know-how and technology, as well as staff training.

Joint Venture Contributions

<table>
<thead>
<tr>
<th>ADIDAS</th>
<th>HUNGARIAN PARTNERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>know-how</td>
<td>personnel (e.g. shop assistants)</td>
</tr>
<tr>
<td>distribution outlets</td>
<td>capital investment (50% of founding capital)</td>
</tr>
<tr>
<td>licences</td>
<td>assets (50% of joint assets)</td>
</tr>
<tr>
<td>modern technology</td>
<td>management personnel</td>
</tr>
<tr>
<td>capital investment (50% of founding capital)</td>
<td></td>
</tr>
<tr>
<td>management personnel</td>
<td></td>
</tr>
<tr>
<td>assets (50% of joint assets)</td>
<td></td>
</tr>
</tbody>
</table>

Management and Control:
Adidas has the controlling shareholding, although the joint venture is run jointly between Adidas and its partners. The board of directors is made up of one Hungarian and one Adidas director. Decisions are usually made by the relevant person(s) and usually by mutual agreement. Adidas has been satisfied with this type of arrangement.

Quality Control:
Adidas assumed responsibility for the quality of the joint venture products as they carry the Adidas brandname.
Other Issues:

At the time of the interview, the Hungarian government had just signed an investment protection agreement with the West German government and new laws had been published relating to personal income tax which put a heavier burden on the employer. Adidas’ response to the investment protection agreement was that it was not very relevant for the day-to-day running of the business. However, the personal income tax reform obliged the joint venture to pay the extra costs which diminished company profits.

The joint venture employed 25 people.

Joint Venture Prospects in the former Soviet Union

At the end of 1988 Adidas signed a licensing agreement in Tbilisi, Georgia, for the manufacture of textile goods (e.g. tracksuits and other sportswear). The licensing agreement took two and half years to negotiate. The co-operation was for a small-scale production aimed at the former Soviet market. Some exports were envisaged from the former USSR through Adidas’ own distributor in Lucerne (Adidas-Handels AG, Luzern).

Exclusive agreement:
Adidas signed an exclusive agreement which permitted only Adidas sportswear and equipment to be worn or used at international competition by the former Soviet sports teams.

Production facilities:
Some suitable machinery was already installed in the Soviet factory. The licensee has, nevertheless, had to buy in machinery from Western manufacturers in order to be able to produce Adidas sportswear.
Joint Venture:
A joint venture was being negotiated on the Hungarian model, with a view to opening a shop in central Moscow for the sale in hard currency of Adidas goods.

Issues of concern:
Adidas has been particularly interested in negotiating a 51% equity shareholding so as to sell goods under the Adidas brandname. This was, however, still impossible at that time because Soviet joint venture legislation at that time did not permit foreign majority shareholding.

Joint Venture Prospects in Bulgaria

(Telephone interview February 1989)
Adidas signed a licensing agreement at the beginning of 1989 to produce Adidas goods in preparation for setting up a joint venture. An agreement was signed between Hungary and Bulgaria permitting Hungary to buy Adidas goods manufactured in Bulgaria in soft currency which are then sold on the Hungarian market.

Adidas comparison of joint venture conditions:
As the company was already active in a joint venture in Hungary and was negotiating similar joint venture agreement in the former Soviet Union and Bulgaria, it was asked to make a comparison between joint venture conditions in the three countries. According to Adidas Hungary offered the most flexible conditions and was the most dynamic of the three with regard to business operation and know-how. Asked to compare joint venture conditions on a scale of 0 - 20 Adidas gave the following ratings:
Hungary: 20  Soviet Union: 3  Bulgaria:0.5
Update: Adidas Hungary (April 1992)

The Hungarian joint venture has now become an 85:15% equity joint venture with Adidas having bought out its Hungarian partners, except for the bank which has only a financial interest in the joint venture. The main reason for increasing Adidas shareholding was due to further liberalisation of foreign trade in Hungary. The Adidas joint venture’s statutory capital investment in 1992 was registered at 3 million DM and its sales turnover for the end of 1991 was 34 million DM (compared with 1 million DM statutory capital investment in 1986 and sales turnover of 2.5 million DM in 1987). In addition, the joint venture now employs 76 people (compared with 25 previously), and Adidas now has 5 franchise shops which are run by Hungarian business partners.

Adidas joint venture prospects in Bulgaria and the Commonwealth of Independent States

The licensing agreement signed in Bulgaria and the exclusive agreement signed with the former USSR at the beginning of 1989 have both become obsolete because of the political and economic instability in Bulgaria and the former Soviet Union, although Adidas is still considering the joint venture opportunities in the Commonwealth of Independent States. Nevertheless, Adidas’ prospective joint venture partners have changed because of the political and economic changes there.

Adidas direct investments in Poland and Czechoslovakia

Adidas has established wholly-owned subsidiaries in Poland and Czechoslovakia which are engaged in similar activities to the Hungarian joint venture, although Czechoslovakia only permits Adidas to carry out retailing and not wholesale activities. Both in Poland and Czechoslovakia, Adidas work with local manufacturers which produce for the local and export markets.
Austria

8. Bramac: Hungary  
Shared joint venture

(49:51 equity shareholding by Bramac and Hungarian partners respectively: 49% Bramac, 47% State Development bank, 2% Brick and Roof Tile industrial trust, 2% Nikex foreign trade organisation.)

Statutory capital invested  
60 million Austrian Schilling

Company Background:
Bramac is a building company specialising in the production of roof tiles. The joint venture was set up in 1984 when Bramac invested 60 million Austrian Schilling in the joint venture.

Joint Venture Activity:
The joint venture produces roof tiles.

Markets:
The joint venture has been mainly active in the Hungarian market. Only 5% of its sales have been received in hard currency and the joint venture has been engaged in 5% countertrade business.

Motivation of Bramac:
The main objective has been to improve Bramac’s market position in Hungary against its major competitors (Asbest und Tondachziegel). Other motivating factors have included making a profit, and responding to their Hungarian partners’ interest in setting up a joint venture. Moreover, good joint venture conditions in Hungary have also been an
encouraging factor.

Motivation of Hungarian Partners:
According to Bramac the Hungarian partners have been mostly interested in acquiring know-how and technology, as well as acquiring management skills. They have also been keen to have their Hungarian personnel trained by Bramac. An important incentive for the partners has been import substitution. The partners have, however, been less interested in acquiring access to Western distribution outlets, or in attracting Western capital.

Joint Venture Contributions

<table>
<thead>
<tr>
<th>BRAMAC</th>
<th>STATE DEVELOPMENT BANK</th>
<th>NIKEX</th>
</tr>
</thead>
<tbody>
<tr>
<td>sales and marketing</td>
<td>finance</td>
<td>export markets</td>
</tr>
<tr>
<td>export markets</td>
<td>personnel</td>
<td>supplies</td>
</tr>
<tr>
<td>supply of materials</td>
<td></td>
<td>materials</td>
</tr>
<tr>
<td>research and development</td>
<td></td>
<td></td>
</tr>
<tr>
<td>finance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>quality control</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Management and Control:
The board of directors has two representatives from Bramac and two from the bank. All decisions are made unanimously and Bramac is very satisfied with the decision-making process of the joint venture.

Quality Control:
This is Bramac's sole responsibility.
Other Issues

Bramac considered the Investment Protection agreement signed by the Hungarian and Austrian government to be very important for assuring their investment in Hungary. The new laws on income tax and V.A.T. (Value Added Tax) have not made any differences to the joint venture business.

2nd Bramac Joint Venture: Hungary Dominant joint venture

(30:70 equity shareholding by Bramac and the Hungarian partner)

Statutory capital invested not divulged

Company Background:
In April 1987 Bramac was invited to enter into partnership with a Hungarian company which is also a producer of tiles. This company had been running at a loss because it had been unable to implement Western technology bought in from the West. Bramac was, therefore, invited to participate in this joint venture as the Hungarian company needed Bramac’s know-how to help them implement the technology.

Despite several attempts to receive updated information, none was received by the author.

9. J.M. Voith AG: Soviet Union Shared joint venture

(49:51 equity shareholding by Voith and Soviet partners: 49% Voith, 35% Petrosawodskbumash, 6% Chimmashexport, 10% Sojuzorgbumprom.)

Statutory capital invested 10 million Austrian Schilling
Company Background:
Voith is a large company supplying machines and plant installations for the timber and paper industry. The company had been doing business with the former Soviet Union since 1924 and had been engaged in industrial co-operation with Petrosawodskbhumash (a manufacturer of machines for the paper industry) for several years before becoming the first Austrian company to sign a joint venture agreement in 1987 with the Soviet Union.

Joint Venture Activity:
The joint venture supplies and equips plants within the paper industry.

Markets:
The joint venture’s markets have included the former Soviet Union (rouble trade), other Comecon countries, and hard currency markets.

Motivation of Voith:
Voith was primarily interested in strengthening its market position against other foreign competitors (mainly Finnish companies) within the former Soviet Union. This together with the fact that the company already had very good business dealings has led Voith to respond positively to their partners’ invitation to form a joint venture.

Motivation of Soviet Partners:
According to Voith the main motivating factors of the Soviet partners were to gain access to Western management skill, know-how and technology to achieve import substitution through the joint venture agreement. The Soviet partners were also interested in using Voith’s distribution outlets in the West, attracting capital, receiving training and trying to earn hard currency through sales in third markets.
Joint Venture Contributions

<table>
<thead>
<tr>
<th>VOITH</th>
<th>SOVIET PARTNERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>know-how</td>
<td>personnel</td>
</tr>
<tr>
<td>management personnel</td>
<td>raw materials</td>
</tr>
<tr>
<td>research and development</td>
<td>factory premises</td>
</tr>
<tr>
<td>licence</td>
<td>startup capital</td>
</tr>
<tr>
<td>modern technology</td>
<td>working capital</td>
</tr>
<tr>
<td>export markets</td>
<td>capital goods</td>
</tr>
<tr>
<td>startup capital</td>
<td></td>
</tr>
<tr>
<td>capital goods</td>
<td></td>
</tr>
<tr>
<td>working capital</td>
<td></td>
</tr>
</tbody>
</table>

Management and Control:

The board of directors comprised one Soviet managing director and a Voith representative as the deputy managing director. The joint venture has been managed jointly and decisions have been reached unanimously. By agreement the deputy managing director is responsible for conducting business in the West.

Quality Control:

This is achieved by making constant checks on the quality of the joint venture output, as well as running a bonus scheme for quality work. Moreover, regular visits by Voith's technical experts help to monitor the quality of the joint venture output.

Other Issues:

Compensation and buy-back deals form an important part of the joint venture business in the former USSR.
Update: Petrovoith (April 1992)

Having been satisfied with the activities of this joint venture Voith increased its equity shareholding by another 1% to 50% in 1990 in order to equip two additional manufacturing locations. The number of employees engaged in the joint venture has increased to 21 and the joint venture managed to achieve profits in 1990 and 1991. The joint venture continues to deliver to the paper industry in Eastern Europe and the People’s Republic of China.

