

WORKING PAPER

JOINT VENTURES: A NEW PRACTICE IN BULGARIAN FOREIGN ECONOMIC RELATIONS

E. Razvigorova

March 1989
WP-89-026

**JOINT VENTURES: A NEW PRACTICE
IN BULGARIAN FOREIGN ECONOMIC
RELATIONS**

E. Razvigorova

March 1989
WP-89-026

Working Papers are interim reports on work of the International Institute for Applied Systems Analysis and have received only limited review. Views or opinions expressed herein do not necessarily represent those of the Institute or of its National Member Organizations.

INTERNATIONAL INSTITUTE FOR APPLIED SYSTEMS ANALYSIS
A-2361 Laxenburg, Austria

FOREWORD

This working paper is one of a series* produced by TES-MTC project discussing the problems of East-West Joint Ventures located in the CMEA countries on a country basis.

The paper describes the current situation in Bulgaria. An evidence of the process dynamics is that during the time the first version of this working paper has been edited a new legislation was introduced in the country. A small new paragraph has been added now under the heading "A further step in legislation" analyzing the opportunities provided for foreign investors. The operating practice of joint ventures is remaining unchanged for the time being, but the outlooks are undergoing change.

The end of 1988 and beginning of 1989 marked changes in all CMEA countries' legislation. Those changes do not only affect the joint companies with foreign participation, but also the legislative frame of all economic activities in those countries.

In the future the MTC project with its international network which is performing an empirical study on practical problems of East-West joint ventures will up-date the latest legislative changes through working papers and other printed material as detailed as possible.

F. Schmidt-Bleek
Leader
Technology, Economy and Society Program

*To date, the following papers have been published:

Djarova, Julia Joint Ventures: A New Reality of East-West Cooperation (State-of-the-Art), June 1988, WP-88-054.

Benedek, Tamas Some Experiences of Joint Venture Establishment and Operation in Hungary, September 1988, WP-88-88.

Ranenko, V., Soloviev, I. Joint Ventures with Foreign Capital Participation in the Soviet Union: Experiences and Future Outlook, January 1989, WP-89-03

Soloviev, I. Guidelines of Foreign Partner Selection in the USSR, January 1989, WP-89-02

JOINT VENTURES

A NEW PRACTICE IN BULGARIAN FOREIGN ECONOMIC RELATIONS

Evka Razvigorova

INTRODUCTION

The basic idea of the economic reform in the People's Republic of Bulgaria is to introduce predominantly economic methods and tools for management, enhancing at the same time the socialist democracy. Much more important are now other kinds of ownership – cooperative, personal, mixed. These kinds of ownership, together with the common state ownership, should lead to further development of the national economy. New business units are set up in the national economy, essentially on two levels:

1. On the level of the state – Council of Ministers and the ministries which represent society and carry out the strategic management of social and economic development. It guarantees the main growth rates, provides the main balances in the national economy and organizes the development and implementation of the national plan. The state performs political and strategic regulative functions. However, today it does this by using economic tools and regulators – prices, taxes, credit policies, credit rates, salaries, etc.
2. On the level of the individual producer-firms; enterprises, companies and associations. They have organizational and economic independence and perform their activities without external interference. These organizations work out their plan on their own combining public, collective, and personal interests. They organize the management of the production processes, work directly with the state budget, the banks and the domestic and foreign markets. They are free to appoint their managers and their representatives in the collective bodies, and to unite or associate with other organizations. On the other hand, they bear entire responsibility for results and consequences from their activities and have the right to hold other business organizations or state authorities liable in case they do not fulfill their obligations.

