

# ***WORKING PAPER***

## **JOINT VENTURES: A NEW REALITY OF EAST-WEST COOPERATION (STATE-OF-THE-ART)**

*Julia Djarova*

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## FOREWORD

A new approach to foreign equity participation and the desire to accelerate the transfer of modern technology and management methods has resulted, in many CMEA countries, in a great deal of new legislation to regulate the process of establishing and operating joint ventures with Western companies. Together with the economic reforms taking place in these countries, which have resulted in more freedom to enterprises and their managers and in more decentralized decision-making, this attitude is facilitating the process of creating joint ventures.

As joint ventures constitute a new organizational setting between two economic systems, they have become a very 'hot' topic in many different forums, including the mass media. In spite of the growing interest in east-west joint ventures and due to their short history, there are very few completed studies on the subject. Several international organizations, such as UNIDO and ECE, have compiled studies of legislation for joint ventures and organized meetings between managers from both economic systems to discuss the issue. Bilateral studies between various countries and consultancy reports are also available. Nevertheless, there is a vacuum of empirical studies and analyses of the problems faced by partners, especially during the periods of negotiation and operation.

The MTC activity, therefore, has directed its efforts towards a feasibility study on joint ventures, in order to define IIASA's, and specifically MTC's, niche in the field.

Dr. Djarova's working paper documents the state-of-the-art of the issue of east-west joint ventures. The information has been updated through June 1988. It gives a broad picture of the current situation as well as a review of available literature on the subject. The content of the problem is very large in scope and, for the purposes of our feasibility study, has been somewhat condensed to make the information here presented of use, not only to researchers, but to managers as well.

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# JOINT VENTURES: A NEW REALITY OF EAST-WEST COOPERATION (STATE-OF-THE-ART)

Julia Djarova

## 1. STATE-OF-THE-ART OF EAST-WEST COOPERATION

In order to face the problems of East-West joint ventures today, we logically have to return to the history of cooperation between Eastern European and Western developed countries in this area. Looking over the trends, cooperative forms, and driving forces of East-West relations gives us some introductory information about joint ventures, the most complex and developed form of East-West integration in recent times. What took place in previous decades can help explain the main reasons that the East and West have moved on to more deeper forms of joint industrial cooperation.

Until the 1970's, East-West relations mainly took the form of trade in goods and services. East-West trade increased at a rapid rate since 1960, approximately 305% between 1960 and 1979 (see Figure 1<sup>1</sup>), and then continued to increase at a slower rate through 1987. Western exports to Eastern Europe have been concentrated in the fields of machinery, transport equipment, and manufactured goods, each accounting for between 20-35% of total Western exports in the respective area, and of chemicals and foodstuffs, each accounting for some 10%. Exports from Eastern countries to the West consisted mainly of food, beverages, and tobacco, accounting for 30%; raw materials, minerals, and fuel, accounting for about 45-50%; and engineering products accounting for some 10%.

The organizational aspects of foreign trade have developed as a consequence of commercial transactions between Western companies and the authorized foreign trade organizations in the Eastern countries. Almost all Western industrial countries have signed bilateral trade agreements with various Eastern European countries for periods of time ranging from 2-6 years. The development of inter-governmental agreements has become more broad in scope, now including forms of commercial, economic, industrial, and scientific and technical cooperation.

Various motivating or driving forces have entered into these trade relation developments. These forces involve mainly the process of extended internationalization, but are also connected

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<sup>1</sup> Note: Recent changes in East-West trade relations are shown in "European Economic Bulletin," TRADE (XXVI)/1, United Nations, vol. 39, 1987 (Russian version).

with national strategies for rapid economic growth, expanded capacity and market diversification, new sources of raw materials and labor, risk reduction, increased degree of technological development, etc.

The process of increasing inter-country dependence, mainly in the fields of economics, science and technology, has called for new types of relations. The Conference on Security and Cooperation in Europe<sup>e</sup> officially confirmed the process underway at that time of a "growing worldwide economic interdependence which has called for increasing common and effective efforts towards the solution of major economic problems" and has led to the need "for promoting stable and equitable international economic relations." The conference recognized "that industrial cooperation covers a number of forms of economic relations going beyond the framework of conventional trade and that in concluding contracts on industrial cooperation the partners will determine jointly the appropriate forms and conditions of cooperation, taking into account their mutual interest and capabilities."

Characteristic features of East-West relations which have been observed from the early 1970's through the present are:

- 1) gradual transfer from simple foreign trade relations to cooperation in the fields of economics, science and technology, etc. and
- 2) development of the forms for this cooperation, starting with sub-contracts and moving on to co-production, joint projects, and joint ventures.

Another characteristic of East-West cooperative relations is that inter-firm cooperation is now more frequently established by direct company contact than by governmental agreements. This process is one of the pre-conditions for developing more diversified and complex forms of relations, i.e. international trade, economic, R&D, etc.

Furthermore, more profound inter-governmental relations have led to avoiding the type of "anonymous" cooperation which used to prevail in trade relations, whereby Western firms found themselves dealing with a government agency or ministry, not the individual enterprises involved. The need for companies to be actively involved arose, and cooperation forms now generally imply knowing the "addresses" of all partners.

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<sup>e</sup> Conference on Security and Cooperation in Europe (1973) Final Act, Helsinki, July 3.

McMillan<sup>3</sup> defines three categories of inter-firm relations:

- 1) market relations mainly in the form of trade in goods and services;
- 2) interaction of subordinate units of a single multi-national firm, the result of a national firm's international expansion through direct foreign investment;
- 3) relations of an intermediate character or relations outside the market place but without the loss of essential operational autonomy.

Distinguishing the first and the second categories, McMillan noticed that "while market relations involve the parties in isolated transactions, cooperation typically associates them in a set of complementary activities. Moreover, the coordination performed by the agreement characteristically extends directly to activities as production and R&D, which are only indirectly determined by the operation of the market in the case of trade relations." The cooperative association (see Table 1) is defined as an intermediary where the important relations between the parties may be left to determination by market forces.

The first generally accepted working definition of industrial cooperation in an East-West context was provided in 1973, by the United Nations Economic Commission for Europe (ECE), namely:

"the economic relationships and activities arising from a) contracts extending over a number of years between partners belonging to different economic systems which go beyond the straightforward sale or purchase of goods and services to include a set of complementary or matching operations in production in the development and transfer of technology in marketing, etc. and b) contracts between such partners which have been identified as industrial cooperation contracts by governments in bilateral or multilateral agreements."<sup>4</sup>

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<sup>3</sup> McMillan, Carl H. (1978) "The International Organization of Inter-Firm Cooperation Economic Relations between East and West," International Economic Association, edited by N. G. M. Watts, conference proceedings. Note: Prof. McMillan works at the Institute of Soviet & East European Studies, Carleton University, Ottawa, Canada, where many studies on East-West industrial cooperation have been done.

<sup>4</sup> Economic Commission for Europe (1973) Analytical Report on Industrial Cooperation, Geneva: Economic Commission for Europe.

In 1976, further experience in the actual operation of industrial cooperation contracts led to an advanced definition of industrial cooperation as follows:

"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 licenses and equipment, development of new technologies, the exchange of information, 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 cooperation activities."<sup>5</sup>

Several main forms of cooperation can be observed in practice and are being monitored and examined by the United Nations specialized agencies, especially the ECE. These are:

- \* co-production and specialization,
- \* delivery of plant and equipment,
- \* supply of licenses,
- \* subcontracting,
- \* joint ventures, and
- \* joint tendering or joint projects.

Some brief information about these different cooperation forms is shown in Table 2. The number of cooperation agreements has grown rapidly during the first half of the 1970's, during which time the United Nations estimate some 1000 industrial contracts were signed.<sup>6</sup> Through 1983, the number of such agreements has increased to 1500.

The ECE provides and updates relatively regularly statistical data about industrial cooperation agreements between Eastern and Western countries.<sup>7</sup> Assessing cooperation activities, the ECE usually uses three sources:

- 1) information derived principally from published sources,
- 2) data obtained during interviews with enterprises, and

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<sup>5</sup> Economic Commission for Europe (1976) "Reference to Joint Ventures," TRADE, AC.3/R.10.

<sup>6</sup> Wienert, H. and Slater, J. (1986) East-West Technology Transfer: The Trade and Economic Aspects, Paris: OECD.

<sup>7</sup> Economic Commission for Europe (1987) TRADE, R.527, September 21; and Economic Commission for Europe (1986) TRADE, R.515/Add. 1, September 5.



- 3) information contained in documents and contributions submitted by delegations to the ECE ad hoc meeting on industrial cooperation (1980) and the special expert meeting on industrial cooperation (1985).

The ECE and especially the Committee on the Development of Trade usually choose a sample of contracts, including nearly all contracts existing at the time the study is done. In the ECE reports, explanations are found about the difficulties in obtaining the information about all cooperation agreements; the information is often unavailable and/or the sources for such data are limited. For this reason, the ECE reports usually compile strictly quantitative data concerning various aspects of industrial cooperation between East and West; qualitative information regarding the problems involved in establishing joint ventures is not included. Nevertheless, these reports are the most representative information available at present.

The most recent reports done by the ECE on current trends in industrial cooperation describe briefly several characteristics of the industrial relations between East and West.<sup>69</sup>

1. When comparing the centrally planned Eastern European countries with the number of industrial cooperation contracts, Hungarian enterprises are shown to have concluded the largest number of cooperation contracts with firms in market economy countries. Second and third place are held by the USSR and Poland respectively. These three countries account for the great majority of contracts covered by the analysis, about 80% of the sample (see Figures 2 and 3).
2. With regard to the distribution of industrial cooperation contracts by industry, industrial cooperation activities are still concentrated mainly in those industries for which technological progress is of primary importance. Over 70% of the total number of cases studied relate to chemicals, mechanical engineering, transport equipment, electrical equipment and electronics, and light industry (see Figure 4 and Table 3 for changes between 1980 and 1987).
3. The breakdown of the sample by type of contract reflects certain trends in the forms of industrial cooperation practiced. One of the trends is that the greatest progress is being made in precisely those forms which appear most clearly to characterize industrial cooperation as a specific area of international economic relations. This is particularly so in the case of co-production based on the reciprocal supply of goods and services according to a coordinated plan and

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<sup>69</sup> Wienert/Slater, 1986; and ECE (1987) TRADE, R.527.

sometimes according to the partners' respective patterns of specialization.

4. Co-production and specialization represent the most widespread form of cooperation. It is followed by joint ventures, delivery of plant or equipment, and licensing. Joint tendering or joint projects are also relatively well-represented. Only sub-contracting, one of the earliest forms of cooperation, is of modest importance among the forms of industrial cooperation practiced today (see Figure 5). Looking at the dynamics of cooperative forms, we observe changes between the situation in 1984 and in 1987. Joint ventures moved from 4th place in 1984 to 2nd place in 1987, although co-production remained the most widespread form of cooperation. Third place is held by licensing in 1984 and by delivery of plant or equipment in 1987 (see Table 2).
5. Analyzing together cooperation forms in use in 1987 and industrial sectors, it can be seen that licensing is fairly widespread in the transport equipment industry. One-half of all contracts for delivery of plant or equipment is concentrated in the chemical industry. Sub-contracting has a clear lead in light industry. Joint ventures relate mainly to the chemicals industry. Joint tendering or joint projects are widely represented in the electrical equipment industry. Cooperation based on specialization is more evenly distributed among all industrial sectors.<sup>9</sup>
6. With regard to the market economy countries, firms belonging to 9 of these countries participate in nearly 90% of the total number of contracts. Among these 9 countries, the greatest number of contracts has been concluded by the Federal Republic of Germany, followed by Italy, the United States, France, and Austria (see Figure 6).
7. In connection with the forms of industrial cooperation practiced by firms in the market economy countries, there is a clear preference for co-production based on specialization in 7 of the 9 countries: Sweden, Federal Republic of Germany, Italy, France, Switzerland, United States, and United Kingdom. Japanese firms are principally involved in cooperation based on delivery of plant or equipment, and British firms mainly in joint ventures and joint projects. This later type of cooperation, joint ventures, is also fairly well represented in the United States, Switzerland, Italy, Sweden, Austria, and Federal Republic of Germany (see Figure 7).