As a result of the positive joint venture experience in the former Soviet Union, Voith set up two joint ventures in 1990 and 1991 in Czechoslovakia (Bratislava) and China (Shanghai) respectively. The Czechoslovakian joint venture, EGPA Entwicklung- und Investitionsgesellschaft für die CSFR Zellstoff- und Papierindustrie GmbH offers an engineering consulting service for the paper manufacturing industry as well as finance, distribution and technological support. Voith owns 25% of the equity shareholding. The Chinese joint venture, SVC - Shanghai Voith Paper machinery Limited Company, however, resembles the Petrovoith joint venture as it grew from an existing co-operation agreement with the Shanghai Paper Machinery Works. Voith’s shareholding in this latter joint venture is 33%.
SUMMARY OF FINDINGS

Background

An examination of the backgrounds of the Western companies engaged in joint ventures show that they have nearly all been trading with Comecon countries for some considerable time (at least 20 years and in the case of Siemens over 100 years) and have had previous experience in industrial co-operation with their joint venture partners. The only exception to this has been Walters International, although they preceded the joint venture briefly with a licensing agreement.

Equity Shareholding

The majority of Western companies in the case studies have been engaged in a shared joint venture (including those with up to 55% equity shareholding), except for Bramac's second joint venture which is a dominant joint venture (30:70 in the Hungarian partner's favour).

Statutory capital invested

The size of capital initially invested by the Western companies has been comparatively small as expected from information presented in chapter eight (see table 8.3).

Markets

The joint ventures' market outlets have been primarily in the local East European market, although some have also sold to other former Comecon countries, and only a few of the case study companies (e.g. Schwarzkopf, Voith and Adidas) have been selling the joint venture products in Western markets.
Activities

All joint ventures in this sample are engaged in manufacturing or production activities (including Siemens which began as a service joint venture).

Partner objectives

The Western case study companies have been primarily interested in entering into a joint venture in order to secure their market position in Eastern Europe and respond to their partners' invitation to form a joint venture. Other reasons for establishing a joint venture included wanting to reduce existing countertrade deals (e.g. APV in Hungary) and make use of a cheaper production base for goods destined for the home market (e.g. Schwarzkopf in Hungary).

East European partners have been mainly interested in gaining access to Western technology and know-how and substituting hard currency imports through the joint venture. Some were also keen to gain access to hard currency markets through their Western partners' distribution outlets.

Partner contributions

All Western companies in the case study sample have contributed primarily know-how and technology (mainly through the sale of licences and in training technical staff), and have helped the partners to implement this by having overall responsibility for quality control. For their part the East European partners have been able to provide manufacturing or factory premises, labour and local knowledge (although this has not always been specified in the case studies).
Management and Control

Most of the Western companies have expressed satisfaction with the overall management arrangements for the joint venture. This was particularly the case for those joint ventures operating in Hungary, although reservations have been voiced about the management of joint ventures in Bulgaria.

Quality control

The Western partners in this sample of case studies have taken on the responsibility of checking the quality of the joint venture output and have also provided training for East European staff on a regular basis to ensure that they are adequately trained to do their jobs.

Countertrade

All companies have been engaged in countertrade activities, although in the case of APV the joint venture enabled the company to reduce its countertrade business in Hungary.

Updated Information

All Western joint venture partners (except for Walters International), about which the author was able to obtain updated information (7/8 companies), increased their equity shareholding. Three Western companies, Rank Xerox, Schwarzkopf and Siemens bought out their partners, and three Western partners, Rank Xerox, Adidas and Voith signed additional joint venture agreements with new partners in Moscow, Poland and Czechoslovakia. In two cases (see Schwarzkopf and APV updated information), privatisation efforts affecting their East European partner have caused the Western
company to reconsider the future of the joint venture.

On the whole, joint ventures in Hungary seemed to have prospered and Western firms have commented on the improved investment conditions in Hungary. Some of the Western firms have also been attracted by joint venture prospects in Poland and Czechoslovakia, but Bulgaria's unstable political and economic situation has given rise to concern and caused Schwarzkopf to halt its activities there. Despite continued hesitation on the part of Schwarzkopf and Adidas in the former Soviet market, Rank Xerox and Voith appear to have made satisfactory progress with their joint ventures, causing them to increase their joint venture investments. Moreover, in the case of Voith, the company adopted a similar joint venture model in Czechoslovakia as in the former Soviet Union.

CONCLUSION

In general, the case studies collected between 1986 and the beginning of 1989 present a favourable picture of Western joint venture investments in Eastern Europe, and in particular in Hungary. Encouraged by their positive joint venture experiences in Hungary, a number of Western companies in the sample have sought to establish joint venture agreements in other East European countries, notably the former USSR and Bulgaria. It appears, however, from the comments made by Rank Xerox, Adidas and Schwarzkopf that conditions for Western investors have not been as attractive in these countries as those in Hungary. Moreover, neither Schwarzkopf nor Adidas have yet found conditions in the former Soviet Union sufficiently improved for their particular requirements to conclude a joint venture.

Much of the information in the case studies confirm many of the findings presented in the literature survey of this chapter which relate to issues such as partner objectives for
entering into an East-West joint venture and the preferred joint venture model in operation prior to 1989 (i.e. shared). Moreover, the joint venture returns for both joint venture partners seemed to be positive in that the Western partners have been able to receive pay­offs through the sale of technology, know-how and licences to the joint venture, while the East European partner has benefitted from being able to sell branded Western goods, or better quality goods at home (and sometimes even abroad for hard currency) as well as receiving up-dated training for its personnel from their Western partners.

As far as the author is aware, none of the joint ventures in the case studies have ceased operations since being interviewed, although some have become wholly-owned subsidiaries and Walters International has gone into receivership, leaving the effect of this on the Walton joint venture in Hungary unclear. Consequently, it seems that the joint venture partners in this sample have had compatible objectives, made complementary contributions to the partnership and overcame cultural differences. The joint ventures in this case study sample have been successful on the whole and have resulted in some of the Western partners, notably in Hungary, to increase their capital shareholding even to one hundred per cent. A less favourable view, however, has been presented by Western companies about actual and potential joint venture operations in the former USSR and Bulgaria, where provisions for profit transfers and quality control apparently remain a problems for Western investors. Some of these concerns have been raised in the Anglo-Soviet survey which are presented in the following chapter.
Chapter 9: Notes

1. Owing to the lack of joint venture provisions in the CMEA area prior to 1980 most of the publications prior to 1980 were concerned with joint ventures in Romania. See,
   - Bulletin officiel de la République Socialiste de la Roumanie, "Citroën fournira à la Roumanie à la fois l’usine et la voiture", Bucharest, No. 116, 27 December 1976. This paper published details about the Citroën and Control Data Corporation and Renk joint ventures in Romania.

2. Some Western companies were wary about jeopardizing their joint venture operations through the publication of any information wrongly interpreted by an interviewer.
CHAPTER 10

ANGLO-SOVIEI JOINT VENTURES: QUESTIONNAIRE SURVEY 1990

INTRODUCTION

Following the rapid increase in the number of joint ventures in Eastern Europe and particularly in the former Soviet Union which occurred as a result of Soviet joint venture amendments in 1988 and 1989 (see chapter 7 and 8) and the political changes since the end of 1989, the author chose to extend her research at the end of 1990 to include a survey of Anglo-Soviet joint ventures. This chapter presents, therefore, the reasons for incorporating the additional field research, the aims and objectives of the survey, the method used to obtain the information as well as some of the difficulties encountered during the research, followed by the results and evaluation of the survey.

Reasons for the survey

Whilst the case studies in chapter nine provide an important and a representative illustration of established Western companies' experiences of joint venture activities in Hungary, the former Soviet Union and Bulgaria in the period before 1989, it soon became evident, as statistics were being released, that a more targeted sample of Western companies joint venture experiences were required.

The author chose, therefore, to extend her studies of joint ventures between British and Soviet firms as the USSR had attracted the largest foreign joint venture capital and the second largest number of joint ventures compared to any other CMEA country by the end of 1990 (see tables 8.2 and 8.3 ) and seemed, therefore, to offer interesting business opportunities to foreign companies. As the author was based in the UK, it appeared
sensible to obtain the views of British companies because of their geographic proximity.

**Aim and objectives**

The aim of the Anglo-Soviet survey was to establish and evaluate British companies' joint venture activities in the former Soviet Union by determining as in chapter nine the partners' equity shareholding and capital investment, the partners' motivation and contributions to the joint venture, the joint ventures' market outlets, as well as the British companies' views on issues such as the management of the company, repatriation of profits and general level of satisfaction with their joint venture activities in the former USSR.

**Method**

Having obtained a list of the names of 65 Anglo-Soviet joint ventures published by the British-Soviet Chamber of Commerce (see table 10.1), the author decided to use the postal questionnaire method rather than structured interviews because:

(i) a postal questionnaire would enable the author to contact all listed companies;

(ii) it was less time consuming than preparing and conducting structured interviews in the 65 companies;

(iii) the feedback from the British companies would be more immediate.

As the list did not have the British companies' business addresses a visit was made to Companies House in London in October 1990 to obtain the relevant addresses to which the questionnaires could be sent.
Difficulties

This research itself revealed, however, certain difficulties. According to the record at Companies House a number of the British companies listed had been dissolved (9 companies), one had gone into receivership, three were dormant and one had not yet recorded any business transactions. Moreover, quite a large number (23 companies) did not appear to have a registered business address which according to information received from Companies House meant that these businesses were either unlimited businesses, partnerships, or off-shore companies. Of the remaining twenty-six companies on the list one company had formed two joint ventures and Rank Xerox was excluded from the survey because it had participated in the early case studies. This left, therefore, twenty-five companies to which the postal questionnaire was sent.

Of the twenty-five companies contacted, nine replies were returned. One of the replies, however, claimed never to have been engaged in any business, let alone a joint venture, in Eastern Europe or the former USSR. The information on Anglo-Soviet joint ventures is, therefore, based on the returns of eight companies.

THE COMPANY INFORMATION

Introduction

Before presenting the data on the eight Anglo-Soviet joint ventures, the activities of the companies listed by the Anglo-Soviet Chamber of Commerce (see table 10.1) are summarised.

On the assumption, that the missing twenty-five companies on the list have at least been engaged in joint venture negotiations, they have been included in an analysis of the
activities of the joint ventures listed in table 10.1 and summarised in table 10.2. The list illustrates that the majority Anglo-Soviet joint ventures have been engaged in non-manufacturing activities (38 or 58% of the companies), followed by production (12 or 16.5% of the companies). Other joint venture activities included distribution (2 companies), research, development and design (3 companies) and supply of equipment (1 company). The rest of the joint venture activities have either been listed as unknown or been given an ambiguous description (14 companies).