The increased independence is felt extremely strong in the field of foreign trade activities. The business organizations are free to choose the form of foreign economic contacts and the way the foreign economic relations are realized. There are different alternatives: independent foreign trade organizations which offer commercial services to business organizations, commercial departments within the framework of the organizations, or foreign trade organizations belonging to the company or the association. The specialization of the foreign trade organizations which existed in the past is to a large extent preserved, but the firms and the companies can perform their own foreign trade activities using the services of more than one trade organization and can also change these organizations and choose those which provide the best services. The business organizations orient themselves to more active foreign trade activities as a result of the new needs and opportunities arising from the new legislation. According to provisions in the new legislation the incomes and expenditures in hard currency, as well as the profit and loss from imports and exports are already under control of the producer. The amount of income in foreign currency affects directly the opportunities for buying high technology from Western suppliers and purchase of licenses and know-how.

The economic security which used to be associated with the proper fulfillment of the state plan is replaced by economic competition and uncertainty. Therefore, along with the fulfillment of the "state orders" given to them through the state plan, the companies must reveal new opportunities for additional sales on the domestic and on the foreign market. Against the background of this economic environment, the international cooperation between business organization acquires special importance.

CURRENT OPPORTUNITIES FOR INTERNATIONAL COOPERATION

Bulgaria has economic relations with 119 countries and has been constantly increasing its foreign trade exchange during the last two decades. Along side with conventional trade, new ways of cooperation are developing which offer advantages for the Bulgarian business organizations in solving some major tasks like the creation of new production facilities, reconstruction and modernization of production, improvement of the structure of exports, etc. At the same time, the growing interest of the Western partners in the new methods of economic cooperation shows that under the conditions of the complicated international economic environment they are much more important than the conventional exchange of goods.

In order to facilitate the opportunities for using the various new ways of economic cooperation, a legislation has recently been introduced in Bulgaria. It better comes up to the need for internationalization of economic relations. Ordinance 535 was adopted in 1980 regarding the economic cooperation between Bulgarian juridical persons and foreign juridical and physical persons. The Decree for Business Activities of the Business Organizations with Foreign Capital in Bulgaria of 1987 is a detailization and further development of this ordinance. Within the frames of the general legislation on the problem it is also necessary to mention the Decree on Prices and the Right of Joint Ventures and Organizations with Foreign Capital to Use the Land, the Bowels, the Water and Forest Areas and Buildings (1987); the Decree on the Control over Economic Activities of the Business Organizations with Foreign Capital in Bulgaria, etc.

The new legislation offers opportunities for wide application of two contractual ways of economic cooperation: based on a contract for industrial cooperation, and based on a contract for association. The latter can be of two kinds, depending on whether an independent organization is created which would be a juridical person, or whether an association is set up as a result of concluding a contract. Various ways are possible in the field of industrial cooperation: compensation agreements presuming payment by products; industrial cooperation on the basis of a license; specialization and joint production; joint projects, etc. In 1986 there were 210 contracts for industrial cooperation altogether. Although, they are a relatively small part of the total number of East-West contracts for industrial cooperation, they show that this way becomes more and more important for the foreign economic relations of the Bulgarian companies. It is important to note that the compensation agreements which during the last couple of years were mainly oriented to the supply of machines and equipment against payment with products concede the first rank to specialization and joint production. At the moment 50% of the contracts for industrial cooperation are of this kind. These two methods presume closer and deeper links between the partners during the phase of production. In the case of production specialization the business organizations conclude contracts with their Western partners for independent production of goods, for exchange or delivery of parts, components or assemblies, etc., and specify the exact deadlines, volumes, standards, and technical requirements. A relatively simple and very common version of specialization is when a Western firm places an order with a Bulgarian organization for the production of certain goods, often with the raw materials provided by the Western partner. In this case, the benefit for the Western partner results from the fact that he can use skilled labor force and more

favorable prices, while the Bulgarian partners often start this cooperation in order to be better able to use their production capacity to implement the technology of their partner.

The license contract plays a special role in the industrial cooperation. This form of cooperation provides for the delivery of equipment, technologies and know-how, as well as of technical assistance. Over 200 license contracts have been realized during the last several years.

The contracts for industrial cooperation and joint activities on the basis of Bulgarian patents and licenses are still not practiced sufficiently, though, their number is increasing. In this field there are a number of cases when joint ventures have been set up in other countries.