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<sup>9</sup> ECE (1987) TRADE, R.527.

8. Among industrial sectors in which firms in market economy countries cooperate with enterprises in planned economy countries, the chemical industry is predominant in 7 of the 9 Western countries considered: Japan, Italy, United Kingdom, Switzerland, France, United States, and Federal Republic of Germany (see Figures 8 and 9 in combination).

## **2. STATE-OF-THE-ART OF EAST-WEST JOINT VENTURES**

The development of East-West relations beyond commodity trading has led during the last decade to various forms of industrial cooperation. Not only has industrial cooperation become more and more important, but so has the latest high-potential form of East-West cooperation, joint ventures. The latter are rightly called a phenomenon in the strategic development of East-West relations.

A review of existing literature shows that the problems of East-West joint ventures have not been widely discussed. The publications concern themselves mainly with legal regulations in the various planned economies and descriptions of separate cases in the experience of managers or firms which have established contacts for starting joint ventures. There are some studies based on the cases of established joint ventures, concentrating mainly on the legal regulations for setting up joint ventures; they provide quantitative data about the number of joint ventures and their distribution by country and industrial sectors. Nevertheless, existing literature and other sources do give us an overview of the state-of-the-art of joint ventures which will be briefly described in this section (See Appendix 3 for listing of studies).

### **2.1. Conditions and Motivations for Establishing Joint Ventures**

Inter-firm cooperation can choose among several forms, ranging from commercial harmonization to production collaboration to institutional integration (see Table 4). The first question arising here concerns

- \* the driving forces behind the selection of a particular cooperation form among the large variety of such forms.

Such a question can exist independently of the type of cooperation forms.

Looking at the joint venture agreement, for example, there are two types of forces which can be investigated in more detail. The external forces are mainly connected with the legal norms and other established conditions as well as the preferences of decision-makers at the governmental or company level. Internal forces are usually connected with the nature of the object of cooperation, the product, service or technology involved. The organiza-

tion of the potential partner firms and the subjective perceptions of decision-makers are other important variables upon which the choice depends.

To describe the legal aspects and official policies concerning joint ventures in both market and planned economies, we can turn to the studies done by the ECE and by Business International.<sup>10</sup> There is a widespread practice in market economies to set up joint ventures all over the world. In the ECE market economies, governments as a rule welcome direct foreign investment within their national territory. Investments which create new job opportunities or introduce new or high technologies or new skills or products deemed to be important for the development and competitiveness of the host country are particularly welcome as are investments which can be expected to increase the country's export earnings or substitute for some of its imports. Investments in developing or depressed areas of the host country are also often actively encouraged by tax privileges, development loans on concessionary terms, or other inducements.

Concerning the degree of foreign ownership, none of the Western countries of the ECE put absolute limits on the degree of foreign ownership of companies operating in fields open to foreign investors. Some countries, however, specify certain procedures concerning this point. In Sweden, a company intending to own Swedish natural resources (such as mines, farms, forests, and water falls) or to hold over 40% of the equity and 20% of the voting rights of another company owning such property must have a so-called "alien ownership" clause in its articles of association, stipulating that at least 60% of this shared capital and 80% of the voting rights must be owned by Swedish nationals.<sup>11</sup>

Finland has similar legislation. A foreign investor needs the permission of the Ministry of Trade and Industry in order to control over 40% of the shared capital of a Finnish company and 20% of the voting rights. A company where foreign ownership or voting rights exceed the above limits also needs the permission of the said Ministry in order to purchase or lease real estate for manufacturing or commercial purposes for over 2 years. Switzerland requires that a majority of a company's directors be Swiss citizens or, if there is only one director, that he be Swiss.

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<sup>10</sup> Economic Commission for Europe (1987) TRADE, R.529; and "Revival of JV Trend in EE: A Comparative Overview," Business Eastern Europe, June 27, 1980, pp. 203-205. Note: Business International prepared a study in 1980 of the pros and cons of entering into such agreements.

<sup>11</sup> Economic Commission for Europe (1987) TRADE, R.528, October 31.

Concerning the rules on competition, joint ventures in the market economies of the ECE region (whether the partners are of the same national origin or from two or more countries) are subject to a wide range of competition law provisions at the national level. In the member states of the European Economic Community, joint ventures in any member country are also subject to various community rules and regulations.

Many changes occurred during 1986 and 1987 in CMEA legislation for establishing joint ventures, particularly those to be located in Eastern European countries. During these last two years, three countries (Czechoslovakia, Poland, and the Soviet Union) enacted legislation or issued policy statements making joint ventures located in the country possible for the first time. Two other countries (Bulgaria and Hungary) further revised their existing legislation to permit such joint ventures to be located within their territory. Romania had already enacted legislation providing for East-West joint ventures in 1971. Only the German Democratic Republic has no such legislation. Yugoslavia, which is not a full member of CMEA, was the first socialist economy to permit joint ventures within its territory as far back as 1967.

To describe the conditions for establishing joint ventures independently of their location, one most important factor must be pointed out. This factor concerns the many changes going on for the past two years in almost all Socialist countries. A major part of these changes involves the restructuring of economic organizations in general and of foreign trade in particular. Greater freedom of action is being accorded in foreign trade operations to individual enterprises or associations of enterprises in several Socialist countries. This has raised expectations of enlarged East-West trading opportunities among actual and prospective Western business partners. The prospect of new markets being opened through new forms of inter-firm cooperation has kindled fresh interest on both sides in the future of East-West trade.

Tables 5 and 6 give a general description of the main features of the joint venture legislation existing in the Socialist countries. They also show the ongoing process of improving conditions for establishing joint ventures in these countries. In general, it can be said that there are many similarities in the existing legislation in the European CMEA countries concerning joint ventures, particularly regarding foreign participation in joint venture equity (as a whole limited to 49%), for repatriating earnings in convertible currency, and for local nationality of the President or Managing Director. There is, however, an appreciable diversity of tax rates on income earned and repatriated and a variable scope for negotiation of local salaries and access to domestic markets.

The experience accumulated over the past few years has shown the importance of making the legal conditions and regulations for establishing joint ventures in the CMEA countries clearer and easier for the partners involved. New legislation and other special documents concerning joint ventures are expected to be enacted in the USSR<sup>12</sup> and CSSR.<sup>13</sup>

Among the internal factors or driving forces for establishing joint ventures between Eastern and Western countries, the motives of the cooperative partners are of great importance. An extract of such motives are given by the ECE survey on East-West joint ventures. A decision to establish a joint venture usually includes one or more of the following motives on the part of one or more partners:

- a) To undertake large-scale manufacture of complex products which formerly had only been imported;
- b) To expand production by creating new capacities;
- c) To extend and diversify existing activities into new product lines or other industrial sectors;
- d) To broaden the scope of marketing to encompass new markets and marketing channels;
- e) To provide additional support for joint manufacturing by extending relations into R&D and after-sale service;
- f) To create a formal structure for the transfer of proprietary technology;
- g) To facilitate payment arrangements;
- h) To realize the synergy inherent in existing cooperation arrangements; in such cases, the joint venture operates in parallel to such arrangements;
- i) To broaden inter-firm relations.

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<sup>12</sup> Anonymous. (1988) "Schon 166 Gemeinschaftsfirmen in Com-econ Deutschland und Oesterreich sind führend," Die Presse, April 20; and Anonymous. (1987) "Oesterreichs Sowjethandel halbiert Interesse für Joint Ventures," Die Presse, December 30.

<sup>13</sup> Hoorn, Erich. (1988) "Perestrojka in Außenhandel der CSSR," Die Presse, May 25, and from discussions the author had with representatives of the CSSR Planning Committee and Chamber of Commerce.

Some of the motives for forming joint ventures can be extracted by studying several examples of companies, located in the East, most of which are concentrated in the business field (Table 7). Together with these motives, observation and expert opinion show that partner selection depends on certain organizational, managerial, social and cultural features. So in addition to the business motives or business background for establishing a joint venture, an important role is played by the specific characteristics of the countries and companies individually involved in the process. In this respect, a Hungarian study on east-west joint ventures located in Hungary shows that Western partners (in addition to such motives as market extension, entrance to CMEA market, economic environment, level of partner development) consider 9 criteria of social and managerial aspects to be satisfied by their Hungarian partners. The Hungarian companies entering into a joint venture usually consider internal and external problems (for instance, financial and economic conditions or legislation), the know-how they have about joint ventures, the risk involved in establishing them, their ability to adapt to new things and to live with changes.

Each of the motives or criteria for establishing joint ventures can be examined in depth in order to:

- \* identify the main characteristics and priorities of each as well as the frequency with which different motivations are used during the stages of setting up joint ventures.

Another interesting point for investigation is the managerial motivation for establishing joint ventures, such as:

- \* how these motives are realized during the operation of the joint venture,
- \* which of these motives are transferred to the joint venture strategies, and
- \* to what extent these motives are satisfied by the results of joint venture operations.

## **2.2. Distribution of East-West Joint Ventures by Country and Industry**

Up to 1988, an estimated 400 joint ventures were located in Western countries and approximately 170 (either in operation or soon to start operation) in Eastern Europe.

Most of the joint ventures established in Western countries by Eastern partners are connected with export promotion. Joint ventures account for 15-30% of CMEA countries' exports to the West. In some sectors such as machinery and equipment and oil and oil products, they handle 30-80% of these exports. Joint ventures have been used in market penetration efforts to improve

marketing, advertising, and servicing. Sometimes they have been set up to avoid East-West tariff barriers. For example, the creation of the Hungarian-American company, Action-Tungstam, helped to overcome problems arising at that time from the lack of a "Most Favored Nation" treatment for Hungarian imports to the United States. This meant a reduction from a 20% to a 4% rate of customs duty.<sup>14</sup>

The Western country with greatest number of East-West joint ventures is the Federal Republic of Germany, approximately 16% of the total. It is followed by United Kingdom with 15%, Austria 12%; France 9%; Belgium, Italy, and the United States, with around 7% each. Shares of other Western countries range between 2% for Finland to roughly 4% each for Canada, Sweden, and Switzerland (see Table 8).

During the 1970's, the USSR was the most active East European country to invest in enterprises located in the West, accounting for over 100 or 29% of all East-West mixed companies located in the West,<sup>15</sup> followed by Poland and Hungary, each roughly 18%, and by Bulgaria and Romania, each roughly 10%. At the end of 1980, an increase in the total number of East-West joint ventures in the West can be observed (304 to 210 compared with 1976). The most active countries at that time were the USSR (24%) and Poland (25%), followed by Hungary (16%) and Romania and Bulgaria (each about 10%). An increase is also found for CSSR (from 5 to 8%) and for the GDR (from 4 to 7%) (see Figure 10).

It is clear that many of the joint ventures set up by Eastern countries in the West were initiated primarily to promote exports of the investing Eastern country by means of improved marketing, distribution, servicing, and control of product quality. Almost half of these mixed companies may be classified as marketing companies acting as agents for the Eastern partner engaging in advertising, market research, warehousing, etc.

Over one third of the number of joint ventures investigated by the ECE promote sales of machinery and equipment. Export promotion of consumer goods accounts for another third. Companies marketing raw and semi-processed materials are on average about 5% of the total. The share of companies marketing technology know-how and licenses is less than 1% of the total. Hungary, however, is an exception. Around 15% of Hungarian investments in the West (the largest share among Eastern countries) is connected with manufacturing and assembling. Only 2 other East European countries engage in this type of activity, Bulgaria and the USSR.

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<sup>14</sup> ECE (1987) TRADE, R.528.

<sup>15</sup> Wienert/Slater, 1986.



East-West manufacturing joint ventures in the West are also concentrated in the machinery and equipment sector. Other important sectors of activity for East-West joint ventures and wholly-owned Eastern subsidiaries are in the pharmaceutical sector, mainly Poland, Hungary, and Romania.

