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Recent foreign direct investment in Eastern Europe: Towards a possible role for the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy

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Note:
Working papers on themes studied within the ILO are intended to stimulate discussion and critical comment.

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Introduction

Eastern Europe has become a new focal point for investment by Western multinationals, due mainly to the unexpected political and economic changes that have recently taken place there. On 9 November 1989 the Berlin Wall was officially opened for the first time in its 28-year history. Thereafter German unification was transformed from vision into reality within months and consequently there has been a surge of foreign direct investment (FDI) into the former German Democratic Republic by Western concerns, especially by those from the Federal Republic of Germany.

Apart from the Soviet Union, every Eastern bloc country from Poland to Bulgaria underwent a change in government within the span of one year. It would seem that there is a strong correlation between the magnitude of political change and the amount of FDI brought into a country.

In most cases the new leaderships have so far been devoted to the development of market economies, which is reflected in new investment legislation designed to attract Western capital and technology. The focus of attention here will be on FDI since, roughly, the first breach in the Berlin Wall, which marked a major turning point in Eastern investments.

Other issues have been raised as well. Of particular interest to the ILO are the labour consequences of new investment: whether trade unions are being established or maintained; wages and employee benefits, the multinationals' commitment to training and the recruitment of locals, health and safety conditions, and the effects of foreign competition are all of interest here. Against this background, this study will also attempt to measure the extent to which the ILO's Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy is already pertinent or may potentially become relevant in the East European economies, which are undergoing such rapid changes.

This paper will therefore analyse these issues, by country and by industry. Industries included are, for example, banking and financial services, food and drink, construction, transportation, energy, media, communications and natural resources. It should be noted that these industries are in constant transition in Eastern Europe, and hence this can only be a preliminary analysis of the issues.

Social and economic conditions in Eastern Europe

Investment legislation

To promote the development of market economies, countries belonging to the Council for Mutual Economic Assistance (CMEA) have been adopting new legislation regulating inward foreign investment at unprecedented levels. Much of the legislation is designed to be compatible with that of European Community (EC) countries, on the one hand to give the investors from those countries a sense of familiarity with the new laws, and on the other hand to help promote the desire of certain CMEA countries to eventually join the European Community.

Soviet legislation concerning joint ventures is quite developed, but still fairly complicated and often unclear. The legal framework for international joint ventures in the USSR was adopted in January of 1987 in a decree of the Council of Ministers, which has recently been amended. In order to be registered with the Ministry of Finance, a joint venture must either: (a) reduce imports by satisfying the domestic demand for goods; (b) stimulate exports; or (c) bring foreign skills, technology, or money into the Soviet Union. The venture is exempt from Soviet taxes for the first two years after it realises its first profit. Thereafter the maximum tax rate becomes a tricky political question; the Soviet Parliament set the rate at 45 per cent in June 1990, compared with a rate of 38 per cent set by the Russian Parliament in November the same year. However, the problem with registering with the Russian Republic is that the central Soviet authorities control the essential supply systems. Until recently, either side in a joint venture was allowed up to 99 per cent ownership, which meant that a Soviet partner had to be involved. However, a presidential decree announced in October 1990 permitted 100 per cent foreign ownership of investments and full management control of ventures, in other words complete authority regarding recruitment, dismissal and wage setting. The original decree also required that the Western partners use exports to repatriate their profits in hard currency - which often implied that the company would be competing with itself in Western markets. Recent decrees have suggested that the repatriation of rouble profits in hard currency would be permitted, but at rates considerably less favourable than the official rate of Rbs.0.56 to the dollar.

Hungary now allows foreigners to own a 100 per cent interest in a Hungarian company and, as of 1 July 1989, has permitted the transformation of state-owned companies into publicly owned companies. In October 1990 the State Property Agency (SPA), which controls privatisation, announced that all state-owned enterprises were up for sale and that investors could expect to complete a deal within 100 days of the initial bid. The privatisation procedure had no precedent and was expected to be complicated in practice, but was nevertheless seen as an important step to revitalising the Hungarian economy. The Hungarian Government hopes to privatise the majority of state assets within five years.