During the last few years the practice of using equipment under leasing contracts increased. This form of cooperation offers many advantages to the Bulgarian firms. They can choose among a greater number of suppliers of equipment; the payment for the equipment is facilitated as payment is effected after the equipment is put into operation; and the companies are able to reach new markets.

The foreign economic relations, and especially the industrial cooperation developed with priority in the structure-determining branches of industry: 29% of them are in machine-building, 20% are in the light industry, 18% are in electro-technology and electronics, 11% are in the chemical industry. Biotechnology and the services have also become more important from the point of view of foreign economic relations.

JOINT VENTURES WITH WESTERN FIRMS

This form of economic cooperation has been introduced in 1980 with ordinance No. 535. Joint ventures can be:

- companies located in Bulgaria, with capital partly invested by Western countries;
- companies located in capitalist or developing countries with Bulgarian investment participation.

The joint ventures operating in Bulgaria are very different as regards participants, equity share and type of management. Each joint venture, according to this legislation, is part of the Bulgarian economy, but it is not subject to the regulations which are valid for the remaining Bulgarian socialist business organizations, i.e., for the Bulgarian juridical persons. They do not have to obey the rules and regulations which are valid for the socialist property (e.g., those included in the Code for Economic Activities and in the other documents which regulate economic activities). The joint ventures have to obey only one article of the Code for Economic Activities, i.e., the one which regulates the creation of joint ventures between business organizations in the country (article 28.2). The new joint venture which is set up with participation of East-West joint ventures obeys the regulations defined in the normative documents for Bulgarian organizations, including the Code for Economic Activities. According to those regulations, the contracts between this type of joint ventures and Bulgarian juridical and physical persons are concluded in agreement with the Code for Economic Activities.

The joint ventures obey the general regulations regarding production and services in the country as to all problems related to construction, technical security, environment protection, sanitary rules, fire prevention, statistical accounting, labor conditions, etc. These are rules with general validity which are obligatory for all juridical persons, with location in Bulgaria, irrespective of their origin and the type of property.

The joint ventures are created on the basis of mixed property. Therefore, the regulations related to the national planning, national balances, etc., which concern the socialist business organizations, do not concern them. The joint ventures, should operate within the frame of general rules of business activities in the country prescribed by national legislation. The East-West joint ventures in Bulgaria are autonomous. The autonomy is expressed first of all in their independence with regard to the state plan (They do not receive "state orders"). Secondly, they negotiate the prices for the products they produce. This type of price formation applies not only to the prices of the final products and services produced by the joint ventures, but also to the procuring of raw materials and other supplies from Bulgarian companies and from the national agro-industrial complex. The products can be sold independently, or using the services of a foreign trade organization (either Bulgarian or of some other country). A certain degree of autonomy is enjoyed by the joint ventures also with regard to the system of payment. The joint ventures are not obliged to keep their financial resources in a bank; the interest rate for their capital is not necessarily the one which is established for the Bulgarian companies, their turnover is not limited. Their credits and all other relations with the banks are negotiated and fixed through contracts.

The relations between the joint venture and Bulgarian juridical and physical persons have to be in accordance with the rules of Bulgarian legislation.

The joint ventures may not undertake construction on state-owned land. When construction is required for the economic activities of the joint ventures, the right to undertake construction is only given to the Bulgarian partner. The construction has to be financed only from own resources or credits of the Bulgarian company. The joint venture can finance the construction work with credits which are reimbursed by the rents for using the new buildings. The prices at which the joint ventures can use state-owned resources, like water, land, forest areas and buildings, are fixed in a special decree.*

The machines and equipment which are share capital are released from customs duties. In order to facilitate the starting period of the joint ventures, the material supply and tools which are important for the foreign partner of the joint venture are released from customs duties when they are used for production of goods for export.

For this purpose, during the first three years of activity of the joint venture, the minister of economy and planning, as well as the minister of foreign economic relations can exempt it from the profit tax or they can reduce this tax depending on the results of the joint activities.