According to information published by the ECE, the number of joint ventures located in the CMEA countries through October 31, 1987, was 134,<sup>16</sup> nearly half of which were formed during the first 9 months of 1987. Looking at the countries, 102 East-West joint ventures have been formed in Hungary, 10 each in Bulgaria and the Soviet Union, 5 each in Poland and Romania, and 2 in Czechoslovakia (see Table 9). The growing interest in east-west joint ventures is demonstrated by the rapid increase in the number of signed agreements and of joint venture proposals since October 31, 1987. For instance, over 250 proposals for joint ventures were submitted to the USSR for consideration.<sup>17</sup> The number of east-west joint ventures either in operation or soon to start operation in the USSR has increased from 10 in October 1987 to approximately 50 today.

Looking at the state-of-the-art in 1987, the distribution of market economy partners in East-West joint ventures located in Eastern Europe is as follows. Federal Republic of Germany participates in 36 enterprises, Austria in 30, Switzerland in 15, and Japan in 14.

### **2.3. Problems in Establishing, Operating, and Developing East-West Joint Ventures**

While quantitative data about East-West joint ventures describing mainly the number and types of joint ventures and their distribution by country and by industrial sector can be readily obtained from published sources, relevant qualitative data are very limited and unsystematically presented. The theories and empirical observations concerning joint ventures in other directions (west-west, east-east, and north-south) are also limited. In this connection, John Walmsley in his Handbook of International Joint Ventures, says: "joint ventures are a frequently occurring topic in international business, and I am surprised that so little has been written about them."<sup>18</sup> Such an opinion is held

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<sup>16</sup> ECE (1987) TRADE, R.528.

<sup>17</sup> Chemical Week, November 18, 1987.

<sup>18</sup> Walmsley, John (1982) Handbook of International Joint Ventures, London: Graham & Trotman.

by many authors and practitioners involved in establishing and operating joint ventures.<sup>19</sup>

As "a most complicated tool,"<sup>20</sup> international joint ventures mean more than just the linkage of commercial interests. In accordance with this last statement, most of the studies on joint ventures, although done from the point of view of the problems and difficulties arising during their establishment and operation, concentrate on the commercial and business aspects of this phenomenon, not so much on the organizational and managerial aspects. The reason generally given to justify this is that a joint venture is an enterprise like all the rest and that the partners are seeking first of all to achieve success in the business arena. Beyond this simple explanation, however, there is a complex set of problems arising from the new nature of this type of enterprise and from the operation of a joint business.

After extracting information from literature sources and considering the opinions and experience of researchers and managers as told to the author, several issues involved in establishing, operating, and developing joint ventures can be put forward as well as certain questions to be investigated, without claiming to be comprehensive.

The problems correspond to the two main stages of joint ventures, namely negotiation and operation. These two stages can be distinguished by their basic aims and problem areas as well as by the 'actors' involved in them. The final target of the negotiation stage is to establish the joint venture in a way most appropriate for the partners, while the operation stage must be oriented to managing effectively the joint venture and increasing its positive socio-economic impacts.

The problems in the negotiation stage are concentrated mainly in the following areas:

- \* Internal Policy Decision
- \* Socio-economic Research and Assessment
- \* Partner Selection
- \* Support Teams and Staff
- \* Feasibility Study and Pre-planning

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<sup>19</sup> Becvar, Otakar. (1987) "From Cooperation to Joint Ventures," Czechoslovak Foreign Trade, November; and Strickey, John A. (1983) Vertical Integration and Joint Ventures in the Aluminum Industry, Cambridge, MA: Harvard University Press.

<sup>20</sup> Description of joint ventures in: Drucker, P. (1974) Management Tasks, Responsibilities and Practices, New York: Harper & Row.

Some of the questions, which have not been systematically investigated and which correspond to the above mentioned problem areas, are of great importance for organizational theory as well as for the practice of joint ventures.

* ISSUES	QUESTIONS/RESPONSES
1. There is a typical tendency to form joint ventures based on the substitution process and the steady evolution of the partners' initial relations (see Figure 11).	<ul style="list-style-type: none"> <li>* What are the main driving forces and advantages of such a tendency? To what extent do previous forms of cooperation lead to establishing joint ventures?</li> <li>* In what circumstances are certain forms of cooperation substituted for others?</li> </ul>
2. The process of bilateral bargaining in order to establish joint ventures is not clear from several points of view: <ul style="list-style-type: none"> <li>* in terms of goals</li> <li>* in terms of strategies</li> <li>* in terms of the nature of the partners, etc.</li> </ul>	<ul style="list-style-type: none"> <li>* What are the main goals and strategies with which the partners enter into a joint venture?</li> <li>* How does the nature of the partners (organizational and production structure, market position, managerial style, etc.) influence the bargaining process?</li> </ul>
3. There is a certain general "path" for initiating a joint venture and bringing the project into full operation (with specific steps for each individual joint venture). Such a "critical path" is described in the literature, using the experience of developed countries (see Figure 12 and more details in Figure 13).	<ul style="list-style-type: none"> <li>* What kind of activities are required for successfully establishing and operating joint ventures?</li> <li>* What is the "critical path" and which are its key activities or steps?</li> <li>* Is there a necessary duration of each key activity?</li> </ul>

4. Many formalities must be complied with and many steps taken in connection with existing stereotypes in economic and management thinking and organizational standards in order to establish joint ventures. The average time-frame is estimated to be about 2 years.
- \* How can managerial practice be improved to facilitate the process?
- \* What kind of organizational and managerial decisions can speed up the process? For instance, Hungary has a special coordinating agency offering all services needed by Western firms and their Hungarian partners (Econo-Szerviz Ltd.). Some national Chambers of Commerce provide such assistance and so facilitate the negotiation process. The Bulgarian Foreign Trade Bank and the Austrian Länderbank have an agreement to provide assistance for partners from their respective countries.
5. The importance of a pre-planning phase has been pointed out. The lack of adequate pre-planning is mentioned as one of the main reasons for a joint venture's failure.
- \* How can the pre-planning phase incorporate not only practical functioning operations, but also skill application and appreciation?
6. One of the sources of a joint venture's success is agreeing on a preliminary joint venture strategy between the partners and setting priorities for areas in which both partners agree to cooperate based on general negotiation.
- \* What is the "art" to channel the strategies of both partners into one common strategy for the joint venture?

After establishing a joint venture, the problems of operation appear. In this respect, the nature of the east-west joint venture as a new organizational phenomenon causes differences, as compared with other enterprises. This is a unique unit where almost all processes in the industrial world today can be observed; where two economic systems are channelled into one new organizational setting; where technological, economic and social problems must be addressed jointly.

East-west joint ventures require an appropriate environment, both external and internal, whose dimensions can differ from existing ones. In this respect, it can be stated that a systematic approach, supported by empirical investigations, could

clarify these dimensions in order to achieve a better understanding of east-west joint ventures. Three main research areas can be pointed out, concerning the internal environment, where the most important problems of joint venture operation occur: joint venture economy, joint venture human resources, and joint ventures as a new organizational setting.

### LIST OF POTENTIAL RESEARCH QUESTIONS ON EAST-WEST JOINT VENTURES

#### (INTERNAL)

#	RESEARCH AREA	PROBLEMS TO BE INVESTIGATED
1.	ECONOMY	
1.1.	Economic characteristics of the E-W joint venture as a new business innovation	
	a) Ownership-Property relation: rights and liabilities	<ul style="list-style-type: none"> <li>* Ownership structure</li> <li>* Varieties of property: intellectual and industrial, patents and licenses, know-how, investment, R&amp;D results, etc.</li> <li>* Utilization, development and property guarantees</li> </ul>
	b) Economic-Financial instruments	Barriers and Stimulants: <ul style="list-style-type: none"> <li>* Tariffs</li> <li>* Taxes, double taxation</li> <li>* Repatriation</li> <li>* Investment, reinvestment</li> <li>* Depreciation</li> <li>* Prices</li> <li>* Payments, financing</li> <li>* Currency exchange</li> </ul> Role of Banks (nationally and internationally)

### Influence of National Economic Regulations

- \* Contracting with other business organizations
- \* Operating in special economic zones
- \* Domestic Trade
- \* Planning

### 1.2. Economic Development

- \* Economic development indicators
- \* Comparative cost-benefit analysis
- \* Dynamics of effectiveness
- \* Risk of growth

## 2. HUMAN RESOURCES

### 2.1. Internationalization of "work"

- \* New structures
- \* New quality requirements
- \* Salaries

### 2.2. Labor Force Development

- \* Productivity
- \* Skills
- \* Education
- \* Training, retraining
- \* Promotion
- \* Motivation, social programs
- \* Working conditions
- \* Trade union relations
- \* Incentives

## 3. NEW ORGANIZATIONAL SETTING

### 3.1. Organizational dimensions

- \* Structure, functions & activities: distribution of rights and responsibilities between partner firms
- \* Organizational relations: partners-joint venture; seller-buyer

## 3.2. New Management Patterns

- \* Diffusion of the organizational culture
- \* New organizational standards
- \* Distribution of management rights and responsibilities
- \* Diffusion of management know-how
- \* New managerial style and organizational culture
- \* New managerial standards

By investigating east-west joint ventures as a new organizational setting and their socio-economic impacts on the development of the countries, industrial sectors, and partners involved, an understanding is required of the 'pros' and 'cons' as well as the 'do's' and 'don'ts' connected with their successful establishment and operation. There are several examples of joint venture failures, which do not define a general tendency.<sup>e1</sup> Some of the reasons for these failures are, for instance, lack of adequate pre-planning, lack of attention and flexibility, lack of policy agreement, etc. In this connection, it is necessary for practitioners to understand the viability of east-west joint ventures and the main factors for their success or failure.

In summary, several conclusions could be drawn concerning the needs arising from both the increasing importance of east-west joint ventures and general interest in them:

- \* The widespread importance attached to the latest high-potential form of cooperation, that of joint ventures, leads to the need for an explanation and interpretation of this organizational phenomenon in its technological, economic, and social aspects.
- \* The problems of establishing, operating and developing east-west joint ventures point to a need to gain knowledge about the environment in which the joint venture will operate,
  - = creating a climate of useful cooperation between the partners,

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<sup>e1</sup> ECE (1987) TRADE, R.528.

- = finding a common business language, having in mind the differences in the economic systems of the partners,
  - = appropriate indicators for economic and social development,
  - = establishing new organizational standards, and
  - = overcoming cultural barriers.
- \* The successful functioning and development of east-west joint ventures needs to work toward creating a new harmonized international environment, defining its main socio-economic characteristics and supporting it with
- = effective economic financial instruments for its operation,
  - = new dimensions of "work" and labor efficiency,
  - = appropriate organizational forms and managerial tools.

In conclusion, we can agree with McMillan<sup>22</sup> that the widespread importance attached to the extension of East-West inter-firm cooperation leads to the need for a theory to explain and interpret this phenomenon. The East-West setting would appear to offer a rich "laboratory" in which to study this form of cooperation.

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<sup>22</sup>McMillan, 1978.