According to the Polish Foreign Investment Agency, which was established in January 1989 to promote foreign investment, current legislation on joint ventures in Poland asks for a minimum of $50,000 to be invested by foreigners, or at least 29 per cent of the total value of the project. Foreign investors are free from taxation for the initial three years, which can be extended to six. Bulgaria now permits joint ventures and foreign-owned subsidiaries there, as well as the establishment of foreign banks.

For mostly political and ideological reasons, Romania has been slower than its northern neighbours in welcoming foreign investment with new legislation. However, it has recently established a National Agency for Privatisation and an Agency for Foreign Investment Promotion, in part to overlook new joint ventures. A new decree on foreign investment, adopted on 20 March 1990, allows joint ventures or 100 per cent foreign ownership in domestic companies, except in a few "strategic" industries. Joint ventures are allowed to operate outside of the Central Plan. The first two years of profit are exempt from tax, and the Finance Ministry will reduce taxes by 50 per cent for up to three years thereafter if profits are reinvested in the company or in another company with Romanian participation. The tax rate is set at a favourable 30 per cent (compared with 40 per cent in Czechoslovakia). As usual, there remains the question of repatriation of profits. Current legislation permits joint ventures to repatriate 100 per cent of their foreign currency earnings but with a 10 per cent tax (after the tax on profits); profits in lei, the domestic currency, must be used in

Romania, although an amendment under consideration would allow total repatriation of lei profits after a 50 per cent levy by the Romanian Bank for Foreign Trade (RBFT).

The Czech Government has recently adopted laws concerning foreign investment, the privatisation of approximately 4,000 state enterprises and the restitution of land expropriated under former regimes. The Czech Law on Enterprises with Foreign Capital Participation of 1 January 1989 allowed joint ventures, and their right to retain foreign earnings, set prices according to market conditions and keep foreign currency accounts in local or foreign banks. Current joint venture law allows 100 per cent foreign ownership of domestic companies, except in areas of national importance (e.g. telecommunications, defence, transportation). Joint ventures are also exempt from state planning directives. On 1 January 1991 a new Foreign Exchange Law came into effect establishing "internal convertibility" of the Czechoslovak crown. Basically, the law obliges joint ventures to deposit their foreign currencies into the State Bank for Czech crowns within a month of receipt, but allows the crowns to be withdrawn again in hard currency for the purpose of purchasing supplies from abroad; both transactions are carried out at the prevailing exchange rate.

The privatisation process is outlined in two laws: the Small Privatisation Law deals with businesses of a local nature (e.g. shops and restaurants) which are being auctioned off to Czech citizens only; the Large Privatisation Law, in effect since 26 February 1991, requires that every enterprise prepare a "privatisation project" in which it evaluates its assets and how they were used, and how it intends to issue shares upon privatisation. The company's shares will then be owned by the National Assets Fund (NAF) for eventual sale to Czech or foreign citizens. The Law on Protection of Economic Competition (effective 1 March 1991) aims to ensure against potential market abuse by merging companies. Finally, the Restitution Law, passed on 21 February 1991 and effective as of April, addresses the return or compensation for $11 billion worth of property expropriated by the Communist Government between 1948 and 1989. So far, however, the law is restricted to Czechoslovak citizens, or their heirs, who are residing in the country.

Sources: ILO Social and Labour Bulletin, 3-4/1989 (pp. 226-227), and 2/1990 (pp. 129-130).
Financial Times, 9 Aug. 1990: "Czechoslovakia overhauls legal framework".
ibid., 13 Sep. 1990: "Realising the Soviet joint venture".
ibid., 1 Oct. 1990: "Moscow ready to allow 100 per cent foreign ownership of ventures".
ibid., 18 Oct. 1990: "The second Czech revolution".
ibid., 18 Oct. 1990: "Romania removes blocks to new foreign investment".
ibid., 19 Oct. 1990: "Hungary puts all state industry up for sale".
ibid., 30 Oct. 1990: "Foreign business puzzles over Soviet investment decree".
ibid., 29 Nov. 1990: "Romania joints investment club".
ibid., 7 Mar. 1991: "Czechoslovakia opens for business".
The Economist, 12 Jan. 1991: "Investing in the Soviet Union".