The disagreements which may arise in the course of operation of the joint venture are solved, generally speaking, according to the procedure fixed in the contract. The points of disagreement between the joint venture and Bulgarian juridical and physical persons are solved at Bulgarian courts, but if this is envisaged in the constituent contract they can be addressed to the Court of Arbitration. The disagreements with foreign persons are settled through an arbitration procedure in accordance with the provisions of the contract. The disagreements between the partners are settled in the same way.

The activities of the East-West joint venture are controlled by the state's financial authorities with regard to their proper taxation. They have to follow the formation and distribution on incomes in order to fix the amount of the profit which is subject to taxation. The joint ventures are liable also to audit control. The purpose of *this control* is to make sure that everything is done according to the agreed procedures. In this sense, therefore, the autonomy of the joint organization is respected. Each joint venture sets up a Control Council which makes financial revisions and reports on the results to the General Assembly.

* It also regulates the amortization of the movable property.

The East-West joint venture as an economic form of cooperation has some specific features.

1. Its property is commonly owned by the partners and consists of share contributions.
2. It is a juridical person.
3. The economic activities are performed at joint risk and account, and the profits and losses are distributed according to shares.
4. It is managed jointly. According to Bulgarian legislation, the joint management is carried out by a management committee and a board of directors. The decisions are made after reaching an unanimous agreement. This presumes unity of interests which results from the common economic interests and the common goals and tasks. The application of this rule is important and guarantees equal rights in the management and control for each partner, irrespective of the equity shares he is holding.

THE JOINT VENTURES – PRACTICE AND PROBLEMS

Without going into discussions as to what the joint ventures are, it will be practical to give a definition which will limit the scope of the studied objects. The economic cooperation between different countries and their firms is realized in various ways, but only some of them belong to the category of the so-called joint ventures. There are various definitions of the joint ventures, and some of them are to be found in the normative documents of different countries. The East-West joint ventures have some common property and common capital (which is not necessarily equal). Secondly, they undertake risks jointly, and this is realized in the distribution of profits and losses, depending on the shares held. Thirdly, they are managed jointly. Their management makes decisions as to the common property and undertakes the common risk. The joint ventures are, as a rule, regarded as independent juridical persons. But, according to Bulgarian legislation it is possible to organize also "contractual joint ventures", and there are already some of them. (Their number is increasing.)

In our opinion, the joint ventures which are set up on the basis of shareholding and are independent juridical persons are of special interest.

So far, a number of such joint ventures have been established in the economic life of the country. They have accumulated some positive experience, but have also faced some difficulties not only in the process of their foundation, but also in the period of their operation. At present there are 13 East-West joint ventures in Bulgaria and each already settled practice.* They are listed in Table 1. Others are in a process of creation. Some of them have already signed their contracts and are now organizing their property and headquarters, and others have started the procedure to conclude the contract. Partners of the Bulgarian organizations are firms from the USA, the FRG, Japan, Austria, Switzerland, Greece, etc.

Along with the joint ventures with location in the country, Bulgaria has joint ventures with Western firms which are situated in West-European countries. Their number is much bigger because the legislation for their foundation is considerably older. Most of them can be classified as commercial companies, as they deal mainly with advertising, warehousing, marketing research and distribution of goods for export. Behind Hungary, Bulgaria ranks second among East-European countries with regard to the amount of production oriented investments made with the market economies.

* 16 joint ventures were registered to 1 January 1989, but only those from the table have started yet. The number of joint ventures under procedure and in the beginning of the start up period is more than 25.