Table 10.1 List of UK/USSR Joint Ventures
(Compiled by the Moscow Office of the British/Soviet Chamber of Commerce, October 1989)

<table>
<thead>
<tr>
<th>Name of Joint Venture</th>
<th>Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>AB-IN ENTERPRISES</td>
<td>Consumer goods production; hotel and entertaining services.</td>
</tr>
<tr>
<td>AEROMAP</td>
<td>Food supply for passenger airplanes.</td>
</tr>
<tr>
<td>ASMARAL</td>
<td>Production and distribution of Arabian cheese and other Arabian food, hotel construction, tourism.</td>
</tr>
<tr>
<td>ASPEKT</td>
<td>Entertainment projects and services.</td>
</tr>
<tr>
<td>ASTAIS</td>
<td>Research and design, and other services.</td>
</tr>
<tr>
<td>ASTO</td>
<td>Development of new types of goods, rent-a-car services, PC assembling, LAN and software creation.</td>
</tr>
<tr>
<td>AVTOKOMP</td>
<td>Entertainment projects, advertising, promotion and artist guest tours.</td>
</tr>
<tr>
<td>BRISK-SHOW</td>
<td>Entertainment projects, advertising, promotion and artist guest tours.</td>
</tr>
<tr>
<td>GALA-Cameron</td>
<td>Production of balloons and other devices.</td>
</tr>
<tr>
<td>DIAMED</td>
<td>Diagnostic catheters projects, PC hardware and software development and production.</td>
</tr>
<tr>
<td>DINAMIXA</td>
<td>Computer systems for teaching and word processing.</td>
</tr>
<tr>
<td>ECLIPSE</td>
<td>Establishment of Tairfil additive delivery network stations for vine production.</td>
</tr>
<tr>
<td>ENERGIO-INFORMATICA</td>
<td>Computers and computer based information systems.</td>
</tr>
<tr>
<td>Name</td>
<td>Description</td>
</tr>
<tr>
<td>---------------------------</td>
<td>-----------------------------------------------------------------------------</td>
</tr>
<tr>
<td>ENGELS AIR MAZE</td>
<td>Air and fuel maze development and production.</td>
</tr>
<tr>
<td>FARUS</td>
<td>Not known</td>
</tr>
<tr>
<td>FEMCARE</td>
<td>Manufacture of sanitary products.</td>
</tr>
<tr>
<td>FEMTEK</td>
<td>Manufacture of sanitary products.</td>
</tr>
<tr>
<td>FORPOST</td>
<td>Personal computers, specialised software for forestry and technology application.</td>
</tr>
<tr>
<td>IBIS</td>
<td>Research and design in science, education and other social programmes.</td>
</tr>
<tr>
<td>ICON</td>
<td>Software and hardware development and installation, communication and information, etc.</td>
</tr>
<tr>
<td>INPROGRESS</td>
<td>Not known</td>
</tr>
<tr>
<td>INTERCLUB</td>
<td>Leisure hotels, communication and other services.</td>
</tr>
<tr>
<td>INTEREKO</td>
<td>Engineering, research and designs, consultancy, leasing, and other services.</td>
</tr>
<tr>
<td>INTERSHELF</td>
<td>Oil and gas field development, particularly off-shore, vessel chartering and off-shore drilling.</td>
</tr>
<tr>
<td>INTERVERSO</td>
<td>Not known</td>
</tr>
<tr>
<td>IVK INTERNATIONAL</td>
<td>Hardware and software production.</td>
</tr>
<tr>
<td>KOMETA CLK</td>
<td>Health care projects.</td>
</tr>
<tr>
<td>KOMPARIYA PO RAPROSTRANENIYU GRUZNISKOY KULTURY</td>
<td>Advertising, concert tours and exhibitions.</td>
</tr>
<tr>
<td>KOMPASS</td>
<td>Information technology.</td>
</tr>
<tr>
<td>KOMSTAR</td>
<td>Telecommunications hardware.</td>
</tr>
<tr>
<td>KONSORTIUM</td>
<td>Sports clubs, restaurants, hotels, etc.</td>
</tr>
<tr>
<td>KOMTEKH</td>
<td>Personal computers and software.</td>
</tr>
<tr>
<td>KONTAKT</td>
<td>Consultancy, engineering, research and design and other services.</td>
</tr>
<tr>
<td>Company Name</td>
<td>Services</td>
</tr>
<tr>
<td>--------------</td>
<td>----------</td>
</tr>
<tr>
<td>LADA ELCON CORPORATION</td>
<td>Car design, hotel construction and other services.</td>
</tr>
<tr>
<td>MIKROGRAPH</td>
<td>Not known</td>
</tr>
<tr>
<td>MORSKIE KOMPUTERNUYE SYSTEMY</td>
<td>Not known</td>
</tr>
<tr>
<td>MOSKOVSKIY KONSULTATSIONNYE CENTRE</td>
<td>Tourist services.</td>
</tr>
<tr>
<td>NAUKATEKHNFORM</td>
<td>Not known.</td>
</tr>
<tr>
<td>NOVOIMPEX</td>
<td>Commodity import and export, products and services, and consultancy.</td>
</tr>
<tr>
<td>PARALLELY</td>
<td>Not known</td>
</tr>
<tr>
<td>PREDPRIYATIYA PARKA GORKOVO</td>
<td>Rock music magazine publishing.</td>
</tr>
<tr>
<td>PREMBREED</td>
<td>Farm animals embryo transfer.</td>
</tr>
<tr>
<td>REPROCENTRE</td>
<td>Photocopying and reproduction.</td>
</tr>
<tr>
<td>ROMOS</td>
<td>Entertainments projects.</td>
</tr>
<tr>
<td>ROSBRI</td>
<td>Consumer products.</td>
</tr>
<tr>
<td>SHEROTEI</td>
<td>Not known.</td>
</tr>
<tr>
<td>SLOVO</td>
<td>Printing materials, culture and tourist activities, agency and other services.</td>
</tr>
<tr>
<td>SOVENGLO</td>
<td>Establishment of golf facilities in the USSR, hotel and other services.</td>
</tr>
<tr>
<td>SOVETSKO-BRITANSKOE TVORCHESKOE SODRUZHESTVO</td>
<td>Cinema, art and culture exchange and development.</td>
</tr>
<tr>
<td>SOVMORTRANS</td>
<td>Cargo transportation services.</td>
</tr>
<tr>
<td>SPECTRUM</td>
<td>Custom networks, PC specifications, software development.</td>
</tr>
<tr>
<td>STARLIGHT</td>
<td>Film production.</td>
</tr>
<tr>
<td>TEKKOM</td>
<td>Development of digital and local area networks.</td>
</tr>
<tr>
<td>TOP SAIL</td>
<td>Sea tourism in the USSR and other countries, yacht leasing and yacht maintenance.</td>
</tr>
</tbody>
</table>
Table 10.1 (contd.)

<table>
<thead>
<tr>
<th>Name</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>TRIO</td>
<td>Computer products.</td>
</tr>
<tr>
<td>TVORCHESKOE OBYEDINENIE &quot;SBF&quot;</td>
<td>Audio and video entertainment programme.</td>
</tr>
<tr>
<td>TROIKA</td>
<td>Rent-a-car services.</td>
</tr>
<tr>
<td>UKRAINA-LAVYSTOK</td>
<td>Not known.</td>
</tr>
<tr>
<td>UNIFARM</td>
<td>Not known.</td>
</tr>
<tr>
<td>URAL</td>
<td>Development and production of robots and computers.</td>
</tr>
<tr>
<td>VILNIUS ROADTELS</td>
<td>Hotel construction and running, tourism, hotel computerisation, services, marketing, etc.</td>
</tr>
<tr>
<td>WEST-OST</td>
<td>Marketing, production and sales of construction products, building restoration and hotel construction.</td>
</tr>
</tbody>
</table>

Table 10.2  
Joint Venture Activities

<table>
<thead>
<tr>
<th>ACTIVITY</th>
<th>NUMBER OF JOINT VENTURES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services</td>
<td>24</td>
</tr>
<tr>
<td>Research and development</td>
<td>12</td>
</tr>
<tr>
<td>Production</td>
<td>10</td>
</tr>
<tr>
<td>Research and design</td>
<td>2</td>
</tr>
<tr>
<td>Research and development and production</td>
<td>1</td>
</tr>
<tr>
<td>Production and distribution</td>
<td>1</td>
</tr>
<tr>
<td>Construction and service</td>
<td>1</td>
</tr>
<tr>
<td>Ambiguous</td>
<td>4</td>
</tr>
<tr>
<td>Unknown</td>
<td>10</td>
</tr>
<tr>
<td>TOTAL</td>
<td>65</td>
</tr>
</tbody>
</table>

Note: table 10.2 has been compiled by the author and based on the information contained in table 10.1.
ANGLO-SOVIET JOINT VENTURES

Introduction

The British companies' responses are presented in the following pages and have been interpreted from the questionnaire responses (see appendix 2) which were returned to the author at the end of 1990. The results of the questionnaire are summarised in table 10.3 and figures 10.1, 10.2, and 10.3, thereby providing a global view which is subsequently followed by the detailed results of each of the company's questionnaire returns and a summary of the findings. The issues discussed in the Anglo-Soviet case studies include the type of joint venture model, the equity shareholding of the partners, the capital invested by the British company, the background to the joint venture, the joint venture's activities, its markets, partner objectives and contribution to the joint venture as well as the British company's satisfaction with the joint venture in general and the system for repatriating profits. Where the British company has been required to give an evaluation (e.g. about partner motivation, the joint venture and the system for repatriating profits) the company has awarded points on a scale of 1 - 5 (1 = irrelevant and 5 = very important) which have been noted in brackets. To conclude the case study section, the general points which emerge from the Anglo-Soviet joint ventures are summarised.
Table 10.3 Summary of Results of Anglo-Soviet Joint Venture Questionnaire

<table>
<thead>
<tr>
<th>ACTIVITIES OF JOINT VENTURES</th>
<th>NUMBER OF JOINT VENTURES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service</td>
<td>4</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>3</td>
</tr>
<tr>
<td>Construction</td>
<td>1</td>
</tr>
<tr>
<td>TOTAL</td>
<td>8</td>
</tr>
</tbody>
</table>

| TOTAL CAPITALISATION              | £6.67 million            |
|                                   | (average capitalisation £1.1 million) |

<table>
<thead>
<tr>
<th>JOINT VENTURES WITH</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Soviet Chairman:</td>
<td>7</td>
</tr>
<tr>
<td>Foreign Chairman:</td>
<td>1</td>
</tr>
<tr>
<td>TOTAL</td>
<td>8</td>
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</table>

<table>
<thead>
<tr>
<th>JOINT VENTURE MODEL TYPE</th>
<th></th>
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<tbody>
<tr>
<td>dominant (Soviet)</td>
<td>5</td>
</tr>
<tr>
<td>shared</td>
<td>3</td>
</tr>
<tr>
<td>TOTAL</td>
<td>8</td>
</tr>
</tbody>
</table>

| BRITISH FIRMS’ EXPERIENCE IN THE SOVIET MARKET: |                           |
|                                               |                           |
| more than 2 years:                           | 3                         |
| less than 2 years experience:                | 5                         |
| TOTAL                                         | 8                         |

<table>
<thead>
<tr>
<th>NO. OF JOINT VENTURES</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>operational:</td>
<td>7</td>
</tr>
<tr>
<td>non-operational:</td>
<td>1</td>
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<tr>
<td>TOTAL</td>
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<table>
<thead>
<tr>
<th>JOINT VENTURE MARKETS</th>
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<tbody>
<tr>
<td>more than 70% in Soviet Union:</td>
<td>7</td>
</tr>
<tr>
<td>more than 60% in Western markets:</td>
<td>1</td>
</tr>
<tr>
<td>TOTAL</td>
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</table>

<table>
<thead>
<tr>
<th>BRITISH COMPANIES</th>
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</tr>
</thead>
<tbody>
<tr>
<td>satisfied with the joint venture:</td>
<td>3</td>
</tr>
<tr>
<td>dissatisfied with the joint venture:</td>
<td>4</td>
</tr>
<tr>
<td>TOTAL</td>
<td>7</td>
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</table>

<table>
<thead>
<tr>
<th>BRITISH COMPANIES</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>satisfied with profit transfer:</td>
<td>0</td>
</tr>
<tr>
<td>dissatisfied with profit transfer:</td>
<td>6</td>
</tr>
<tr>
<td>TOTAL</td>
<td>6</td>
</tr>
</tbody>
</table>
Figure 10.1 based on the replies of 8 joint venture partners

**Key**

- KH: Know-How
- CE: Capital Equipment
- T: Technology
- MT: Management Techniques
- TP: Technical Personnel
- R & D: Research and Development
- MP: Management Personnel
- L: Licence
- FA: Fixed Assets (machinery, land, factory)
- C: Cash
- DL: Direct Labour (machine operators, workers, service of machines)
Based on the replies of 8 British joint venture partners

Key
S  Suggested by Soviet partner
MO  Improve Market Opportunities
MP  Improve Market Position
L  Attractive Joint Venture Legislation
P  Increase Company Profits
B  Get More Business
Based on the replies of 8 British joint venture partners

Key

KH Access to Technology and Know-How
D Access to Distribution Outlets
I Import Substitution
E Improved Export Performance
M Access to Management Techniques
F Access to Finance
OE Access to Office Equipment
Company No. 1

Name wished to remain anonymous

Joint venture model Soviet Dominant Parent
(Equity shareholding 20:80 by the British and Soviet partners respectively.)