East European labour attracts Westerners

The quality of labour in Eastern bloc countries is a major incentive for multinationals to invest there. Of the 2,000 engineers that Siemens hired in 1989 to work in the Federal Republic of Germany, several hundred were from the German Democratic Republic (GDR), but hiring them was not without difficulties. Peter Thust, Siemens' university recruitment director in Munich, said that "the East German skilled workers cannot automatically work in the factory of the future, so we give them further education ... they also have to learn to take decisions. Now they are drilled and wait for commands".

Adam Opel AG, a car manufacturer, hired 900 workers from Eastern Germany within a few months to expand its car production. According to one company spokesman, workers from the GDR were competent, but not in such areas as computer engineering. He added: "Don't forget how these people work in the Democratic Republic. In the car industry, for instance, they are used to working two to three hours a day because there are no parts available for production. When they started work here and had to work eight- and-a-half hours they had a shock. On the other hand, the work is easier for them because there isn't as much manual work."

Companies in the Federal Republic of Germany will likely provide training in joint ventures, such as those of Siemens and Volkswagen. Siemens is also funding university research and education, where engineering students in the GDR previously had to devote 20 per cent of their study time to political ideology. West German firms have an interest in retraining, due to the declining birth rate in their country, and the lack of computer specialists among students in the West, who prefer social sciences.

American firms have discovered cheap labour in Eastern Europe as well. Peter Kona is CEO of IBJ Schroder Bank & Trust Co., which is helping American companies to set up in the East. He claims that "the big leverage is the low labour cost in the proximity of very high Western European labour costs. Without that, there would not be much American interest in foreign investment in Eastern Europe". Average hourly wages apparently vary from $3 in Eastern Europe to $10 in the West.

A further question of interest is how the wages of multinationals compare to those of local companies. According to one report, MNEs offer 50 to 100 per cent more in wages. Zquzsanna Ranki, director of the International Management Centre in Budapest, said that "Western companies offer at least twice as much in salaries. It's good. On the one hand ... people can make money. But it is also a problem because they take away the talented people from the State". The joint venture of the shoemaker, Salamander Import-Export GmbH in the USSR, pays between 70 and 90 per cent more to its employees than do local companies, and saw its shoe production increase from 275,000 to 2 million a year from 1987 to 1989. Caterpillar Inc. pays its Soviet employees double the amount that state organisations pay, and offers them a clothing allowance in hard currency. These rewards, explains Felix Calonder, director of Caterpillar in Moscow, are a sort of compensation for the higher risks involved in working for a foreign company, where lay-offs require only 14 days' notice, as opposed to relatively secure jobs in state organisations.

The other difficulty that MNEs face is how to recruit Western-style managers. Ideally they search for someone of 35 to 40 years' old, with management experience in sales or production, and several languages. Few East Europeans meet these requirements. This was apparent in a study funded by the World Bank of the managers at 29 major industrial enterprises in Hungary. It was found that 80 per cent of these managers had no foreign business experience, and only 13 per cent had any experience in market economies; 47

per cent knew no foreign language. Furthermore, few senior managers understood the concept of strategic planning since this was dictated by ministries in their five-year plans. The managers fared well in managing technology since most had engineering backgrounds; still, many were dealing with obsolete or backward equipment and depended on Western or Japanese licensing to adapt to Western technology. (See Wall Street Journal, 15 Jan. 1990: "Are East Europe's executives prepared for the 1990s?" for more detail.)

As a result, MNEs usually bring in Western managers. West Europeans are preferred, due to their proximity to Eastern Europe and comparatively better linguistic skills than Americans. To lure Westerners to the East, MNEs offer huge salaries, with other benefits such as housing, medical care and home leave, with terms limited to three to five years. In response to this lack of management skills in the East, training institutions are being formed, such as the International Management Centre in Budapest, which claims to have set up Eastern Europe's first MBA programme.

However, Western multinationals may not be able to count on cheap labour for long. East European workers are beginning to reform their once state-run unions. In Czechoslovakia, the Czechoslovak Confederation of Trade Unions (CSKOS), set up at the end of 1989, claims to have some 6 million members, and replaces the ROH, the state-sponsored union that dissolved on 2 March 1990 after suffering mass desertion. The CSKOS, led by Igor Pleskot, a metalworker, succeeded in April 1990 in convincing the Civic Forum (the Czech Government) to consult it regarding proposed trade union legislation, by threatening to call a general strike.