TABLE 1

Joint Company	Founded	Foreign Partners	Bulgarian Partners	Type of Branch
1. Fanuk-Machinery Ltd.	1981	Fujitsu Fanuk (Japan)	FTO Machinoexport ZMM	Maintenance and service of machine-tools, NC machines and development of NC machining centers
2. Tangra	1981	Tangra Switzerland	Neftochim Company FTO Chimimport	Manufacture and export of plastic and metal products
3. Sofia-Mitsukoshi	1982	Maruichi Shoji Mitsubishi dept. store (both Japan)	4FTO 2 retail chains 3 manufacturing companies	Design, development and manufacture distribution and export of consumer goods. Trade.
4. Futex Ltd.	1984	Fukuzawa Chemical Lab. (Japan)	FTO "Technica"	Manufacture, sale and export of liquid fuel oil additives
5. Chimtrade Ltd.	1984	Daw Chemical Co. (USA)	FTO Chimimport FTO Chimkomplekt	Manufacture, trade, import, export engineering, marketing for pharmaceutical industries
6. Systematics	1984	Honeywell (USA)	Ministry of Chemical Ind.	Engineering, development and trade of automation control systems
7. ECE	1984	Sormella (France)	Elprom Comp. FTO Electroimply	Design, engineering, deliveries start up, etc. sales in the electrical and electronical industries
8. APV-Bioinvest	1985	APV-Paracel Intl. (UK)	Bioinvest Engineering Comp.	Engineering and consultancy in biotechnology
9. Medicom Systems	1986	Tokio Mariuchi (Japan)	FTO Technica Institute for Technical Cybernetics	Development, production and market medical equipment
10. Festo-Machinex	1987	Festo Maschinenfabrik (Austria)	FTO Machinoexp. Institute for complex automatic manufacturing companies	Engineering, development and trade
11. Medabyk	1987	Byk Gulden (FRG)	Bulgarian Academy of Medicine	Development, production of medical products
12. VWTM	1988	Volkswagen AG (FRG)	Heavy Machinebuilding Assoc.	trade with automobiles and other goods
13. Bimax	1987	Hollis Industries (UK)	Bulgarian Industrial Ass. Economic Bank	Trade in machinery and equipment, investment projects in Bulgaria and the third world

The major part of the joint ventures in the above table is to be found in the field of engineering services. The joint venture of the Bioinvest Company with the British firm APV for example performs construction of food factories and implements technology transfer in several fields of the biotechnological industry. The French firm Sormel – a leader in the field of manipulation and VMS production lines – has created a joint venture named Electron-Sormel-Electroimpex and takes part in big projects of some unique manipulating systems which allow the creation of flexible multi-piece assembly-lines or manless lines in Bulgaria, on the basis of licenses provided by the firm. The activity of the joint venture Systematics which provides engineering and foreign trade services in the implementation of MIS developed by the Western partner Honeywell Inc. is highly esteemed. The joint venture offers general design and engineering of systems for measurement and control, develops software in different program languages for the various systems produced by Honeywell, programs for all kind of computers and especially standard software of production control systems and the energy systems, systems for maintenance and overhauling.

In addition to their basic activities, some joint ventures also perform commercial functions which were previously performed by a trade representative of the the Western partner. This is the case with Chimtrade which has been set up for production, technical assistance, engineering, marketing and trade in the field of chemistry and pharmacy. In performing these activities they apply the technical novelties of the American partner Daw Chemical, thus, making possible for the Bulgarian firms to implement the advanced technology.

There are also other joint ventures which perform design, introduction of high technologies, wholesale trade and import and export: Sofia-Mitzukoshi, Medicom Systems, the joint venture between Volkswagen and the Heavy Machinebuilding Association, the Rossa Company (a recently registered jv of Bayer/FRG and Industrialimport FTO), etc. There are joint ventures with mainly production activities – Futex, Tangra, Fanuc Machinex, etc. In many cases, however, production activities are combined with engineering, marketing, design, etc.

The parallel development of different activities (production, engineering, design, marketing) makes it possible for the joint ventures to fulfill the goals for both partners. By means of the engineering, design and marketing at the same time it becomes possible to use Bulgarian machines, equipment and know-how (engineers and designers) for organization and equipment of production plants. Thus, the joint ventures stabilize themselves faster and start to provide services which are demanded by the Bulgarian companies. This in turn contributes to the stabilization of their position on the domestic market. At the same time they are often able to participate in the design and delivery of products and services, thus, gaining positions on the foreign market, by using the channels of the Western partner.