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# EAST-WEST TRADE

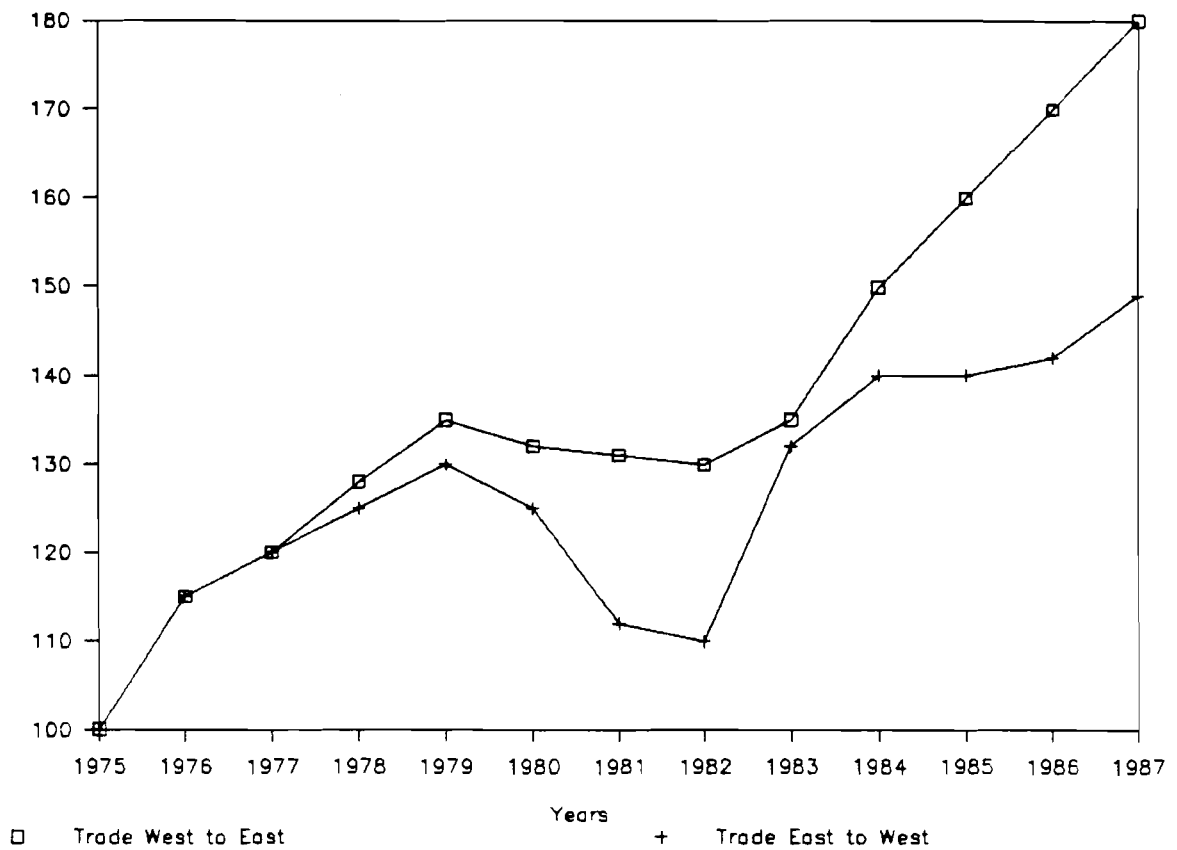


FIGURE 1

## BREAKDOWN OF INDUSTRIAL COOPERATION CONTRACTS, BY COUNTRY (%)

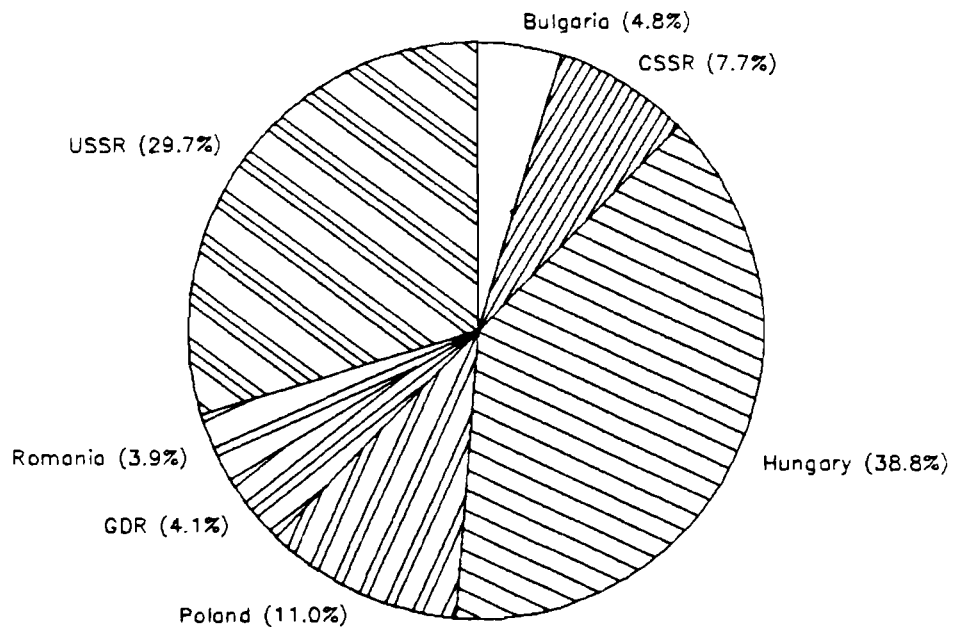


FIGURE 2

# EASTERN COUNTRY SHARES IN INDUS. COOP.

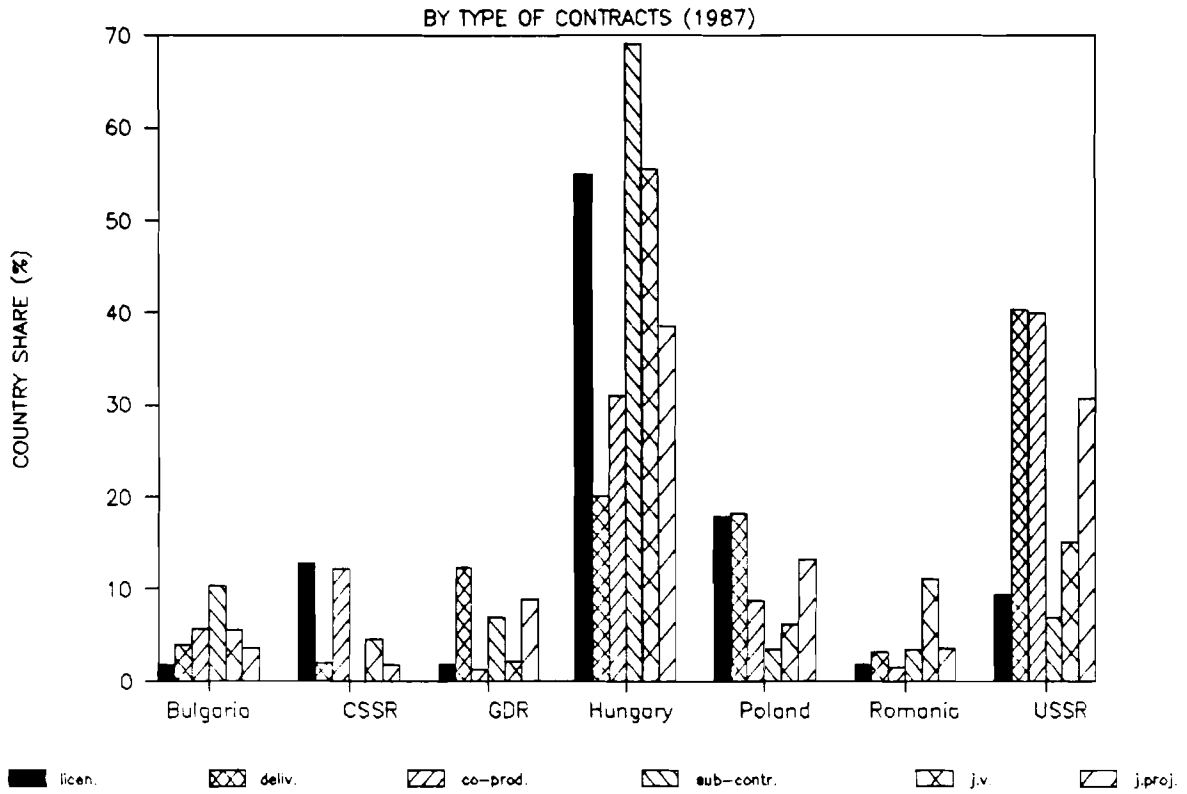


FIGURE 3

## BREAKDOWN OF INDUSTRIAL COOPERATION,

BY INDUSTRY (%)

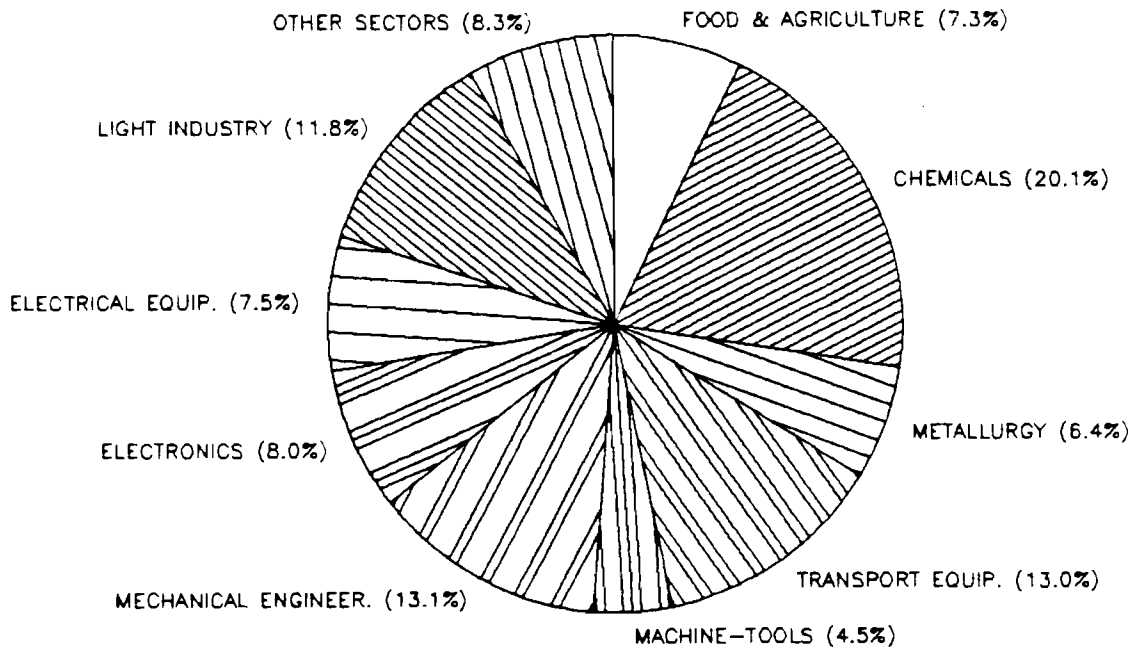


FIGURE 4

BREAKDOWN OF INDUSTRIAL COOPERATION  
 CONTRACTS, BY TYPE OF CONTRACT (%)

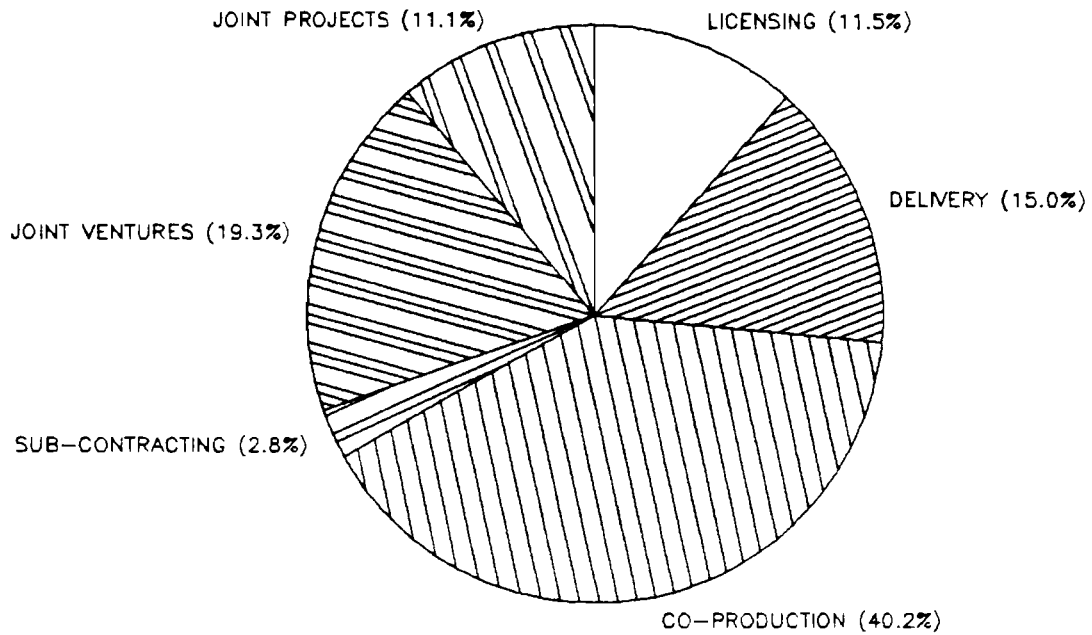


FIGURE 5

SOURCE: ECE, 1987, TRADE, R.527.