Capital £20,000

Location Togliatti

Company background:
The British company started doing business in the former Soviet Union in 1988 and has had no other business experience in Eastern Europe. The joint venture was registered in May 1989 and has been operational since then.

Joint venture activities:
The joint venture is operating in the construction industry.

Markets:
40% of the joint venture sales are in the former USSR, 60% in Western and developing markets for hard currency.

Management:
The Chairman is a Soviet citizen.
Western partner’s motivation:
The British company was mainly motivated by the fact that its Soviet business partner suggested a joint venture partnership (scored maximum 5 points on the questionnaire). Other important factors mentioned were wanting to achieve expansion, protection or diversification of market opportunities through the joint venture, obtain more business, improve their market position against competitors and increase the company’s profits in the Soviet market (4 points). The joint venture conditions in the former USSR were not seen as a particularly motivating factor (3 points).

Soviet partner’s motivation:
According to the British partner the Soviet partner’s main objective was to acquire their know-how, technology and Western management techniques (5 points), followed by the opportunity to obtain Western factory or production equipment in the form of machinery, office equipment (e.g. computers, software), as well as the opportunity to improve their export performance and gain access to the British company’s distribution outlets (4 points). Finally, the Soviet partner did not appear to have been greatly motivated to use the joint venture as a vehicle for substituting imports (3 points).

Partner Contributions to the Joint Venture

<table>
<thead>
<tr>
<th>MAJOR BRITISH CONTRIBUTION</th>
<th>MAJOR SOVIET CONTRIBUTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Know-how (80%)</td>
<td>Cash (80%)</td>
</tr>
<tr>
<td>Capital equipment (80%)</td>
<td>Direct labour (machine operators, workers, service of machines) (80%)</td>
</tr>
<tr>
<td>Technology (80%)</td>
<td></td>
</tr>
<tr>
<td>Management Techniques (80%)</td>
<td></td>
</tr>
<tr>
<td>Technical personnel (80%)</td>
<td></td>
</tr>
<tr>
<td>Research and development (80%)</td>
<td></td>
</tr>
<tr>
<td>Managerial personnel (80%)</td>
<td></td>
</tr>
<tr>
<td>Licences, fixed assets (machinery, land, factory)</td>
<td>JOINT CONTRIBUTION BY THE PARTNERS</td>
</tr>
</tbody>
</table>
Repatriation of Profits:
The British partner did not seem too concerned with the system used to define the joint venture’s profits, the taxation on the joint venture’s profits, nor the system for guaranteeing the transfer of hard currency (scored 2 = no great problem). The British partner did, however, encounter some problems with the regulation restricting the purchase of goods in the former Soviet market in roubles for countertrade purposes. (3 points).

Satisfaction with Joint Venture:
The joint venture partner seemed quite satisfied with the joint venture (4 points).

Company No. 2

Name of British company not disclosed

Joint venture model Shared
(49:51 equity shareholding by the British and Soviet partners respectively)

Statutory capital invested not divulged

Location Bamaul, Siberia, RSFSR.

Company background:
The British company started doing business in the former USSR in 1987 and began business dealings also in Czechoslovakia in 1990. The Anglo-Soviet joint venture was registered in April 1989, but has been operational since September 1988.
Joint venture activities:
The joint venture has been engaged in a wide range of activities involving co-production, marketing, joint research and development as well as distribution.

Markets:
The joint venture market outlets have been mainly in the former Soviet market (80%). The British company did not, however, specify where the remaining 20% of its market outlets have been. Approximately 25% of the joint venture’s sales have been earned in hard currency.

Management:
The Chairman of the joint venture was a Soviet citizen.

Western partner’s motivation:
The Western partner did not seem to express great motivation for any of the objectives mentioned in the questionnaire, although of relative importance was the opportunity of generating more business through the joint venture and improving the company’s market position (3 points).

Soviet partner’s motivation:
The Soviet partner seemed to have been primarily motivated by the opportunity of gaining access to the British company’s know-how, technology, management techniques and being able to achieve import substitution through the joint venture (5 points). Of some relative importance to the Soviet partner was the ability to obtain office equipment (computers and software programmes) through the joint venture, gain access to the British company’s distribution outlets in the West as well as the potential for improving their export performance (3 points). Access to finance and factory or production equipment have not played an important part in the Soviet partner’s joint venture objectives (2 points).
Partner Contributions to the Joint Venture

<table>
<thead>
<tr>
<th>MAJOR BRITISH CONTRIBUTION</th>
<th>MAJOR SOVIET CONTRIBUTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Know-how (100%)</td>
<td>Fixed assets (machinery, land, factory) (100%)</td>
</tr>
<tr>
<td>Capital equipment (100%)</td>
<td>Direct labour (machine operators, workers, service of machines) (100%)</td>
</tr>
<tr>
<td>Licences (100%)</td>
<td>Equal contribution by partners</td>
</tr>
<tr>
<td>Research and development (100%)</td>
<td>Technology, managerial personnel</td>
</tr>
<tr>
<td>Management techniques (75%)</td>
<td></td>
</tr>
</tbody>
</table>

Repatriation of Profits:
The British partner was very concerned about the banking system (a "hopeless banking system" - 5 points), the system used to define profits and the restrictions on the purchase of goods on the Soviet market in roubles for countertrade purposes (4 points). The company was, however, less concerned with the system for taxing joint ventures (3 points).

Satisfaction with Joint Venture:
The British partner was not very satisfied with the joint venture (2 points).

Additional Comments:
The British company listed some of the difficulties which led to its dissatisfaction with the joint venture: poor communications by telephone and post, with letters arriving between three and six months late, or getting lost altogether; low morale in the USSR among personnel; cases of pilfering; and the poor quality and unacceptable handling in the former USSR of goods intended for sale in the West. The British company’s final comment in this section underlined the company’s total dissatisfaction with the joint
venture:
"our joint venture was the first operative joint venture between the United Kingdom and USSR. I was encouraged initially, but now I wish to pull out. Maybe I'll get over the disillusionment."

Company No. 3

Name of British company        Satra

Joint venture model       Shared joint venture
(49:51 equity shareholding between Satra and Soviet partners)

Capital                   £100,000

Location                  Moscow

Company background:
Satra has been doing business in the former Soviet Union since 1950, but has no other business experience in Eastern Europe. The joint venture was registered in March 1989 and has been operational since that time.

Joint venture activities:
This joint venture has been engaged in the service industry and in distribution.

Markets:
75% of the joint venture outlets have been in the former USSR, 12% in Western markets and 13% developing countries. All of the joint venture’s earnings have been in hard currency.
Western partner’s motivation:
The main objective of the British partner was to generate more business in the former Soviet market (5 points), followed by the decision to respond positively to the Soviet business partner’s suggestion to enter into the partnership, achieve diversification of market opportunities, improve the company’s market position against competitors, increase British company’s profits in the Soviet market and have the chance of “getting qualified staff”.

Soviet partner’s motivation
The Soviet partner was mainly interested in using the joint venture as a vehicle for achieving import substitution, gaining access to finance and “freedom from state laws” (5 points), and obtaining Western management techniques (4 points). The Soviet partner did not appear to be motivated by the desire to acquire the British company’s know-how or technology, factory or production equipment, or office equipment (1 point).

Partner Contributions to the Joint Venture:
The British partner contributed ‘cash’ to the joint venture. No other contributions were mentioned by the British company.

Management:
The British and Soviet partners have taken turns in alternating the chairmanship.

Repatriation of Profits:
The major problem apparently has been the Soviet partner’s "unwillingness" to help the British company repatriate its profit share (5 points). Moreover, the system used to define profits has also been causing a problem (4 points). The following issues, however, have not been causing any problems: the joint venture taxes, the ability to buy countertrade goods with local money, and the system for guaranteeing the transfer of hard currency
Satisfaction:

The British partner was completely satisfied with the joint venture operations "workwise". This statement was qualified, however, with the additional comment below:

"Common objectives are the major problem with joint ventures. If they were common at the signing they soon became separate once the company began trading. It is very difficult to keep the Soviets concentrating on a business instead of opportunities."

Company No. 4

<table>
<thead>
<tr>
<th>Name of British company</th>
<th>Anglo-Soviet Shipping Co.Ltd.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joint venture model</td>
<td>Dominant joint venture</td>
</tr>
<tr>
<td>(30:70 equity shareholding by the British and Soviet partners respectively.)</td>
<td></td>
</tr>
<tr>
<td>Capital</td>
<td>£2.5 million</td>
</tr>
<tr>
<td>Location</td>
<td>Moscow</td>
</tr>
</tbody>
</table>

Company background:
This British based company is a Soviet joint venture based in the United Kingdom and has been doing business with the former USSR since 1969. The Anglo-Soviet joint venture in Moscow was registered in July 1989 and has been operational since January 1990.

Joint venture activities:
The joint venture has been engaged in service activities.
Markets:
100% of the joint venture sales are in the former Soviet Union and the joint venture earns 50% of its sales in hard currency.

Western partner's motivation:
The British company's main objective was to achieve more business and improve its market position against competitors (5 points). It also considers the Soviet joint venture provisions to be quite favourable and an incentive for entering into the joint venture (4 points), but was less motivated by wanting to respond to the Soviet partner's suggestion to form a joint venture, or achieving expansion, protection or diversification of market opportunities (3 points). The aim of the joint venture was not to try to increase the British company's profits in the Soviet market.

Soviet partner's motivation:
The Soviet partner was mainly interested in gaining access to finance and the British company's distribution outlets in the West as well as the potential for improving its export performance (4 points). Acquisition of know-how, technology, management techniques, factory or production equipment or office equipment from the British partner played an unimportant role (1 point).

Partner Contributions to the Joint Venture:
The only contribution made by the British partner to the joint venture was cash. According to the questionnaire, the British company contributed 30% of the total 'cash' contributions. No mention was made of any Soviet contributions (except that they provided 70% of the equity shareholding).

Management:
The joint venture has a Soviet chairman.
Repatriation of profits:
As the joint venture had only been operational since January 1990, the British company felt it was too early to be able to make any comments about the system for transferring profits abroad.

Satisfaction with joint venture:
The British partner seemed only somewhat satisfied with the joint venture, awarding it a score of three points.

**Company No. 5**

Name of British company Window Trading Ltd.

Joint venture model Dominant joint venture

(24:76 equity shareholding by the British and Soviet partners respectively)

Capital £550,000

Location Novorossiysk

Company background:
The British company started doing business with the Soviet Union and Hungary in 1988.
The joint venture was registered in January 1989 and has been operational since 1989.

Joint venture activities:
The joint venture has been engaged in import and export activities.
Markets:
80% of the joint venture sales have been in the former USSR and 20% in Western markets. 50% of the sales are earned in hard currency.