To create production facilities and to put them into operation requires considerably more time (up to five years on average). Therefore, the combination between production and other activities accelerates the development and stabilization of East-West joint ventures.

If Bulgarian legislation is compared with those of other socialist countries with regard to the set up and operation of East-West joint ventures (namely Ordinance 535 and the following normative documents), it is possible to conclude that the Bulgarian legislation provides a flexible and favorable environment for the joint ventures. Up until recently Bulgaria was the only country which allowed to set up joint ventures with more than 49 % foreign participation; and the 20 % tax which is levied on the profit is the lowest in comparison with all other socialist countries. At the same time, the fact that the decisions are made after reaching an unanimous agreement, which makes it possible for the partners to participate fully in the management of all activities, even if they hold a small number of shares, thus, having good opportunities for control, shows that our

legislation is giving more advantages than those of other socialist countries.*

With more than eight years of practical experience of the joint ventures in Bulgaria it is reasonable and useful to make an analysis of the problems related to the preparation, negotiation and conclusion of contracts and the operation of the joint ventures. One study was undertaken jointly by the Institute of Social Management, the Bulgarian Chamber of Trade and Industry and the Ministry of Foreign Economic Relations on the problems of the existing East-West joint ventures in Bulgaria. After the survey three groups of problems were identified:

1. problems related to the negotiation, registration and the initial period of the joint ventures;
2. problems related to the operation of the joint ventures in the present economic environment;
3. problems related to the management of the joint ventures.

One problem within the first group appears to be the inertness and sluggishness in carrying out the formalities connected with negotiation and registration. The joint ventures point out as one of the reasons the loopholes in legislation and the bureaucratic procedures which still exist in registration, as well as a lack of sufficient knowledge on the part of some employers which leads to a slow down in the decision process. Along with the activities necessary to establish their profile and the specific image, experience shows that the average period for solving problems of this kind is several years. This requires that the joint ventures must be carefully observed and should be given a maximum assistance. Here appear the problems related to advertising of their activities in Bulgaria and also abroad, building up a commercial and economic prestige, creating and confirming a certain profile, specific for each joint venture, which is directly related to its popularity on the domestic and international market.

The second group of problems concerns some difficulties in the application of the existing legislation. First of all, these are difficulties related to the procurement of materials and assemblies from sub-contractors. This is explained mainly by the monopoly positions of some business organizations in Bulgaria which are, therefore, able to dictate the terms of the sub-contracted deliveries and to refuse orders.

No practical solutions have been found yet (apart from the ones provided in the normative documents) for the creation of systems for stimulation of the personnel in a joint venture. It is not yet completely clear how individual labor contracts should be concluded in some of the joint ventures. The necessity is stressed to define some specific rules for the legal aspects of an internal structure in the joint venture which should be added to the existing rules and regulations.

Problems are faced with the stimulating function of taxation. Various opinions have been expressed, some of them contradictory. Positive experience has been accumulated where there are bilateral agreements to avoid the double taxation of incomes and property like the ones between Bulgaria and Austria, between Bulgaria and France, Bulgaria and the U.K., Bulgaria and Ireland, and Bulgaria and the FRG. The problem is different with some countries (e.g., Japan) with which there are no agreements of this kind and the partners are levied with double taxes. The financial concessions provided by Ordinance 535, according to which the joint venture can be exempt from the profit tax for at least three years or can be asked to pay a reduced tax depending on the obtained results, are not yet used sufficiently well and flexibly.

* At the joint Bulgarian-German workshop held in May 1988 in Bonn entitled "The economic reform in Bulgaria - opportunities for extending the bilateral foreign economic relations" representatives of the business and other participants definitely pointed out that the legislation of the countries flexible and provides favorable conditions for the joint ventures.

The last group of problems, concerning the management of joint ventures, contains, along with the various specific problems, some essential problems regarding the building up of the organizational structure, the development of systems and procedures, formulating of a general strategy, etc. Auditing control is not yet introduced, although it is a very practical way of control.