WESTERN COUNTRY SHARES IN INDUSTRY  
 COOP. CONTRACTS WITH E.COUN. (1987)

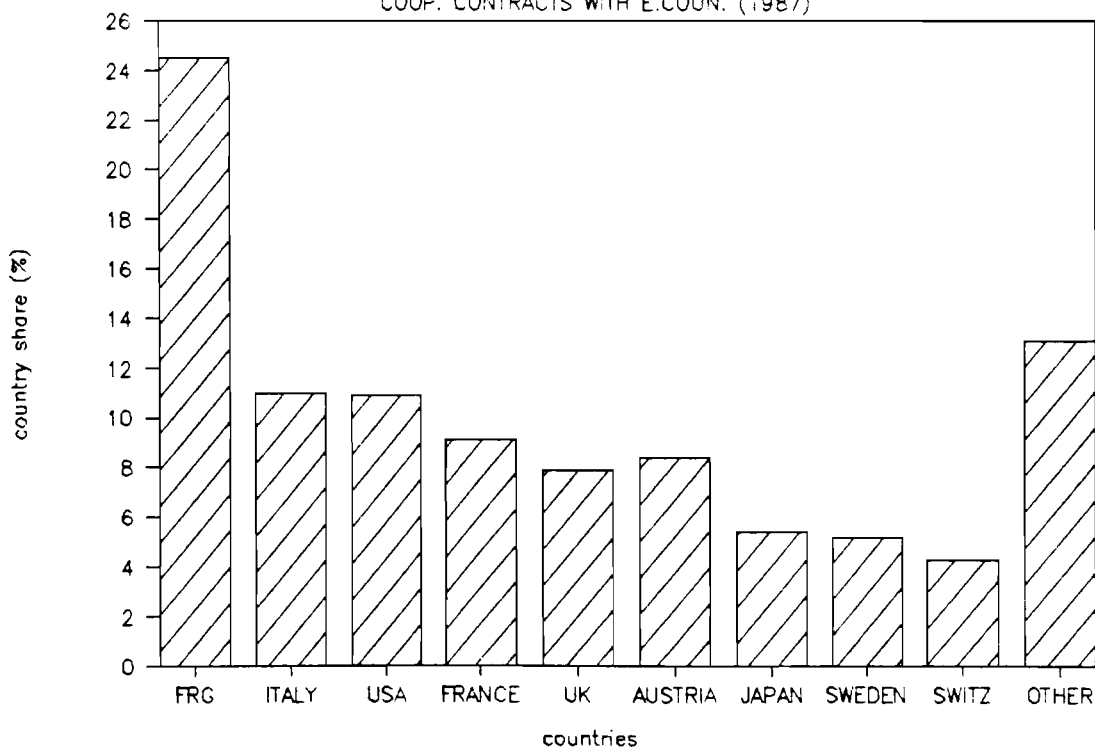


FIGURE 6

# WESTERN COUNTRY SHARES IN INDUS. COOP.

WITH E.COUN. BY TYPE OF CONTRACT (1987)

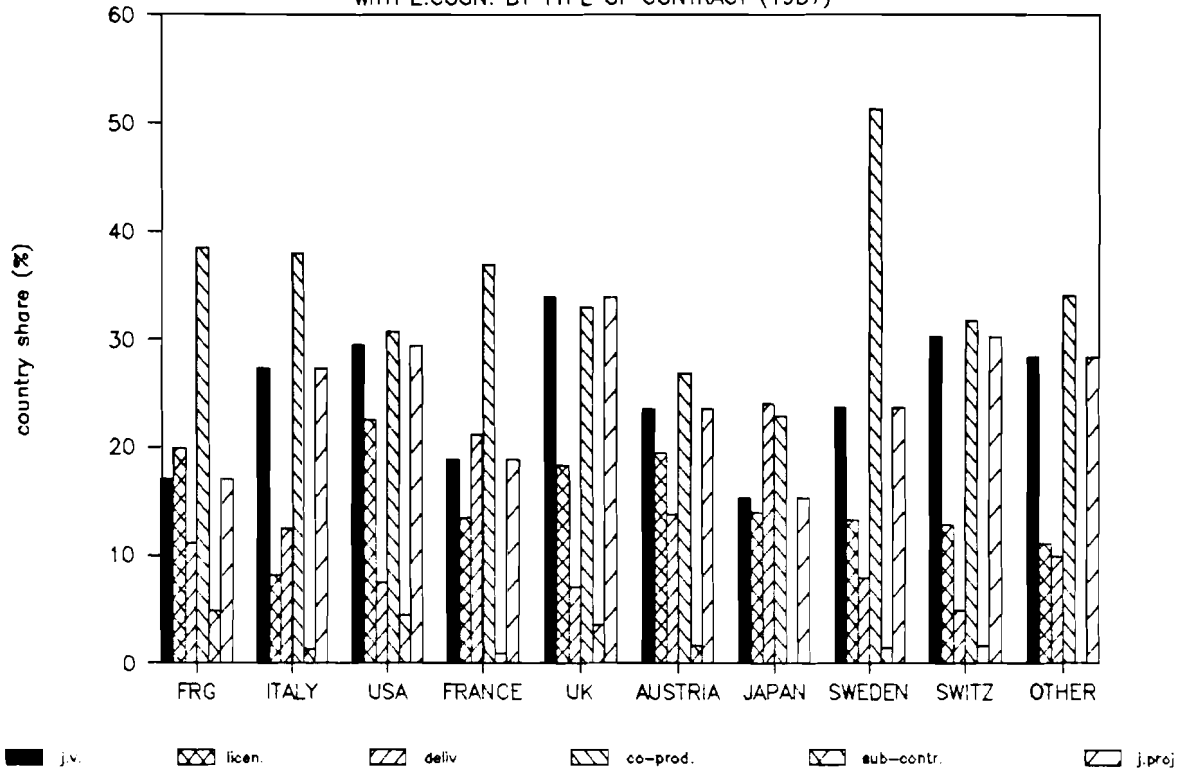


FIGURE 7

# WESTERN COUNTRY SHARES IN INDUS. COOP.

WITH E.COUN. BY INDUSTRY (1987)