Western partner’s motivation:
The joint venture was seen as a way of generating more business in the Soviet market and the British company had as its main objective the wish "to become more involved in the Soviet economy" (5 points). Other important motivating factors were the wish to respond to the Soviet partner’s suggestion to enter into a joint venture partnership and the opportunity for the British company to increase its profits in the Soviet market (4 points). Other objectives which were less important were the opportunity for expanding, protecting and diversifying the British company’s market opportunities (3 points), the Soviet joint venture provisions and the ability to improve the British company’s market position against competitors (2 points).

Soviet partner’s motivation:
The Soviet partner’s main objectives were to acquire their partner’s know-how, technology, management techniques, access to factory or production equipment and office equipment as well as access to the British company’s distribution outlets and improve their export performance (4 points). Apparently unimportant was the opportunity to attract Western finance (2 point).

Partner Contributions to the Joint Venture:
None were specified in the questionnaire.

Management:
The chairman of the joint venture was a Soviet citizen.
Repatriation of Profits:
No repatriation of profits had taken place at the time of the questionnaire survey.

Satisfaction:
No comment. See 'additional comments'.

Additional comments:

"Novoimpex registered in January 1989 for general import-export trading. For 15 months it operated as a local foreign trade organisation fairly satisfactorily. However, a government decree in April/May 1990 restricted its import-export activities to own use of materials and commodities. It, therefore, diverted resources to manufacturing which was not the activity it had originally planned. The British company said they would like to increase their holding to 51%+, "but only when Russia has managed to adopt proper economic reforms".

Company No. 6

Name of British company Andover Trading Ltd.
Joint venture model Dominant joint venture
(1:99 equity shareholding by British and Soviet partners respectively.)
N.B. British shareholding had been 51% to begin with.

Capital £2.0 million
Location Leningrad
Company background:
The British company has been doing business in the former Soviet Union since 1979. The joint venture was registered in April 1989 and has been operational since June 1989.

Joint venture activities:
The joint venture has been active in the entertainments industry.

Markets:
99% of the joint venture sales have been in the former USSR and 1% in Western markets. 2% of the joint venture sales have been in hard currency.

Western partner’s motivation:
"Having a joint venture shows serious intent in the Soviet market" (5 points). Another important motivating factor has been the Soviet joint venture legislation (4 points). However, wanting to respond to the Soviet partner’s suggestion, expand, protect or diversify market opportunities and increase their profits in the Soviet market have played less of an important role (3 points).

Soviet partner’s motivation:
The Soviet partner was concerned to acquire the British partner’s know-how and technology, have access to finance, factory or production equipment as well as the "opportunity for foreign travel" (5 points).

Partner Contributions to the Joint Venture

<table>
<thead>
<tr>
<th>BRITISH CONTRIBUTION</th>
<th>SOVIET CONTRIBUTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Know-how (30%)</td>
<td>Know-how (70%)</td>
</tr>
<tr>
<td>Management techniques (20%)</td>
<td>Management techniques (80%)</td>
</tr>
<tr>
<td>Cash (1%)</td>
<td>Cash (99%)</td>
</tr>
<tr>
<td>Capital equipment (1%)</td>
<td>Capital equipment (99%)</td>
</tr>
</tbody>
</table>
Management:
The chairman of the joint venture was a Soviet citizen.

Repatriation of Profits:
Major problems for the joint venture, according to the British company, were the restrictions on the purchase of goods in the Soviet market in roubles, intended for countertrade, and the fact that no profits had been made at the time the questionnaire was being filled in (5 points).

Satisfaction:
The British company was relatively satisfied, although it did have some reservations (3 points).

Additional comments:
"We are still searching for finance."

Company No. 7

Name of British company wished to remain anonymous

Joint venture model Dominant joint venture
(15:85 equity shareholding by the British and Soviet partners respectively.)

Capital not specified

Location Moscow
Company background:
The British company has been doing business in the Soviet Union since 1988. The joint venture was registered in June 1988 and was still not operational at the time the postal questionnaire survey was being conducted.

Joint venture activities:
The joint venture was hoping to operate a licensing agreement.

Markets:
The joint venture market outlet was to be exclusively in the former Soviet Union.

Western partner's motivation:
The British company was mainly motivated by the opportunity to improve its market position against competitors and "to generate publicity in the West" (5 points). Less important was the opportunity for expanding, protecting or diversifying its market opportunities, generating more business or increasing the British company's profits in the Soviet market (3 points). The British company was not motivated by any suggestions made by the Soviet partner to form a joint venture, nor had it been attracted by particularly favourable joint venture terms.

Soviet partner's motivation:
The Soviet partner was apparently primarily motivated by the opportunity of acquiring the British partner's know-how and technology (5 points), followed by improving its sports performance (4 points), acquiring factory or production equipment (3 points), Western management techniques as well as being able to achieve import substitution through the joint venture (2 points). The Soviet partner was not, however, interested in acquiring office equipment, finance or gaining access to the British company's distribution outlets in the West (1 point).
Partner Contributions to the Joint Venture

<table>
<thead>
<tr>
<th>BRITISH CONTRIBUTION</th>
<th>SOVIET CONTRIBUTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Know-how (100%)</td>
<td></td>
</tr>
<tr>
<td>Licence (100%)</td>
<td></td>
</tr>
<tr>
<td>Technology (100%)</td>
<td></td>
</tr>
<tr>
<td>Research and development (100%)</td>
<td></td>
</tr>
</tbody>
</table>

Management:

The joint venture's chairman was to be a Soviet citizen.

Repatriation of Profits:

The British company viewed the system used to define profits as a major problem (5 points). Less of a problem appeared to be the joint venture taxes and the guarantees for transferring hard currencies (3 points). The difficulty of buying goods on the Soviet market in roubles for countertrade seemed to be of little importance to this company (1 point).

Additional Comments:

"Will probably be a waste of time in the end!"
Company No.8

Name of British company: Caterair International

Joint venture model: Shared joint venture
(49:51% equity shareholding by the British and Soviet partners respectively)

Capital: £1.5 million

Location: Moscow

Company background:
The company had no previous experience of doing business in the former Soviet Union until 1989, when the joint venture first became operational. The joint venture, however, was not officially registered until December 1989.

Joint venture activities:
Airline catering.

Markets:
80% of the joint venture sales have been in the Soviet market, 15% in Western markets, only 2% in developing countries, and 3% in other East European markets. 20% of the joint venture sales have been in hard currency.

Western partner’s motivation:
The main motivation for the British company was to expand, protect or diversify its market opportunities (5 points), followed by its wish to respond positively to partner’s suggestion to enter into the joint venture partnership, do more business in the Soviet

330
market and to improve its market position against competitors (4 points). The joint venture terms in the USSR have not been a great incentive (3 points), and even less important was the British company’s desire to increase its profits in the Soviet market (2 points).

Soviet partner’s motivation:
The main objective of the Soviet partner was to obtain the British partner’s know-how and technology, achieve import substitution through the joint venture and improve its export performance (5 points). Gaining access to finance, factory or production equipment was also of some importance (3 points), but the opportunity to gain office equipment (2 points) and access to the British company’s distribution outlets (1 point) were not very important joint venture considerations for the Soviet partner.

Partner Contributions to the Joint Venture

<table>
<thead>
<tr>
<th>BRITISH CONTRIBUTIONS</th>
<th>SOVIET CONTRIBUTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Know-how (100%)</td>
<td></td>
</tr>
<tr>
<td>Cash (55%)</td>
<td>Cash (45%)</td>
</tr>
</tbody>
</table>

Management:
The chairman of the joint venture was a Soviet citizen.

Repatriation of Profits:
The system used to define profits posed a major problem (4 points). The lack of guarantees for transferring profits and the restrictions preventing joint ventures from buying goods in the Soviet market in roubles for countertrade were only of some concern (3 points). Joint venture taxes were of little importance to this joint venture (2 points).
Satisfaction:
The British company was on the whole quite satisfied with the joint venture (4 points).

SUMMARY OF FINDINGS

Background

The British companies participating in this survey were engaged in both service and manufacturing activities (and one company in construction). The average capital investments made by the British joint venture partners (£1.1 million) was about the same as the average foreign capital investment of $1.5 million shown in table 8.3. In the survey, however, capital investments varied between £20,000 and £2.5 million, depending on the size of the British partner’s equity shareholding and the industry they were engaged in. Unlike the earlier case studies, a considerable proportion of the sample of British companies (5 joint ventures) entered into the joint venture with virtually no previous business experience in the markets of the former socialist countries of Eastern Europe, and this (together with the fact that one company was still not operational at the time of the survey) may have had a bearing on the number of companies which were dissatisfied with the joint venture operations (4 companies).

Joint venture model and control

The preferred Soviet joint venture model, the dominant model (see chapter 7), was adopted by five of the joint ventures. The remaining three were shared joint ventures, with the Soviet partners retaining at least 51% of the equity shareholding. No British company in this sample owned more than 49% of the equity shareholding, despite Soviet legislation, published in 1989, permitting foreign majority shareholding. Moreover, most joint ventures had a Soviet Chairman (7/8 joint ventures), emphasising once again Soviet
preference for controlling joint ventures.

Markets

The information given by the eight British companies indicated that the joint ventures’ markets were predominantly in the former Soviet Union. Only one of the joint venture companies in the survey had considerable sales outlets outside the former CMEA area.

Partner Contributions

The view of the British companies in the questionnaire survey (see graph 10.1) was that they made a greater contribution to the joint venture than their Soviet partners, particularly in the area of research and development and know-how, in supplying licences, technology and technical personnel for the implementation of the technology, whilst their Soviet partners were the main providers of fixed assets (such as office or factory premises) and cash. The graph suggests, therefore, that the eight British companies responded to the Soviet’s major joint venture objective (see figure 10.3), namely to acquire Western know-how.

Partner Motivation

(See figures 10.2 and 10.3)

As already indicated above the Soviet partners of the eight Anglo-Soviet joint ventures had as their main objective the acquisition of Western know-how, followed by the desire to improve their export performance and receive capital investment. Access to their British partners’ distribution outlets or receiving new office equipment are the least important. The British companies’ objectives appeared in the main to be concerned with generating more business and improving their market position and opportunities. The
British companies were less encouraged by the Soviet joint venture provisions or in being able to increase their own company profits through the joint venture.

CONCLUSION

The results of the Anglo-Soviet joint ventures present a less favourable view of their joint venture experiences than those in the previous chapter. This more negative experience gained by British companies may be due to the following reasons.

The Western companies in the previous case study chapter were primarily operational in Hungary (except for Voith and Rank Xerox), where favourable joint venture conditions exist. Moreover, all except one company had been doing business in the former CMEA countries for many years prior to entering into a joint venture partnership, and all had, therefore, gained considerable experience of the operational and cultural differences of the foreign environment. In the Anglo-Soviet sample, however, relatively few had more than two years experience of trading in the former USSR, so that a number of British companies engaged in Soviet joint ventures were having to confront the cultural differences for the very first time. Moreover, the joint venture conditions were less favourable in the former Soviet Union because of the lack of guarantees provided by the authorities for the transfer of the foreign partners’ profits, and the restriction placed on purchasing goods in roubles for countertrade transactions outside the former CMEA area.

The author’s research on Anglo-Soviet joint ventures has revealed once again the difficulty of obtaining reliable and up-to-date information on Western companies actively engaged in East-West joint ventures. The list published by the Anglo-Soviet Chamber of Commerce demonstrates, however, that a large number of British businesses (23 companies) which had expressed interest in joint ventures in the former Soviet Union were not registered companies and likely to be unlimited businesses or perhaps even off-
shore operations seeking new business opportunities in the former Soviet Union.