Difficulties also exist in the introduction of sufficiently flexible financial accounting procedures which are equally convenient for both partners. Taking into consideration these and some other difficulties connected with the operation of the joint ventures, we have come to the conclusion that the lack of a developed managerial infrastructure which could provide consultancy to the joint ventures, not only during the period of negotiation, but also during their operation, is a disadvantage. Consultancy activities for business organizations of this kind could be provided even by joint consultancy companies which could give advice to the partners on various problems. This would be a useful practice of mutual interest.

One large group of problems concerning management is that of problems which point to the necessity to introduce a common management approach, management methods and management styles. The joint ventures are social organizations, a crossing point of two economic systems, of two approaches in management systems. Each joint venture faces essential difficulties in the creation of its own style, organizational culture and management methods which will be common for the representatives of the partners, will contribute to a strong internal organization and will create a sinergy effect. These difficulties are, in our opinion, considerably bigger when two systems being so different in their essence and economic nature meet and their representatives have to work together. Unfortunately, only a few of the constituent contacts include provisions for staff training, additionally there is an urgent need for management training in the development of attitudes, methods, strategies and procedures for both partners, nor for creation of internal procedures. This can make things slower and very often can lead to internal conflicts which affect the final results in a negative way, especially during the starting period.

The problems described above were identified by the study in a most general way. They point to the opportunities and the need for a further improvement not only of official legislation, but also of the practical activities and the management of the joint ventures.

The joint ventures are an economic reality, and like any other new form of economic cooperation, their development and consolidation can naturally go through ups and downs and can reveal differences in the different countries. However, it is important that some practical experience already exists which has to be studied and analyzed in order to reach conclusions that will contribute to the development of an efficient theory about the East-West joint ventures. The lack of such a theory, of hypotheses and studies on the socio-economic characteristics of this new organizational phenomenon can create serious difficulties, not only in the practice of the joint ventures, but also in the development of a correct strategy in each individual country regarding the establishment and use of this way of foreign economic relations.

A FURTHER STEP IN LEGISLATION

This text has been prepared at the end of 1988 and while it was undergoing its usual procedure of editing and printing on January 13th, 1989, Ordinance No. 56 of the State Council of the People's Republic of Bulgaria for the economic activity was published. The information presented by now and the analyzed problems, though valid at this stage, could not disclose in full the conditions for the operation of joint ventures, if the new act is not commented on. We say "commented" as it will be followed by regulations of implementation where many rules will be given in detail. The main aim of the ordinance is to

standardize the conditions for the economic activity of all organizations in the country including those having a foreign share or being in full ownership of foreign persons, juridical and physical ones. The new legislative act cancels the legal strength of Ordinance No. 535 of 1980, the latter settling so far the forming and operation of joint ventures with Western firms. By the act many other legislative acts are also changed including those related to the former regulations for the foreign trade and realization of the foreign economic relations of the business organization. The Ordinance continues the policy of democratization of the country's economy. A firm's organization of the economic activity is introduced which puts all forms of ownership on an equal footing. The equal conditions are achieved through unity of the economic regulations, thus, giving more strength to the possibilities for a varied and equal development of all forms of socialist ownership. The act contains certain guarantees for the ownership of foreign physical and legal persons.

For the first time in this country all business firms (state, cooperative, collective and those with foreign participation) will be registered in court (so far only joint ventures between Bulgarian companies and those between Bulgarian and foreign companies had been registered). Ordinance 56 is the next step in turn to stabilize the country's legislation on the regulation of the business activity. The working out of a law for the economic activity is expected for next year.