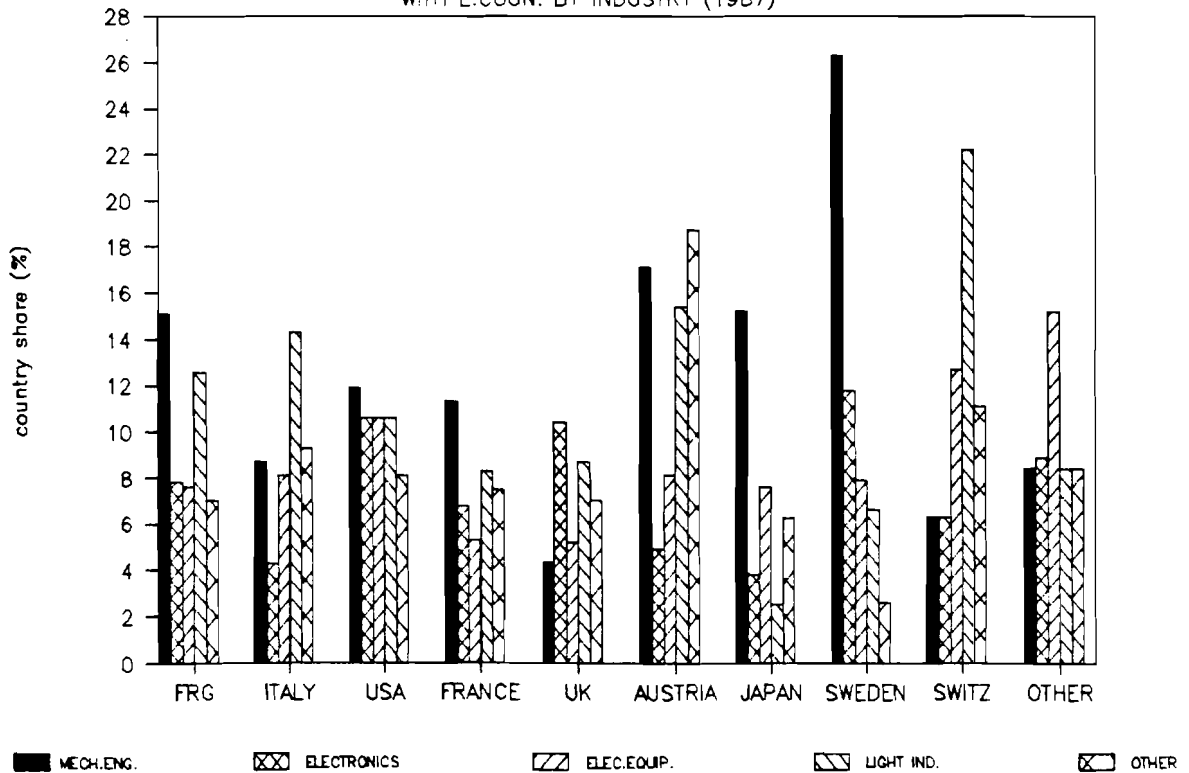


FIGURE 8

# WESTERN COUNTRY SHARES IN INDUS. COOP.

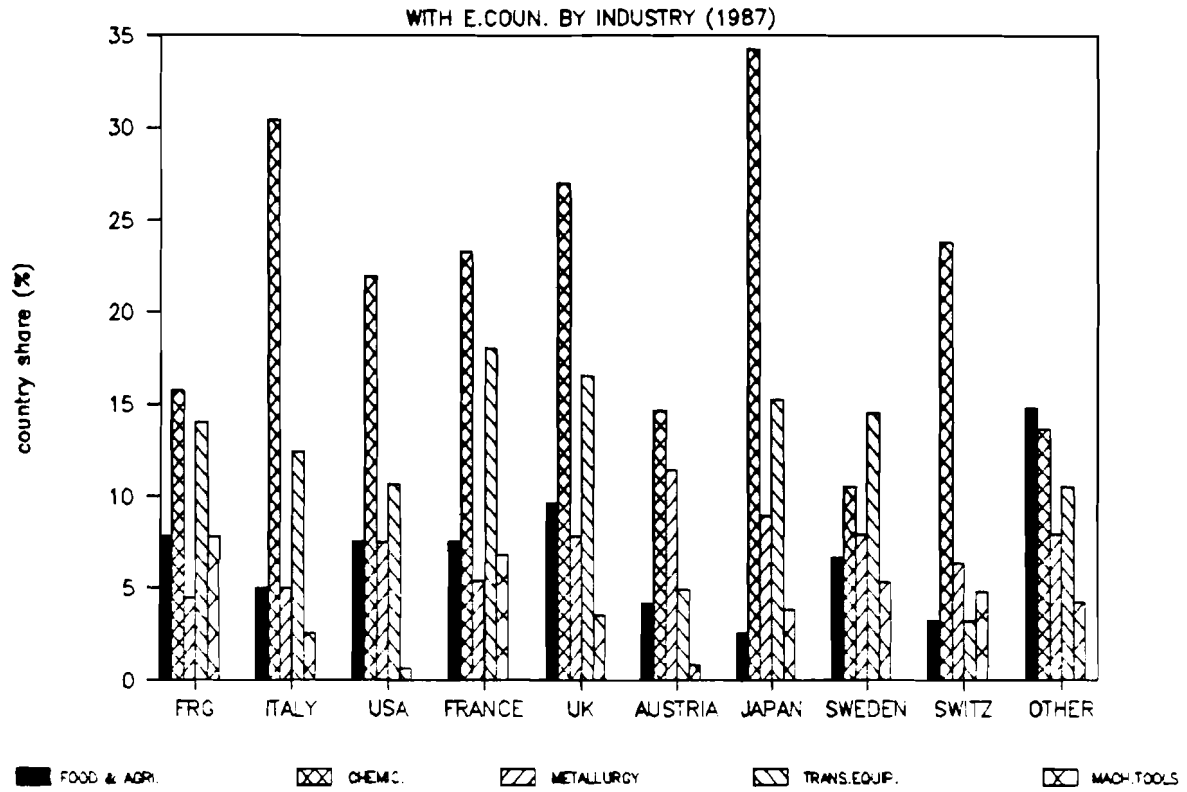


FIGURE 9

# JOINT E.-W. COMPANIES

IN THE INDUSTRIALIZED WEST

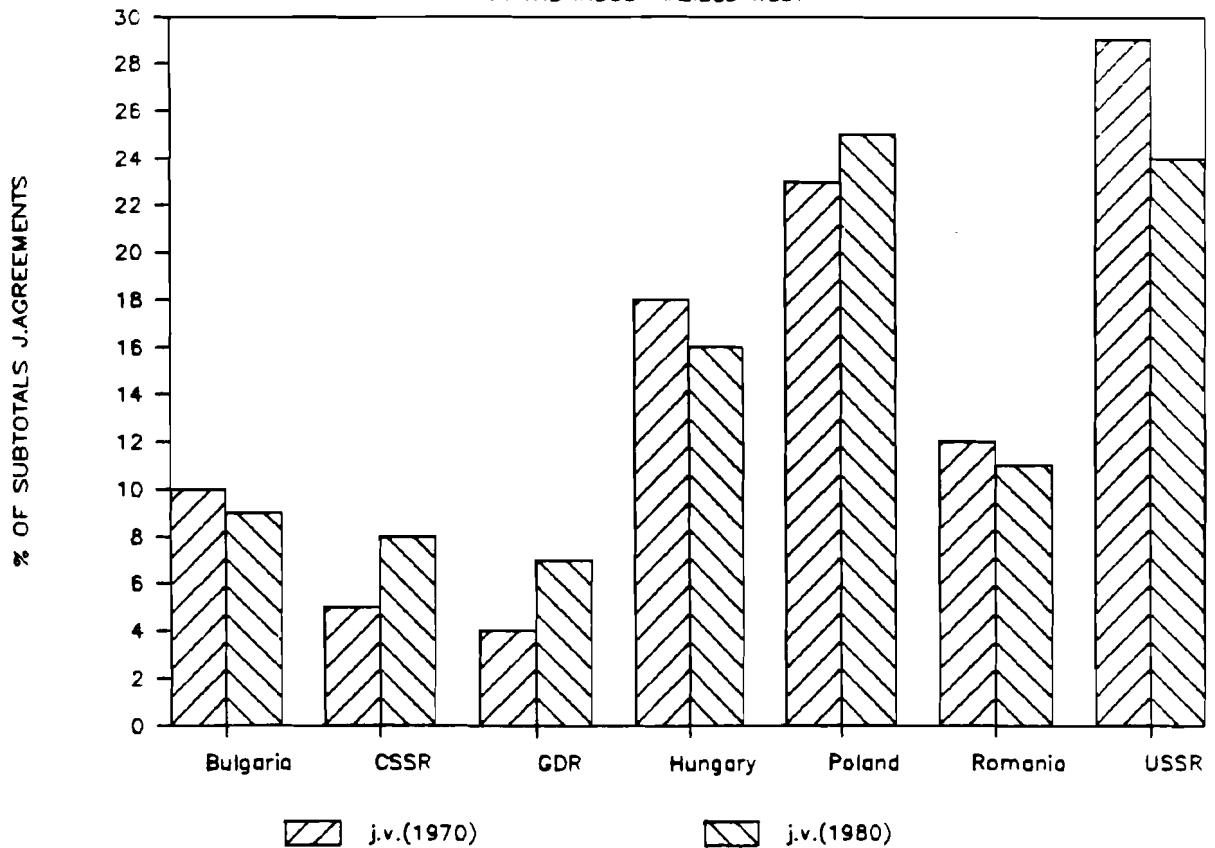


FIGURE 10

# EVOLUTION STAGES OF INTER-ENTERPRISE RELATIONS

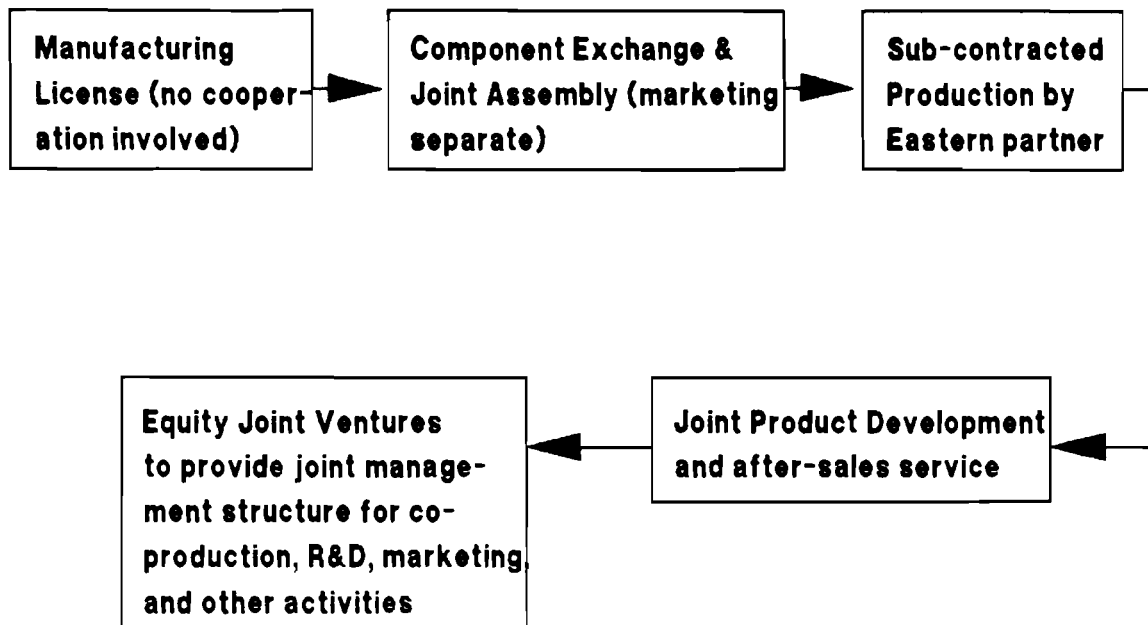
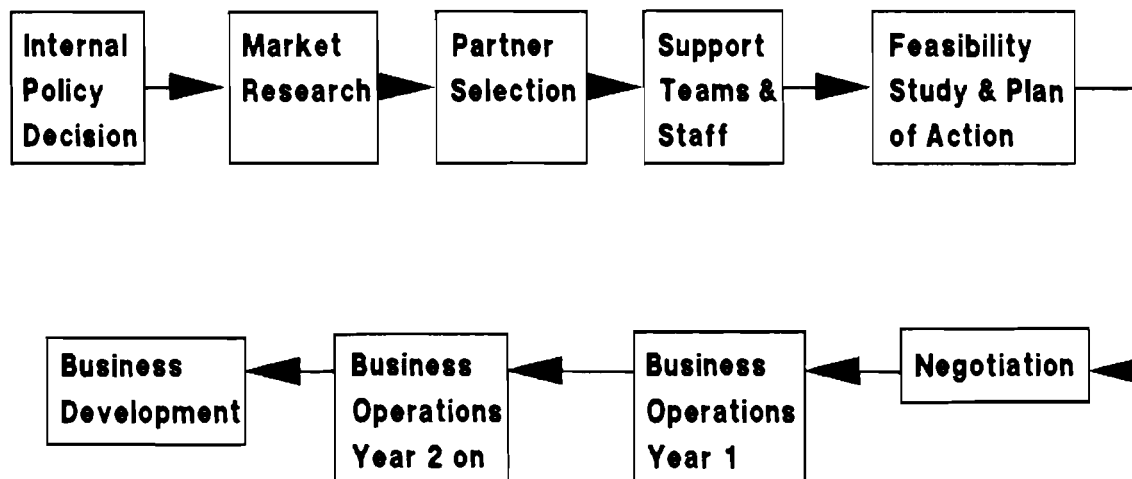


FIGURE 11

## THE CRITICAL PATH FOR INITIATING JOINT VENTURES & BRINGING PRODUCTION TO FULL OPERATION

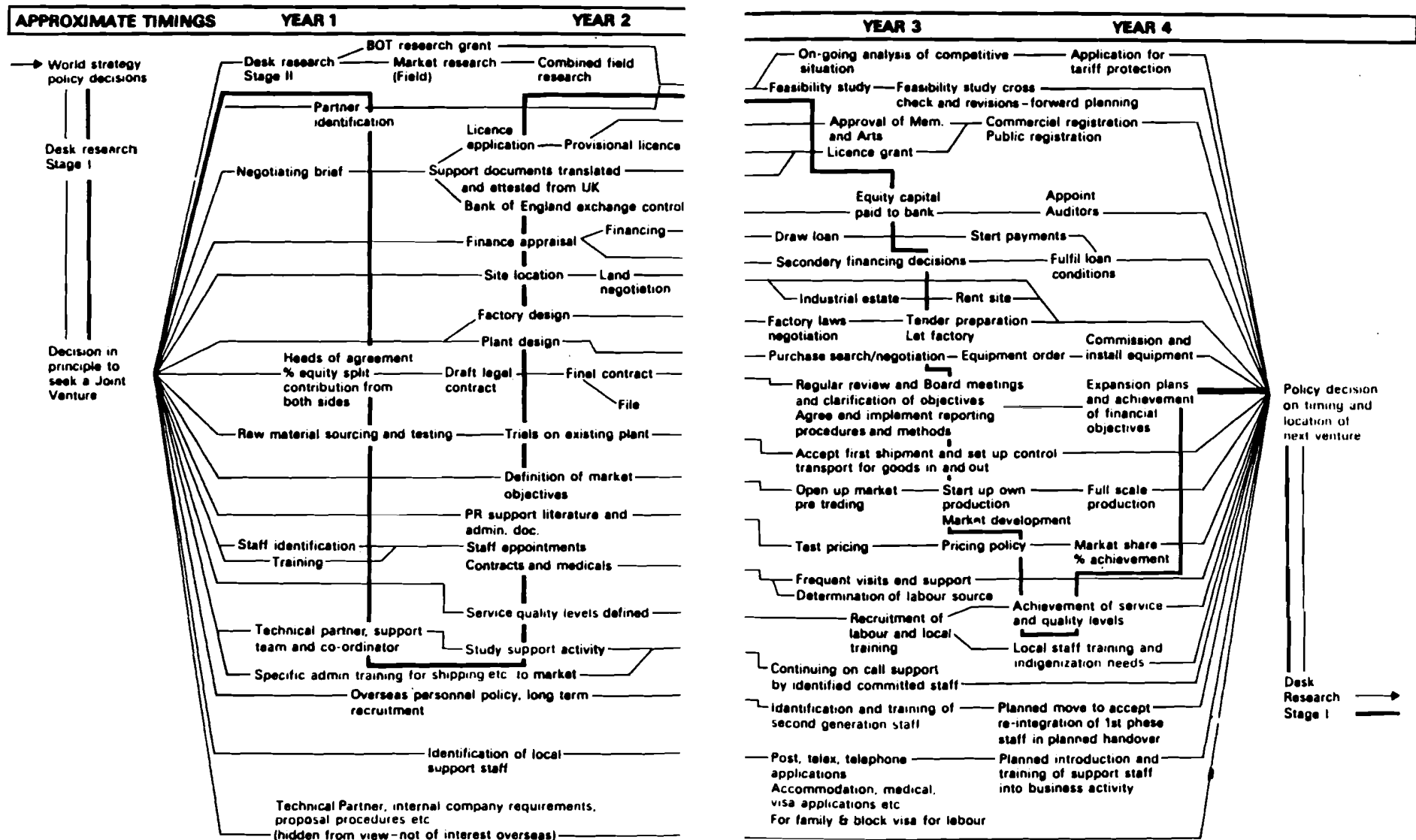


Based on experience of joint ventures in developing countries.