To conclude, the case studies in chapters 9 and 10 clearly underline again the points mentioned in chapters 2 and 7 of the thesis, namely that successful joint venture operations depend on the foreign partners having had several years of experience of doing business in the host country prior to entering into a joint venture agreement, the partners being able to harmonise their objectives and cultural differences as well as the importance of the host country offering flexible and attractive joint venture conditions to foreign investors.
CHAPTER 11
COMMENTS, CONCLUSIONS
AND SUGGESTIONS FOR FURTHER RESEARCH

COMMENTS

Introduction

At the commencement of the project described in this thesis, the author selected three research methods to investigate the development of East-West joint ventures, namely literature search, structured interviews and a questionnaire survey. The reasons for employing these different methods and their associated advantages and limitations are examined below.

Literature search

Several literature searches were carried out in order to establish the extent of knowledge and the current levels of research in the role of joint ventures in business; economic reforms in Eastern Europe and the former Soviet Union; and the development of East-West trade, industrial co-operation and joint ventures since 1960.

The literature searches revealed that the above subjects, except for the particular topic of joint ventures in the former Comecon countries had been extensively researched. This lack of comprehensive research material on East-West joint ventures based in Eastern
Europe and the former Soviet Union, was apparently due to the absence of adequate joint venture provisions and flexible conditions for foreign trade activities in many of the former socialist countries prior to 1987, particularly in the former USSR. Consequently the number of joint ventures in the former socialist countries of Eastern Europe, before 1987 was very small (table 8.1).

The growing importance of East-West joint ventures in the former socialist countries, however, soon became evident after the former USSR had issued its joint venture decrees in 1987. This resulted in the first comprehensive study of East-West joint ventures being published by the United Nations in 1988 which presented:

- statistical data on the growth of joint ventures since the first joint venture decrees in 1972;
- the joint venture provisions by the individual CMEA countries up to 1987;
- Western companies’ experiences of establishing and subsequently operating joint ventures in Eastern Europe.

Owing to the positive responses of Western companies to joint venture provisions and economic reforms introduced by the former CMEA countries, the number of joint ventures rose dramatically which soon rendered the United Nations’ report out-of-date. In an effort to keep up-to-date with the growth of joint ventures the United Nations then set up a databank to keep pace with the rapidly changing data.
This survey of statistical data was supplemented by a search of press reports and government publications which enabled the author to:

- analyse the trends in the quantity of joint ventures;
- examine the type of activities and industries in which East-West joint ventures have been engaged, on a country by country basis;
- provide estimates of the amount of foreign direct capital invested in the various countries of Eastern Europe;
- investigate the financial support extended to the former CMEA countries in their efforts to transform their economies into market economies.

It became apparent, however, that information was limited on individual company level activities of Western firms in their East-West joint venture operations. To research this topic further, therefore, it was decided to use structured interviews and questionnaire surveys.

**Structured Interviews**

The main advantage offered by the structured interview was the potential to record any new issues experienced by companies engaged in joint venture activities that had not yet percolated through to the written media. Other advantages included the opportunity to obtain immediate feedback on issues identified through the literature research, namely the partners' motivations for entering into a joint venture, the partners' contributions to the joint venture, and the Western company's experience with transfer of profits to the West. By using the same format of questions, it was also possible to collect comparative data.
from the firms interviewed. This method also provided a certain degree of flexibility to expand on any points raised during the interview.

The personal contact originally established through interviewing the companies also made it easier for the author to subsequently contact those companies after a few years, and to obtain an up-date on their joint venture activities. Consequently, the use of the structured interview method made it possible to monitor the development of some of the earlier joint ventures and their responses to the economic and political changes after 1989.

As the number of joint ventures increased from less than one hundred in 1987 to several thousands in 1989, it became evident, however, that another research method was required to quantify statistical data as well as reach a larger, yet more defined sample of joint venture companies in a shorter space of time. The author consequently chose to carry out a questionnaire survey which offered the following advantages and limitations.

**The Questionnaire Survey**

Having recognised the need for a research method which could take account of the growing statistical data and provide results with the minimum time delay, the author decided to carry out a postal questionnaire survey among a more defined sample of companies, namely British partners of Anglo-Soviet joint ventures.

This research method offered several advantages over the structured interview, namely the ability to contact a greater number of British companies, and record their joint venture
experiences quickly. In addition, by receiving questions in a written form rather than in an interview the respondents had more time to give considered answers to the questions. Moreover, by focussing on a defined sample, the questionnaire survey enabled the author to quantify certain information and data common to the companies surveyed as well as register the extent of British companies' interest in Soviet joint venture activities by the number of replies received.

One third of the companies contacted replied (8 companies) within one month, a considerably shorter period of time compared to structured interviews, which took approximately nine to twelve months to set up and process the results. This research method, however, was less flexible than the structured interview, and did not permit the researcher to explore in greater depths the experiences of individual companies.

By the use of both of these methods, therefore, the author was able to gain comprehensive information on the current advantages and problems of Western companies' joint venture activities in the former socialist countries of Eastern Europe.

CONCLUSIONS

The Development of Joint Ventures

The information presented in section B of the thesis revealed that the former CMEA countries became interested in expanding their foreign trade activities with Western countries during the nineteen sixties, following efforts to reform and improve the
efficiency of their centralised planning systems. The recognition by many of the former CMEA countries of the importance of foreign trade, together with the onset of the United States' policy of détente at the beginning of the nineteen seventies, resulted in an expansion of East-West trade and industrial co-operation, including joint ventures in developed economies. The main purpose of the former CMEA countries in pursuing joint ventures with developed Western economies was to promote import substitution, domestic production, and export development.

These activities might have continued to expand in the nineteen eighties had not certain economic and political factors intervened which had a profound effect on Comecon and East-West trade, and the development of East-West joint ventures. These included the second oil crisis of 1979, the subsequent fall in world oil prices during a time of world recession and shrinking export markets (chapters 3 and 5). These factors influenced both intra-CMEA trade and East-West trade (chapters 4 and 5). The former Soviet Union, however, was affected differently from the other socialist countries. As an important producer of energy and other natural resource commodities, the former USSR could not earn its former levels of foreign currency from the export of these products because of falling world prices; although it could still obtain similar, or even increased levels of earnings from the former socialist countries as prices changes in that market lagged behind world price changes. Nevertheless, the USSR was still unable to earn sufficient hard currency income to sustain its import requirements for Western products. The remaining Eastern European countries, in their turn, were obliged to sell comparatively higher levels of products to the former USSR in exchange for their raw material requirements, leaving fewer goods for Western markets which were also in recession. As
a consequence, Eastern European countries were also unable to import necessary levels of goods to meet their needs, from Western countries. Joint ventures were consequently an attractive option to overcome hard currency shortages, particularly for the purchase of equipment and services.

Moreover, with the changes in the Soviet leadership in 1985 and the introduction of perestroika and glasnost, a new wave of economic reforms was introduced in the latter half of the nineteen eighties in the former CMEA countries which aimed to reactivate foreign trade with little hard currency expenditure. Having gained considerable experience in the nineteen seventies with industrial co-operation agreements, and particularly joint ventures in developed economies (chapter 6), the more reform-minded countries of Eastern Europe, among them Hungary, began promoting joint ventures on their own territory. With the overthrow of communist governments and their replacement by democratically elected governments in 1989 and 1990, foreign trade continued to be reformed. These policies of these governments promoted a rapid liberalisation of foreign trade and particularly of joint venture provisions (chapter 7).

The effect of these foreign trade reforms throughout Eastern Europe and the former Soviet Union caused a rapid increase in the number of joint venture registrations in the former CMEA area (chapter 8). These joint ventures received, on average, only small amounts of foreign capital investments, however, owing to the economic and political instability of some of the East European countries (e.g. Romania, Poland and Bulgaria in particular). Clearly, the political changes in the former CMEA countries which enabled these countries to continue with their economic and foreign trade reforms have had the most
profound effect on the growth and development of East-West joint ventures. The extent
to which foreign capital contributions will increase, will depend, however, on how
successful the former CMEA countries will be in stabilising their economies, and
implementing foreign financial aid (chapters 4 and 8) chiefly in the forms of debt
rescheduling and loans made available from the European Community and the G-7 and
G-24 groups of countries.

The Role of Joint Ventures in East-West Trade

The information presented in chapter 2 of this thesis described the ways in which joint
ventures have been used as a tool in business in order to penetrate foreign markets, and
also to consolidate existing business operations abroad. This information also illustrated
the complexity involved in establishing and managing joint ventures, particularly shared
joint ventures, and especially for partners to identify their joint venture objectives and find
a compatible or complementary partner. Despite these difficulties, the chapter concluded
that with clear objectives and a clear business plan, joint ventures could bring business
advantages for both parties, namely access to markets, technology or know-how; and joint
research and development opportunities as a way of rationalising the partners’ business
operations.

The issues raised in chapter 2 served, therefore, as a theoretical basis for devising the
structured interview questionnaire and the postal questionnaire used to obtain the company
information presented in chapters 9 and 10 of the thesis, guiding the author to focus on
the partners’ motivation for entering into the joint venture, their respective contributions
and activities, the joint venture's markets, and management of the joint venture.

The evidence in chapter 8 and the case study samples suggests that Western companies have been mainly engaged in contributing technology and know-how to the joint ventures in exchange for gaining access to East European markets. The case studies, in particular, demonstrated the impact of the economic and political reforms at the micro level after 1989. In the early case studies (chapter 9) many Western partners increased their equity shareholding either to a majority or 100% shareholding. This was due to the fact that most of the early case studies were based in Hungary where the most extensive liberalisation of foreign trade had taken place. In addition, some extended their activities to include manufacturing (see APV and Siemens) or formed secondary joint ventures in the former Soviet Union and Bulgaria (see Rank Xerox, Voith and Adidas respectively). These changes to existing joint ventures and the setting up of additional joint ventures showed a positive response by Western joint venture partners to the post-1989 reforms in Eastern Europe and the former Soviet Union.

The importance of political and economic stability of the country to foreign investors was brought out by some of the Western companies' responses in chapter 9 (e.g. Adidas and Schwarzkopf). These two companies which expressed interest in participating in a joint venture in the former Soviet Union in 1988, have remained hesitant and even negative in 1992, about any joint venture prospects for their companies in the Commonwealth of Independent States because of the political and economic instability.

A less positive picture at the micro level about joint ventures in the former Soviet Union
has also been obtained from the Anglo-Soviet joint venture survey. The main concerns of the British companies included in the survey have been the difficulty of transferring profits abroad and the restrictions imposed on buying goods in roubles for sale abroad in hard currency. In addition, Soviet bureaucracy often caused delays to the joint venture's operations. However, it was noted in chapter 10 that most of the companies experiencing these problems had little or no previous experience of doing business with the former Soviet Union, compared with Rank Xerox and Voith (see chapter 9) which had considerable experience and gave positive feedback about their joint venture operations in the Commonwealth of Independent States. As in the earlier case study sample in chapter 9, British companies perceived their contributions to the joint venture to be mainly know-how, technology and capital, whilst the Soviet partners offered the foreign partners premises, labour and above all, access to the Soviet market.