Most generally the advantages of the new legislation can be formulated as follows:

- further democratization of the economic management. It is carried out by the formation of firms which in essence continue the process of decreasing to a certain minimum the management hierarchy levels and of extending their freedom for internal organization and frames of preferences in carrying out their relations with the foreign business environment;
- the shareholder's principle is introduced in all forms of ownership (state, cooperative, mixed). The act contains regulations by which different forms of shares and bonds are permitted. By these regulations possibilities are created for the shifting of capital from one firm to another, leading to higher flexibility and investment growth on the one hand, and to a greater interest and closer relations between the individual, and the firm which he is working for (the possibility for the same to own shares of the firm);
- the economic methods of managing the national economy widen, the contracts becoming the main form of putting into effect the contacts between the firms and between the firms and the state. The tax systems is in a process of simplification;
- for the first time in a basic document the internal and external economic relations are regulated in a synthesized form.

The Ordinance regulates the order of implementing the business activity of foreign firms and the foreign economic business activity of Bulgarian firms in the country. The possibilities have increased and the economic incentives are strengthened for entering the international market, for investment of Bulgarian firms abroad and of foreign firms in Bulgaria. For the first time a significant attempt has been made to liquidate the state's monopoly of the foreign trade activity, but at the same time its interests are guaranteed through the unified foreign economic policy.

The new legislation aims at a wide "opening" of the economy to the world. The joint firms can have an unlimited number of foreign shares, and in this sense it is also possible to create branches of foreign persons, and subsidiaries, etc. The act (chapter 5) allows to open trade representations in the country on two conditions - permits from competent bodies and 50% (as a minimum) Bulgarian employees to work in the trade representation.

The Ordinance entitles the foreign persons to set up or buy shares in limited liability companies. When the foreign share in the company is higher than 49% a permission from a competent body is required, otherwise such a permission is not needed. The same procedure is applied when the foreign share is more than 20% in a company limited by shares.

In case the foreign share in a limited liability company is more than 49% and more than 50 million levas in convertible currency or 50 million transferred rubels, as well as in case the foreign share in a company limited by shares is more than 20%, the basic tax on the profit is 30%. In all other cases the tax on the profit is 50%. Dividends will be taxed at a rate of 10%%, irrespectively of whether they are transferred abroad or not. The profit of the independent foreign business activity in the country is taxed 40% and the profits coming from dividends, shares, interests, author's license remunerations are taxed 15%. There are also many reliefs that are received under certain conditions by which the dividends premium rewards for conceding industrial sites in areas of priority in the country, etc, are freed from taxes and various interests on loans.

By the act, as well as by the previous legislation the prices of goods and services bought and offered by the joint company with foreign shares and by the manufacturing trade branches of foreign persons agree both on the domestic market and on the international market.

Foreign citizens can be managers of firms (not only in cases of foreign participation). In addition the firms can employ foreign experts and foreign citizens. The labor relations of the joint companies are regulated in more detail. The act allows free bargaining of the employee's payment, as part of it can be paid in a foreign currency, irrespectively of the employee being a foreign or Bulgarian citizen.

There is some relief concerning the repatriation of the profit when it is in Bulgarian levas earned from the business activity fulfilled under contracts with state bodies. In such a situation the levas are equally transferred into the desired foreign currency according to the exchange rates of the Bulgarian Foreign Trade Bank. At present it is possible for the joint companies and branches of foreign persons to operate on the territory of the country, to build and to use estates for a definite period of time with a permission of the Council of Ministers; but it is still not allowed for legal and physical foreign persons to own land, minerals, forests or waters.

* * *

The analysis of the legal regulations can be much more detailed and extensive after the issuing of a regulation of implementation of the above act. Nevertheless, the conclusion can be drawn that legislation is in a process of development, it is of higher flexibility and creates better conditions for business activity for foreign companies. It is also becoming more closer to the legal regulations concerning foreign companies participation in other socialist countries. If a comparison is made between the corporative law, enacted on 24 November in Hungary, the new Czechoslovakian act on foreign property participation and the changes ensured in the Soviet Union, it can be noticed that they are similar to Ordinance No. 56 of the People's Republic of Bulgaria State Council, and all are moving into the same direction.

Final conclusions can hardly be drawn concerning the feedback of new legislation implementation into the practice. The acceptance of these new regulations should be observed during the next few months. But the future seems to be promising.