Source: Walmsley, 1982.

FIGURE 12





PRACTICAL STEPS IN SETTING UP A JOINT VENTURE

The thick line shows the suggested critical path for initiating a joint venture and bringing the project to full production in a developing country.

FIGURE 13

SOURCE: Walmsley, 1982.

TABLE 1: THE ORGANIZATION OF INTERNATIONAL ACTIVITIES AT COMPANY LEVEL

FUNCTION	<===== COORDINATION =====>
Generic Form	Market Cooperative Association Multinational Firm
Mechanism for Coordination	Price System Provisions of Inter-firm Agreement Centralized Management Directives

Source: McMillan, 1978, p. 172.

TABLE 2: FORMS AND CHARACTERISTICS OF COOPERATION

C H A R A C T E R I S T I C S

TYPE OF COOPERATION	VARIETY OF THE COOPERATIVE FORM	PRIORITY THRU 30.9.84	PRIORITY THRU 30.9.87	SPECIFIC FEATURES
1. Licensing	<p>a) Supply of licenses and/or know-how in exchange for products and components;</p> <p>b) Supply also includes parts in varying percentages in the final product in exchange for products and components</p>	the THIRD most widespread form	the FOURTH most widespread form	<p>* Usually consisted of the sale of a license with the provision of associated know-how, together with the sale of relevant critical components especially during the start-up phase</p> <p>* Allow more efficient production methods to be used for export items, improve competitiveness, raise quality, consolidate country's position, and help it enter new sectors on world market</p>
2. Delivery of Plant or Equipment	<p>a) Supply of plant or equipment, including the corresponding technology, in exchange for products or components, at least partially</p> <p>b) For the exploitation of natural resources: same as a) plus studies of the availability and accessibility of resources and research connected with the application of technology to particular circumstances</p> <p>c) Supply of plant or equipment on a leasing basis in exchange for products</p>	the SECOND most widespread form	the THIRD most widespread form	<p>* Mainly deliveries based on buy-back arrangements can be observed</p> <p>* Cooperation frequently extends beyond delivery and assembly of plants and includes exchange of technical data, joint research to improve products, supply of licenses, and joint markets</p> <p>* Has several advantages: explicitly connected with industrial technology; such related services as training and help in the start-up stage are necessary to be provided</p> <p>* Payment in resulting or related products leads to progressive conclusion of large-scale, long-term contracts</p>
3. Co-production and Specialization	<p>a) Cooperation, including or not including sales, in which each party manufactures parts or components of a final product, the technology being supplied by one or both of the parties</p>	the MOST widespread form	the MOST widespread form	<p>* The most complex form of cooperation, involving parties in production procedures, connected with delivery of know-how, documentation, designs, drawings and sometimes R&amp;D, cooperation in marketing</p>

TABLE 2 (con't)

b) Cooperation in which each party specializes in part of the manufacturing program and the parties then exchange units in order to complete each other's range of products

c) Co-production and specialization involving R&D only

\* Counter-trade arrangements are usually easier to undertake within the framework of a cooperation agreement

\* Many sub-contracting agreements eventually develop into co-production

\* Advantages: 1) for Eastern countries: lower production costs through longer production runs, improved utilization of installed capacity, increased quality and domestic production structure; 2) for Western countries: new market, lower costs, stable labor force and production

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4. Sub-contracting	a) Short-term agreements providing for the delivery of an agreed quantity of finished or semi-finished goods produced through use of documentation and know-how (and sometimes parts, machinery and equipment) provided by the contractor	the SIXTH most widespread form	the SIXTH most widespread form	
	b) Long-term agreements providing for delivery on a continuing basis, same as in point a)			
5. Joint Ventures	a) Joint ventures involving marketing only	the FOURTH most widespread form	the SECOND most widespread form	<p>* The most developed form of cooperation and often the most attractive form for the partners</p> <p>* Form of business relationship which involves pooling of assets (capital equipment, licenses, technical and organizational facilities, etc.), joint management, profit and risk sharing according to a commonly agreed-to formula and providing for joint marketing, servicing and production</p> <p>* R&amp;D activities can be involved as well</p> <p>* Joint ventures can also include all other forms of cooperation</p>
	b) Joint ventures involving production, marketing, and R&D			

---

TABLE 2 (con't)

6. Joint projects or joint tendering	a) Customer located in a third country b) Customer located in one of the partner countries	the FIFTH most widespread form	the FIFTH most widespread form
--------------------------------------	---	--------------------------------	--------------------------------

N.B. The data to assemble this table were taken from the following sources:

1. Wienert, Helgard and Slater, John. (1986) East-West Technology Transfer: The Trade and Economic Aspects, Paris: OECD.
2. ECE, TRADE, R.132.
3. ECE (1987) TRADE, R.527, September 21.

TABLE 3:  
RANKING OF EAST-WEST INDUSTRIAL COOPERATION BY INDUSTRIAL SECTORS

RANKING	END 1980	SEPT 1987
1	Chemicals	Chemicals
2	Mechanical Engineering	Mechanical Engineering
3	Transport Equipment	Transport Equipment
4	Electrical Equipment	Light Industry
5	Light Industry	Other
6	Other	Electronics
7	Electronics	Electrical Equipment
8	Metallurgy	Food & Agriculture
9	Food & Agriculture	Metallurgy
10	Machine-tools	Machine-tools

TABLE 4: FORMS OF INTER-FIRM COOPERATION

MARKET	<=====	INTER-FIRM COOPERATION	=====	FIRM
Commercial Harmonisation		Production Collaboration		Institutional Integration
Examples: Sourcing Market-sharing Licensing Franchising		Examples: Horizontal or vertical production specialisation Co-production Joint R&D		Examples: Contractual joint ventures Equity joint ventures Decentralised multinational firm or conglomerate

Source: McMillan, 1978, p. 175.

TABLE 5: MAIN EAST EUROPEAN JOINT VENTURE PROVISIONS

COUNTRY	WESTERN EQUITY SHARE	LEGAL FORM	MANAGEMENT	PROFIT REPATRIATION	TAXES	TAX INCENTIVES
BULGARIA	No limit	Mixed corporations	Management Board; board of directors. Bulgarian partner retains veto right. Chairman of both boards must be Bulgarian.	Foreign partner may transfer entire amount of his share of profits abroad.	20% on profits; additional 10% on share transferred abroad.	One- to three-year exemption from taxes.
HUNGARY	Generally" should not exceed 49%; may be majority shareholder in financial and service fields.	Share, joint stock, limited liability, joint companies	Specified in articles of association.	Profits may be transferred abroad through National Bank of Hungary.	40% tax on profits; 24% of wages and salaries must be paid as social security contributions.	If profit after tax is used to increase company assets, part of profit tax might be reimbursed.
POLAND	49% maximum, except wholly owned foreign companies in handicrafts and domestic services.	Limited liability companies	"In principle" headed by citizen of Poland	Up to 5% of net profits, but not exceeding 9% of foreign partner's hard-currency capital investment.	2.5% turnover tax; 5% tax on construction and assembly work; graduated fee of up to 30% on license fees and royalties.	Profit, turnover taxes may be waived for initial 3 years.
ROMANIA	49% maximum	Joint stock or limited liability companies	Managing Committee or Administrative Council; General	Government guarantees transfer abroad of all profits after	30% on profits; additional 10% on profits transferred	If profits reinvested for at least 5 years, actual tax rate is



TABLE 5 (con't)

		Manager must be Romanian.	taxes and contributions to social fund.	abroad.	24%.
YUGOSLAVIA	49% maximum; 10% minimum	Workers' Council; Business Board	Ceiling on profit level 50% of amount of foreign exchange earned may be transferred abroad.	10-35%, varies regionally	Taxes reduced if 25% of profits are reinvested in Yugoslavia.
	Joint investment with Organization of Associated Labor				

Source: Business Eastern Europe, June 27, 1980

TABLE 6: REGULATIONS ON JOINT VENTURES IN THE CMEA COUNTRIES

	* ROMANIA	* HUNGARY	* BULGARIA	* POLAND	* CSSR	* USSR
YEAR WHEN RULES FIRST ISSUED	* 1971	* 1972	* 1980	* 1986	* 1986	* 1987
APPROVING AUTHORITY	* State Council	* Ministry of Finance	* Council of Ministers	* Ministry of Foreign Trade	* The Federal Ministry having jurisdiction	* The USSR ministry or agency or council of Ministers of the Union Republic having jurisdiction
MAXIMUM FOREIGN PARTICIPATION	* 49%	* 49%, exceptions possible	* No upper limit	* 49%, exceptions possible	* 49%	* 49%
PURCHASING FROM						
A) DOMESTIC MARKETS	* in convertible currencies	* as local enterprises	* as local enterprises	* as local enterprises	* as local enterprises	* as agreed with Soviet enterprises
B) FOREIGN MARKETS	* free	* must obtain foreign trade permit	* must obtain foreign trade permit	* must obtain foreign trade permit	* must obtain foreign trade permit	* free
MARKETING TO						
A) DOMESTIC MARKETS	* in convertible currencies	* only through wholesale enterprises	* directly to the domestic market	* directly to the domestic market	* directly to the domestic market	* as agreed with Soviet enterprises
B) FOREIGN MARKETS	* freely in convertible currencies	* must obtain foreign trade permit	* must obtain foreign trade permit	* must obtain foreign trade permit	* must obtain foreign trade permit	* free
CURRENCY TRANSFERS ABROAD	* only out of JV's own currency earnings	* only out of JV's own currency earnings	* only out of JV's own currency earnings	* limited by: 1) 15-20% of currency earnings to be sold to Polish bank; 2) Right to foreign currencies proportionate to share in statutory capital	* to be defined in the foreign currency permit	* only out of JV's own currency earnings
INCOME TAX RATE	* 30%	* 40%	* 20%	* 50%	* 50%	* 30%
INCENTIVES: LOWER TAX RATE	* Case-by-case: first profitable year tax free; following 2 years 15-30%	* 1) Case-by-case * 2) Production and hotels: first 5 years 20%; from 6th year, 30%	* Case-by-case: first 3 years, reduction to be negotiated yearly	* 1) first 2 years tax free * 2) export: each 1% of production exported = 0.40% reduction in tax	* ---	* 1) case-by-case * 2) first 2 profitable years tax free

TABLE 6 (cont)

DIVIDENDS TAX	* 10% if transferred * abroad	---	* 10% if transferred * abroad	---	* 25% * abroad	* 20% if transferred * abroad
MANAGEMENT: POSTS TO BE OCCUPIED BY HOST COUNTRY NATIONALS	* (President of * Administrative * Council)	---	* 1) Chairman of * Management Board * 2) Chairman of * Board of Directors	* Manager or Chairman * of Management Board * of * Board of Directors	* Presiding members * of management bodies * of * Board * 2) General Manager	* 1) Chairman of the * Board * 2) General Manager
RULES ON SALARIES OF EMPLOYEES	* A) Rules of state * enterprises	* To be specified in * employment * contracts for both * domestic and * foreign employees	* A) Bulgarian law * B) To be specified * in employment * contract	* To be specified in * joint venture * contract or by * decision of joint * venture organs for * both domestic and * foreign employees.	* CSSR rules for both * domestic and * foreign employment; * Ministry of Labour * may grant right to * deviate.	* A) Soviet law * B) To be specified * in contract * X
B) FOREIGN	* B) To be specified * by Board of * Directors	* To be specified * in employment * contract	* B) To be specified * in employment * contract	* To be specified in * joint venture * contract or by * decision of joint * venture organs for * both domestic and * foreign employees.	* Ministry of Labour * may grant right to * deviate.	* B) To be specified * in contract * X

TABLE 7: MOTIVES FOR FORMING JOINT VENTURES

E X A M P L E S					
MOTIVES	COUNTRY/ PARTNER(S)	JOINT COMPANY ACTIVITY	FOUNDED	PRIOR COOPERATION	
1. To undertake large-scale manufacture of complex products, formerly only imported not being suitable for production cooperation.	* RUMANIA &				
	* Control Data Corporation (USA)	Rom-Control Data: Manufacture and market peripheral computer equipment	1973	no	
	* Citroen (France)	OLICIT: Manufacture passenger cars and replacement parts	1977	no	
	* HUNGARY &				
	* Schwarzkopf (FRG)	Schwarzkopf Cosmetics Co: Production of hair-care products	1985	Licensed production since 1980	
	3. To extend and diversify existing activities into new product lines and industrial sectors.	* BULGARIA &			
		* Fijitsu Famic Ltd. (Japan)	Famic Machinex Ltd: Maintenance and service of machine-tool units and development of CNC machining centers.	1981	Manufacturing, sales and licensing since 1974
		* HUNGARY &			
		* Festo Maschinenfabrik (Austria)	Metritechnik Ltd: Arrangement of cooperations, services	1982	Co-production since 1973
		4. To broaden marketing scope to encompass new markets and marketing channels.			