To summarise, East-West joint ventures in the CMEA area developed initially as a response to stagnating export trade and hard currency shortages in the nineteen eighties. Their growth, however, has been accelerated following fundamental political changes in Eastern Europe in 1989 and 1990 which have brought about greater liberalisation of foreign trade practices. Despite the sharp increase in the number of joint ventures, capitalisation has, nevertheless, remained small, although at the micro level there are signs of successful joint ventures having increased their capital contribution. The relatively low level of capitalisation recorded at the end of 1990 suggests that Western partners' perceptions of the economic and political situation of some of the former CMEA countries, notably Bulgaria, Romania and to some extent Poland, remained one of fragility.
The case studies have demonstrated, however, that both Western and Eastern partners have benefited from their co-operation. By responding to host government pressure, Western companies have been able to penetrate the foreign market more effectively, whilst the East European partners have been able to gain access to foreign technology, know-how and capital with little hard currency expenditure. By insisting on a majority or shared joint venture model and an East European national as Chairman of the joint venture in the majority of cases prior to 1989, the former CMEA countries were also careful to retain control of joint venture activities. This controlling factor as well as the economic and political factors may well have had a restraining influence on the amount of capital Western companies were prepared to invest in Eastern Europe.

The changes to the rules regarding majority shareholding and wholly-owned foreign companies, as well as the political changes, have certainly had a positive effect on persuading Western companies already operating successfully in Eastern Europe to increase their capital contributions. The overall picture presented in chapter 8 suggests that initial investments by foreign companies, on average, however, have remained small, but the case studies in chapter 9 point out that experienced companies in East-West trade are responding favourably, although cautiously to changes to joint venture provisions and the political situation. By comparison, however, many of the British companies which took part in the questionnaire survey had little prior experience of doing business in the former Soviet Union, and it seems have consequently had less success than the case study companies in chapter 9.
On the evidence presented in this thesis, it appears that East-West joint ventures will continue to grow in numbers, although the size of their capital contributions will remain modest and influenced by the economic and political developments in the former CMEA countries. If, however, their reforms take effect and create greater political stability together with a liberalisation of foreign trade, Western firms will be encouraged not only to increase their equity shareholding, but also to extend their activities into the production sphere (see case studies 'Siemens' and 'APV').

It can be concluded, therefore, that joint ventures have helped to re-activate interest in East-West trade, particularly during a period when hard currency problems and the effects of a world recession had brought about stagnation. Whilst not having made any significant contribution in terms of the amount of capital contributed by foreign firms, joint ventures have, nevertheless, enabled the former socialist firms to gain access to newer technology and know-how without having to commit large amounts of hard currency.

Foreign Direct Investment since 1990

Before making suggestions for further research into joint ventures in the former CMEA countries, it is important to consider some of the major changes which have occurred since 1990, and their effect on foreign direct investments. These include permission for foreign partners to own wholly-owned subsidiaries, the break-up of intra-CMEA trade referred to in chapter 4 of the thesis, the fragmentation of the Soviet Union and reform measures, notably privatisation and foreign financial assistance. The effect of these
changes and measures are considered in the following paragraphs.

a) Wholly-owned subsidiaries

Hungary was the first former CMEA country to permit one hundred per cent foreign shareholding in 1989. By 1991 all other East European countries had passed legislation allowing wholly-owned foreign subsidiaries to operate in their countries, and the former Soviet Union 99% foreign shareholding. This change in legislation has been particularly attractive to foreign multinationals, who normally aim to establish wholly-owned subsidiaries in an effort to retain control and implement their company policies. Moreover, wholly-owned foreign companies are more likely to receive greater amounts of capital injections from the parent company than a joint venture because of the greater control enjoyed by the company, and the fact that they do not have to share their profits with a partner.

b) The break-up of intra-CMEA trade (1)

The substantial decrease in world oil prices in the early to mid-nineteen eighties, as well as the fall in Soviet oil production in the latter half of the nineteen eighties, led to reduced levels of revenue for the former USSR. Not only had the former Soviet Union less foreign currency to purchase products on the international market reducing total imports by 44%, but purchases from Eastern Europe were also reduced by a more significant amount, namely 62%. The subsequent switch from transferrable rouble to hard currency trade in intra-CMEA transactions from January 1991, caused further reduced import orders from the Soviet Union and the reduced usage of the transferable rouble left the other East European countries with not only a reduced export market, but also with a host of
unsettled credit and capital transactions which needed to be cleared. This resulted in a series of bilateral trade agreements based on barter trade between the former Soviet Union and the oil dependent countries, notably Bulgaria. Hungary and Czechoslovakia met repayment of these accounts with hard currency at a conversion rate at approximately ninety per cent of the rouble value. Consequently, the hard currency reserves of the former socialist countries were depleted even further. The need for foreign direct investments as a form of import substitution and a means of having access to Western technology and know-how will, therefore, continue in the nineteen nineties. Moreover, the desire to attract foreign direct investments is likely to encourage the former CMEA countries to continue with some economic and political reform efforts in the nineteen nineties.

c) The fragmentation of the Soviet Union

Since the break-up of the Soviet Union and the setting up of the Commonwealth of Independent States at the beginning of 1992 the former Soviet Union has been decentralised and former republics have been able to set up their own time-table for the implementation of reforms. Consequently, some of the new states have already introduced internal convertibility, a certain degree of price liberalisation and the granting of foreign trade rights to all enterprises and privatisation measures. The effect of these measures and the greater commitment by Russia to the introduction of economic reforms after the dissolution of the Soviet Union at the end of 1991, should bring about the further liberalisation of foreign trade. Providing, therefore, that political and economic stability is achieved, foreign investors should be attracted to the new business opportunities and wealth of resources available in the Commonwealth of Independent States.
d) Privatisation

By selling state enterprises either gradually as in Hungary or by auction and voucher scheme as proposed by Czechoslovakia and Russia in 1992, the governments of the former socialist countries will be able to devolve financial responsibility to the management of these companies. The sale and purchase of shares will require a stockmarket and a capital market which have to be supported by relevant financial institutions. Moreover, by allowing foreign parties to purchase shares, foreign companies are given the opportunity to purchase land, premises and assets in the former CMEA countries. Consequently, privatisation should encourage greater flows of money within the domestic market as well as flows from foreign investors.

d) Foreign Financial Assistance (2)

Since 1990 financial assistance has been organised and co-ordinated by the G-24 countries and the European Community and extends to all the former CMEA countries, except the Commonwealth of Independent States for which separate arrangements have been made mainly on a bilateral basis. The United Nations has calculated that the smaller East European countries received gross financial resource flows of US $ 4.2 billion in 1990 from the European Community and the G-24 countries. This figure included private capital (i.e. officially supported export credits and foreign direct investments) of US $ 2 billion and official capital of US $ 2 billion received from development banks, the G-24 and European Community countries as well as from the IMF. Owing to the bleak economic outlook for these countries at the end of 1990, however, the official capital received from the international community increased to US $ 8.6 billion. Increases in private capital have also been estimated at US $ 3.8 billion, amounting to gross financial
flows of approximately US $12.4 billion in 1991. On the basis that the economic outlook for the East European countries improved at the end of 1991, the United Nations has estimated that official capital will decrease to US $5.0 billion and private capital will increase to US $4.8 billion in 1992. (See table 11.1) Consequently, the growth in foreign direct investments in Eastern Europe is likely to continue.

Financial assistance to the former Soviet Union has been mainly granted on a bilateral basis among the G-7 countries. Assistance began with an emergency effort in the winter of 1991/92, following a breakdown in the Soviet distribution system and a shortage of supplies and food. The international community consequently organised transportation and food distribution within the former Soviet Union, and gave assistance primarily in the form of credit facilities, humanitarian and technical assistance. From the European Community alone, the former USSR received €400 million in 1991 and a further €500 million in 1992 for technical assistance projects.
Table 11.1  Eastern Europe: gross financial resource flows, 1990, and outlook for 1991 and 1992

(in billions of US dollars)

<table>
<thead>
<tr>
<th>Type of capital</th>
<th>1990</th>
<th>1991a</th>
<th>1992b</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Capital(c)</td>
<td>2.0</td>
<td>3.8</td>
<td>4.8</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign direct investment</td>
<td>0.6</td>
<td>1.6</td>
<td>1.9</td>
</tr>
<tr>
<td>Official Capital</td>
<td>2.2</td>
<td>8.6</td>
<td>5.0</td>
</tr>
<tr>
<td>Development banks (d)</td>
<td>0.2</td>
<td>1.6</td>
<td>3.0</td>
</tr>
<tr>
<td>G-24/EC</td>
<td>1.5</td>
<td>3.0</td>
<td>0.6</td>
</tr>
<tr>
<td>IMF</td>
<td>0.5</td>
<td>4.0</td>
<td>1.4 (e)</td>
</tr>
<tr>
<td>Total new capital</td>
<td>4.2</td>
<td>12.4</td>
<td>9.8</td>
</tr>
<tr>
<td>Rescheduled obligations</td>
<td>5.8</td>
<td>7.4</td>
<td>4.7</td>
</tr>
<tr>
<td>Total resources</td>
<td>10.0</td>
<td>19.8</td>
<td>14.5</td>
</tr>
</tbody>
</table>


NOTES:

a Revised outlook.
b Preliminary.
c Includes officially supported export credits.
d IBRD and EBRD
e Reflects only programmes arranged in 1991.
The growing financial support since 1990 for the smaller East European countries, and more recently for the former Soviet Union by the international community, has helped these countries to begin with the implementation of stabilisation and reconstruction policies. If successful in stabilising their economies, it is probable that greater flows of foreign capital will occur. In the subsequent paragraph the growth of foreign direct investments since 1990 is examined.

e) Foreign Direct Investment since 1990 (3)

The effect of the above outlined changes and policies have already had a positive effect on the development of foreign direct investment registrations. Between the beginning of 1991 and January 1992 the number of joint ventures and wholly-owned affiliates registered in Central and Eastern Europe increased by 150%, rising from a total of 13,722 joint ventures (see table 8.2) to 34,422. The East European countries to have been most favoured by foreign investors have been Hungary and Romania with 11,000 and 8,022 foreign direct investments respectively, thereby shifting the emphasis away from the former Soviet Union. This shift away from the former Soviet Union may well be attributable to the political uncertainties experienced in the country in 1991 and at the beginning of 1992.

Foreign capital investments by comparison, however, increased only modestly from US $ 7,264 million (see table 8.3) to US$ 9,420 million dollars. The average capitalisation of each joint venture in the former socialist countries nearly halved from US $ 0.53 million in 1991 to US $ 0.27 million in 1992. This was due to the fact that many of the new foreign direct investments have been made in Romania, where service joint ventures
tend to dominate (see chapter 8) and consequently average capitalisation of each joint venture is the lowest (US $30,000) among the former CMEA countries. (See table 11.2 and compare average capitalisation per joint venture in the Commonwealth of Independent states of US $1.05 million, where many manufacturing joint ventures were established.)