TABLE 7 (cont)

5. To provide additional support for production cooperation by extending relations into R&D and after-sales service.	* BULGARIA	Famic Machinex Ltd: see above	
	* HUNGARY &		
	* Zyma (Switzerland)	B & Z: Production and distribution of basic pharmaceutical materials	1980
	* Zyma (Switzerland)		Licensed manufacture since 1975
	* * *		
	* * *		
	* * *		
	* * *		
6. To create a formal structure for transferring proprietary technology.	* RUMANIA	Rom-Control Data (see above)	
	* * *		
	* * *		
	* * *		
7. To facilitate payment arrangements.	* HUNGARY &		
	* APV-Paracel International (UK)	APV-Ungaro Co. Ltd: Manufacture of up-to-date food processing equipment	1985
	* * *		Sub-contracted manufacture and joint engineering since 1982
	* * *		
8. To realize the synergy inherent in existing cooperation arrangements.	* CSSR &		
	* N.V. Philips (Netherlands)	AMEX: Manufacture, sale and export of video recorders	1987
	* * *		yes
	* * *		
9. To broaden inter-enterprise relations.	* RUMANIA	Rom-Control Data (see above): Extend the original agreement in order to formulate FOUR additional joint ventures	
	* * *		
	* * *		
	* * *		

N.B. This information is assembled from EDE sources.

TABLE 8: JOINT VENTURES BETWEEN EAST AND WEST COMPANIES, LOCATED IN THE WEST  
Through October 1987

WESTERN COUNTRIES (ECE Members)	CMEA-MEMBER COUNTRIES										TOTAL
	*BULGARIA	*USSR	GDR	HUNGARY	POLAND	ROMANIA	USSR	TOTAL			
AUSTRIA	2	1	6	26	8	2	4	49			
BELGIUM	2	3	6	1	5	0	13	30			
CANADA	1	5	0	1	1	1	5	14			
DENMARK	0	0	2	1	1	0	2	6			
FINLAND	0	0	1	1	1	0	7	10			
FRANCE	4	3	3	3	8	6	12	39			
GERMANY, FED. REP.	12	3	0	20	15	7	11	68			
GREECE	2	0	1	1	1	2	2	9			
IRELAND	1	0	0	0	0	0	0	1			
ITALY	5	3	4	5	2	5	8	32			
LIECHTENSTEIN (+)	0	0	0	1	0	0	0	1			
LUXEMBOURG	0	0	1	1	0	0	1	3			
NETHERLANDS	1	1	3	2	3	0	2	12			
NORWAY	2	0	0	1	1	0	3	7			
PORTUGAL	0	0	0	0	1	0	0	1			
SPAIN	1	0	1	3	2	1	5	13			
SWEDEN	0	3	2	2	5	0	3	15			
SWITZERLAND	2	2	1	4	2	2	4	17			
UNITED KINGDOM	6	9	10	6	12	5	13	61			
UNITED STATES	1	2	1	7	12	1	4	28			
TOTAL	42	35	42	86	80	32	99	416			

(+) Not an ECE member

Source: ECE (1987) TRADE, R.527, September 21.

TABLE 9: EAST-WEST JOINT VENTURES LOCATED IN EASTERN COUNTRIES (CMEA MEMBERS) WITH BREAKDOWN BY COUNTRY, INDUSTRIAL SECTOR, AND SIZE OF PARTNER COMPANY, 1972-1987

SECTORS	BULGARIA		CSSR		HUNGARY		POLAND		ROMANIA		USSR		SUB-TOTALS		TOTAL	
	A)	B)	A)	B)	A)	B)	A)	B)	A)	B)	A)	B)	A)	B)		
1. INDUSTRIAL MANUFACTURING																
a) Production Goods	*				15	18	2		3		2		4	20	30	50
b) Consumer Goods	*	1	1	9	10	1		1		1	1		12	12	24	
	*															0
2. SERVICES																
a) Trade	*		1	1	6						1		1	1	8	9
b) Transport/Packaging	*				1				1				0	2	2	2
c) Hotels/Restaurants/Tourism	*			2	2	1	1			1	1		4	4	8	8
d) Design/Technical	*	1	2	5	3								6	5	11	11
e) Consulting, Mgmt & Software	*			7	4								7	4	11	11
f) Construction	*			4	4								4	4	8	8
g) Others	*			1	3								1	3	4	4
	*															0
3. FINANCIAL SERVICES																
	*					3							0	3	3	3
	*															0
4. AGRICULTURAL SERVICES																
	*			4									4	0	4	4
SUB-TOTALS																
	*	2	8	1	1	48	54	4	1	0	5	4	6	59	75	134
TOTALS																
	*	10		2	102		5		5		10		134			

A) = Small & Medium sized enterprises, including small multi-national enterprises with annual sales less than US\$ 100 million.

B) = Multi-national enterprises with annual sales over US\$ 100 million.

Source: ECE (1987) TRADE, P. 528, October 31.

APPENDIX: LIST OF SELECTED STUDIES (CONFERENCES OR PROJECTS) ON EAST-WEST JOINT VENTURES

#	STUDY/CONFERENCE/PROJECT	AUTHOR	REFERENCE
1	Legal Forms of Industrial Cooperation Practiced by countries of different economic and social systems with reference to joint ventures	ECE (Note: Not all ECE surveys are included in this listing, only the most current and relevant ones)	TRADE, AC.3/R.10 (1976)
2	Case study of East-West Cooperation in the machine-tool sector based on interviews with executives from 15 Western firms on the experience of selected Western enterprises engaging in East-West industrial cooperation.	ECE	TRADE/R.373/Add.4 (1978)
3	Statistical survey of recent trends in industrial cooperation by number of contracts, country, industrial sector, and type of contract.	ECE, Committee on the Development of Trade	TRADE/R.527, September 21 (1987)
4	Export Marketing Aspects of East-West Joint Ventures (proposed themes for the Seventh Seminar on East-West Trade Promotion, Marketing, and Business Contracts)	ECE, Committee on the Development of Trade	TRADE/R.518/Add.1/Rev.1 October 5 (1987)
5	Economic, Financial and Practical Aspects of East-West Joint Ventures: the establishment and operation of East-West Joint Ventures domiciled in European CMEA countries, regulations and experience	ECE, Committee on the Development of Trade	TRADE/R.528/Add.1 October 12 (1987) TRADE/R.528/Add.2 October 21 (1987)
6	Economic, Financial and Practical Aspects of East-West Joint Ventures: A survey of joint venture experience in the ECE region	ECE, Committee on the Development of Trade	TRADE/R.528 October 31 (1987)
7	Joint Ventures in Romania, Yugoslavia, and Hungary (case studies based on Control Data Corporation's agreement with Romania for computer peripheral equipment, Massey-Ferguson Ltd's agreement with Romania for wheel loaders, Semperit's agreement with Yugoslavia for five chemical plants, Bowmar	Carl H. McMillan and D.P. St.Charles	Joint Ventures in East Europe: A Three-Country Comparison, The Canadian Economic Policy Committee, C.D. Howe Research Institute, Canada (1974)



## Canada Ltd's agreement with Hungary for calculators)

- 8 Case studies of 8 US firms involved in the transfer of technology to Poland and Romania (mostly investigated through interviews); joint ventures are discussed with emphasis on enterprise-to-enterprise relationships
- Eric M. Hayden
- Technology Transfer to Eastern Europe: US Corporate Experience, Praeger Pub. (1976)
- 
- 9 Prospects for wider use of joint ventures between East and West
- Friederich Levčik and Jan Stankovsky
- Industrial Cooperation between East and West, M.E. Sharpe, Inc. (1978)
- 
- 10 Prospects for wider use of joint ventures between East and East (case studies of Hungary, Poland, and Romania)
- Martin Schnitzer
- US Business Involvement in Eastern Europe: Case studies of Hungary, Poland and Romania, Praeger Pub. (1980)
- Note: only brief information available in Business Eastern Europe, June 27 (1980). Full report can be ordered from Business International.
- 
- 12 Industrial cooperation as the framework for East-West trade and technology transfer (case studies based on experience of 30 British firms)
- Malcolm R. Hill
- East-West Industrial Cooperation and Technology Transfer (The British Experience), Gower Pub. (1983)
- 
- 13 Joint venture consideration in East Europe (in Hungary and USSR)
- R. Duane Hall
- The International Joint Venture, Praeger Pub. (1984)
- 
- 14 Analysis of the main factors determining East-West trade in technology and technology-based products
- H. Wienert and J. Slater
- East-West Technology Transfer: the Trade and Economic Aspects, Paris, OECD (1986) [component part of the OECD's program on East-West technology transfer]
- 
- 15 FRG-Bulgaria technology transfer: problems, perspectives and management
- Elena Gongalova
- A brief description of the case study is available in Bulgarian in the Social Management Journal, Vol. 5 (1987)
- 
- 16 Meetings on East-West Economic Interaction
- Vienna Institute for Comparative Economic Studies
- Vienna, October 1975; Vol. 1 "World Economy and East-West Trade," Springer Verlag (1976)

Tbilisi, USSR, June 1976; Vol. 2  
 "East-West Cooperation in Business:  
 Inter-firm Studies," Springer Verlag  
 (1977)

17	Conference on Economic Relations between East and West	International Economic Association	Meeting in Dresden, 1976; Proceedings published (1978)
18	Conference on Technology Transfer and East-West Relations	London School of Economics and Political Science, sponsored by Millennium: Journal of International Studies	(1983)
19	East-West meeting on the problems of training managers for joint ventures	LIFIM IIASA	Helsinki (1987)
20	East-West project with documentation of case studies	Institute of Soviet and East European Studies, Carleton University, Ottawa	Not much direct information found about this project so far
21	Hungarian project aimed at investigating the state-of-the-art of E-W joint ventures located in Hungary and their problems in order to help state authorities decide how to proceed more efficiently	Research Institute of Industrial Economics, Budapest, Project Leader: Dr. Tamas Benedek	
22	Bulgarian project aimed at studying E-W joint ventures located in Bulgaria, to define their problems and suggest solutions to authorities; first stage completed.	Institute for Social Management and Bulgarian Chamber of Commerce, Project Leader: Dr. Evka Razvigorova	
23	Report on Bulgarian E-W joint ventures with special emphasis on those with Federal Republic of Germany	Ronald Berger, Consulting Company, Munich	