Table 11.2 Foreign investment registrations in Central and Eastern Europe, by number and value of foreign equity participation, at the beginning of 1992. (in millions of US dollars)

<table>
<thead>
<tr>
<th>Country</th>
<th>Number</th>
<th>Foreign equity (a)</th>
<th>Average foreign capital per jv</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>900</td>
<td>300</td>
<td>0.33</td>
</tr>
<tr>
<td>Commonwealth of Independent States</td>
<td>5,400</td>
<td>5,650</td>
<td>1.05</td>
</tr>
<tr>
<td>Czechoslovakia</td>
<td>4,000</td>
<td>480</td>
<td>0.12</td>
</tr>
<tr>
<td>Hungary</td>
<td>11,000</td>
<td>2,089</td>
<td>0.19</td>
</tr>
<tr>
<td>Poland</td>
<td>5,100</td>
<td>670</td>
<td>0.13</td>
</tr>
<tr>
<td>Romania</td>
<td>8,022</td>
<td>231</td>
<td>0.03</td>
</tr>
<tr>
<td>Total</td>
<td>34,422</td>
<td>9,420</td>
<td>0.27</td>
</tr>
</tbody>
</table>


NOTE:
a as of 1 October 1991.
To conclude, these latest United Nations statistics suggest that the former socialist countries have succeeded in taking the first positive steps towards improving the economic and political conditions within their countries. The response of Western companies has been accordingly positive in as far as the number of foreign direct investments has grown, yet cautious in terms of the amount of capital invested.

SUGGESTIONS FOR FURTHER RESEARCH

The author's research findings have shown that:

(i) the role of joint ventures in East-West trade has been primarily to enable the former CMEA countries to have access to foreign technology and know-how with the minimum of hard currency expenditure;

(ii) the effect at company-level of privatisation-and-more liberal joint venture provisions in Eastern Europe on individual Western partners has resulted in attracting greater numbers of foreign direct investments and in some foreign partners increasing their equity shareholding, especially in Hungary.

It seems, therefore, that promoting foreign direct investments in Eastern Europe and the Commonwealth of Independent States will continue to play an important role in East-West trade and industrial co-operation in the nineteen nineties, particularly as the hard currency reserves of these countries remain low, and they continue to seek access to foreign technology and know-how.
Foreign direct investments in the former CMEA countries have, therefore, the potential to help these countries to achieve economic recovery through technology transfer and capital flows to the country. Consequently, further research should focus on monitoring the growth in the number of foreign direct investments, and particularly the size of foreign capital contributions as well as the extent of technology transfer through capital goods and the sale of licences. This will enable the international community to measure the degree of foreign companies’ confidence in these markets and the success of East European countries in stabilising their economies. In addition, this information will assist Western governments to estimate the amount of official capital required by individual East European countries.

Moreover, such institutional support from the international community as well as improved economic conditions, should encourage many of the foreign joint venture partners engaged in service activities to extend their activities into assembly and manufacturing. This in turn will increase foreign capital contributions as demonstrated in the earlier case studies in chapter 9. This extension of activities from a service joint venture or subsidiary to assembly and manufacturing indicates not only the foreign partners’ increased confidence in the foreign market and satisfaction with the business environment, but also their success in penetrating the foreign market. By monitoring the number of service joint ventures which extend their activities to include assembly and manufacturing it will be possible to measure the effectiveness of economic reform and joint venture operations in the former CMEA countries. As databanks have now been established, notably by the United Nations (and also the OECD), which release up-to-date data, it will be possible to obtain a more accurate and comprehensive statistical breakdown.
of the development of foreign direct investments.

Finally, whilst the statistical evidence enables researchers to quantify the common data on foreign direct investments, up-dating and obtaining fresh information from companies engaged in East-West joint ventures provides an immediate indication at grass-roots level of developments, and is therefore a useful complement to the statistical data and research literature. In view of the number of Western companies involved in East-West joint ventures, the information received from companies will need to be categorised in order to present the experiences of companies which have a similar profile. This can be done on various levels:

(i) by industry, size and activity;
(ii) by nationality of the Western partner;
(iii) by examining Western partners’ experiences in individual East European countries.

To conclude, this thesis has focussed on East-West joint ventures at a critical moment in the economic and political development of Eastern Europe and the former Soviet Union (1985 - 1990) by drawing on existing research material and reports on the subject and including the experiences of Western companies. The up-dating of company data already collected will help to gauge the impact and development of economic reforms in the nineteen nineties as well as provide a collection of case studies in the evolution of individual East-West joint ventures.
Chapter 11: Notes

1. The information on the collapse of intra-CMEA trading since 1991 has been obtained from:

2. The information on international support for Eastern Europe and the former Soviet Union has been obtained from,

3. The latest statistical information about foreign direct investment (including joint ventures) in the former CMEA countries has been obtained from,
Appendix 1

STRUCTURED INTERVIEW QUESTIONNAIRE

Walters International: Hungary

1. In which sector has your company established a joint venture?
(*delete as appropriate)
*assembly/production of matrix printers/product development

2. How long have you been active in East European markets? Since 19__?

(1 = very important, 5 = irrelevant)

Existing business contacts
Favourable joint venture terms offered by the host country
Expansion, protection or diversification of market opportunities
Use of joint venture agreement to provide further business contact with East European partners
Joint venture proposal put forward by East European partner
Matching investments or operations of your competitors
Increase profits
Extension of product life cycle

4. Which of the following do you consider to be the main motives of your East European partner in wanting to participate in a joint venture? Please circle
(1 = very important, 5 = irrelevant)

Use of your company’s distribution channels
Acquisition of your company’s managerial skills
Acquisition of newer technology and know-how from your company
Training of technical personnel within your company
To attract foreign capital investment
Import substitution
Other:
5. Which partner has made the following contributions? (Please tick).

<table>
<thead>
<tr>
<th>CONTRIBUTIONS</th>
<th>EAST EUROPEAN PARTNER</th>
<th>WESTERN PARTNER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed assets (machinery, land, factory)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct labour (machine operators, workers, service of machines)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technical personnel</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Managerial personnel</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Know-how</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Licence(s)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Up-to-date technology</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Modern management techniques</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research and development</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

6. Is the aim of the joint venture to sell to East European markets/ Western markets/both*?
*Please delete as appropriate.

7. Please name the first three major hard and soft currency markets:

- Major hard currency markets
  1. 
  2. 
  3. 

- Major soft currency markets
  1. 
  2. 
  3. 

8. What % of the sales volume is in hard currency?

9. What advantages do the joint venture products have over existing products in the market?

10. Which distribution outlets do you use: Your's/Partner's/Both*?
*Please delete as appropriate

11. Are the joint venture profits increasing/decreasing/staying the same*?
*Please delete as appropriate.
12. How great is Walters International's profit share in countertrade? %?

13. Does repatriation of profits pose a problem? YES/NO

14. Do you pay for the following in hard or soft currency? (Please tick.)

<table>
<thead>
<tr>
<th>BUSINESS COSTS</th>
<th>SOFT CURRENCY</th>
<th>HARD CURRENCY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw materials</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employees'/workers' wages</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research and development</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Publicity materials</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transport costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General overheads</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit for reinvestment</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

15. How great is your company's shareholding?

16. How great is your company's investment in the joint venture?

17. How many people are on the joint venture Board of Directors from:
   Your company: Partner's:

18. What is the voting distribution?

19. Is the hiring and firing of staff made by You/Partner/Jointly*? *Please delete as appropriate.

20. Is Quality Control the responsibility of *You/Partner/Both? *Please delete as appropriate.

21. As a result of recent V.A.T. and income tax have, (*please delete)
   (i) prices on local and imported raw materials/supplies risen? YES/NO*
   (ii) employees' and workers' wages been increased? YES/NO
   (iii) profits been reduced? YES/NO
Appendix II  ANGLO-SOVIET QUESTIONNAIRE

1. When did your company first start doing business in:

The Soviet Union  19__

other East European countries:

Bulgaria  19__  East Germany  19__
Romania  19__  Hungary  19__
Poland  19__  Czechoslovakia  19__

2. When was the JV registered?  Month__ Year__

3. When did the JV become operational?  Month__ Year__

   If not yet operational, please state when the JV is expected to become
   operational: in _____ months.

4. How large is your company’s shareholding in the JV?  ____%

5. If possible, please state the JV’s startup capital.  £________

6. In which of the following activities is the JV engaged: (Please tick)

Co-production     Service     Joint R & D
Licencing Agreement Construction Distribution
Turnkey Operation Marketing

Other (Please specify) .............................................
7. Did your company enter into a JV in the Soviet Union because:
Please circle the appropriate number on a scale of 1 (irrelevant) to 5 (very important).

Your Soviet business partner suggested it 1 2 3 4 5
The JV terms in the USSR are favourable 1 2 3 4 5
The JV provides expansion, protection or diversification of market opportunities 1 2 3 4 5
The JV agreement opens the door for more business 1 2 3 4 5
The JV will improve your market position against competitors 1 2 3 4 5
The JV will increase your profits in the Soviet market 1 2 3 4 5
Other (please specify) 1 2 3 4 5

8. Which of the following do you think were your Soviet partner’s reasons for entering a JV agreement with you?
Please circle the appropriate number on a scale of 1 (irrelevant) to 5 (very important).

Access to your company’s know-how/technology 1 2 3 4 5
Access to Western management techniques 1 2 3 4 5
JV provided opportunity for import substitution 1 2 3 4 5
Access to finance 1 2 3 4 5
Access to factory/production equipment (machinery) 1 2 3 4 5
Access to office equipment (computers, software) 1 2 3 4 5
Opportunity for improving export performance 1 2 3 4 5
Access to your company’s distribution outlets 1 2 3 4 5
Other (please specify) 1 2 3 4 5

................................................................. 1 2 3 4 5
9. Please give the approximate % of contributions made by your company to the JV, for each of the categories listed below:

Cash _____%
Know-how _____%
Capital Equipment _____%
Licence(s) _____%
Fixed Assets (machinery, land, factory) _____%
Technology _____%
Management Techniques _____%
Technical Personnel _____%
R & D _____%
Direct Labour _____%
Managerial Personnel _____%
Direct Labour (machine operators, workers, service of machines) _____%
Other (please specify) .......................................................... _____%

10. Did the JV receive any financial loan/backing? YES/NO

If YES, please state the name of the institution and the amount (in £)

...........................................................................................

11. What percentage of the JV's sales are in

The Soviet Market _____%
Western Markets _____%
Developing Countries _____%
Other East European Markets (please specify) .......................................................... _____%
12. What percentage of the sales volume is in hard currency?

13. If possible, indicate to what extent your company receives payment for your share of the JV earnings in countertrade goods: (please tick appropriate band)

<table>
<thead>
<tr>
<th>Percentage</th>
<th>25%</th>
<th>26 - 50%</th>
<th>51 - 75%</th>
<th>76 - 100%</th>
</tr>
</thead>
</table>

14. To what extent do the following pose a problem in the repatriation of your share of the profits?

Please circle appropriate number on a scale from 1 (no problem) to 5 (major problem).

<table>
<thead>
<tr>
<th>Problem</th>
<th>1 2 3 4 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>JV taxes</td>
<td></td>
</tr>
<tr>
<td>System used to define profits</td>
<td></td>
</tr>
<tr>
<td>Guarantees for transferring hard currencies</td>
<td></td>
</tr>
<tr>
<td>Ability to buy countertrade goods with local money</td>
<td></td>
</tr>
</tbody>
</table>

Are there any other problems posed by the repatriation of the JV’s profits, other than those indicated above? (Please specify)

<table>
<thead>
<tr>
<th>1 2 3 4 5</th>
</tr>
</thead>
</table>

15. To what extent are you satisfied with

the quality of the JV output?  

Please circle the appropriate number on a scale from 1 (totally dissatisfied) to 5 (completely satisfied).

<table>
<thead>
<tr>
<th>1 2 3 4 5</th>
</tr>
</thead>
</table>

16. Is the Chairman of the JV: Soviet/British

Are there any other comments you may wish to add about your company’s Anglo-Soviet joint venture, or about Anglo-Soviet joint ventures in general?

Thank you for your co-operation in this research project
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