In Romania, an independent trade union called Fratia claims 600,000 paid members, and offers an alternative to the formerly state-owned union, UGSR. In Bulgaria, a new independent white-collar union called Podkrepa, with some 100,000 members, has emerged. Both unions have, according to The Economist, laid claim to rest homes and sports centres previously owned by Communist unions. In Hungary, the Communist union has renamed itself the Confederation of Hungarian Trade Unions, with membership down from 4 million in the mid-eighties to 2.5 million today. There is now a three-year-old Democratic League for Independent Trade Unions, and several other independent unions per industry. In Poland, the well-known Solidarity Union, formed in 1982, has only to compete with a former Communist trade union called OPZZ.

In the former German Democratic Republic, some 20 unions with 9.6 million members belonged to the Freier Deutscher Gewerkschaftsbund (FDGB), which was disbanded; many of its individual members may join its counterpart in West Germany, the Deutscher Gewerkschaftsbund (DGB). The metalworkers' union in West Germany (IG Metall) and the food and restaurant union (NGG) have already opened branches in the East, and IG Chemie is talking of merging with its sister organisation in the East as well. As such, if wage parity were to exist in both countries, Western employers will be less inclined to shift jobs from West to East in search of cheaper labour.

Sources: International Herald Tribune, 13 Feb. 1990: "To the US, the new Europe offers cheap labor".
ibid., 1 Mar. 1990: "East German workers: Skilled, but differently".
ibid, 5 Apr. 1990: "West lures best talent from East Europe States".
ibid., 14 June 1990: "New East-West trade: Managers cross borders".
The Economist, 7 July 1990: "East European unions: Militant tendency"
NZZ, 12 July 1990: "Uberzogene Forderungen du DDR-Gewerkschaften".
Handelsblatt, 15-16 June 1990: Interview with ILO Director-General, Michel Hansenne.
Der Spiegel, 23 July 1990: "Gewerkschaften: In fremde Reviere".

<u>The European Bank for Reconstruction and Development</u> (BERD)

In June 1990 an agreement was reached in Paris to establish a Bank for European Reconstruction and Development (BERD). The new international organisation would receive an initial $12 billion in capital from the 42 countries at the Paris conference, and would serve as a kind of second Marshall Plan to reconstruct the ailing economies of Eastern Europe. The bank will be based in London, and headed by Mr. Jaques Attali, a former economic adviser to French President, Francois Mitterand.

The bank's primary purpose, when it opens in 1991, will be to finance new privately owned businesses. It will require that at least 60 per cent of its funding benefit the private sector. Its statute will also limit lending to countries "committed to and applying principles" of multiparty democracy and pluralism. Various countries will contribute to the initial capital injection as follows:

	Per cent
EC 12 and European Commission and European Investment Bank	51
Non-EC West European countries	10.7
United States	10
Japan	8.5
USSR	6
Other East European countries	7.45
Canada	3.4
Other	2.95
Total	100.00

<u>Sources</u>: <u>TIME</u>, 4 June 1990: "The BERDs in hand".
<u>International Herald Tribune</u>, 6 Aug. 1990: "US support for East Europe Bank faces threat".
<u>The Economist</u>, 2 Feb. 1991: "The European Bank: Awkward fuss".

<u>Some obstacles to foreign investment</u>

The most obvious dilemma facing multinationals going East is how to repatriate their earnings in hard currency. Several methods around this are possible: counterpurchase, or offset, is when the exporter agrees to buy goods back from the country that it is exporting to - hence the actual transfer of hard currency is unnecessary; there is also regular bartering; or buy-back, where exporters of equipment, for example, agree to be paid with the goods produced with the equipment. Apparently some 10 per cent of the 1,000 or so joint ventures in the Soviet Union are a means of countertrade. But it is not always easy to find goods from the East that are marketable in the West, and to determine a price for such goods that are often of inferior quality to their Western counterparts.

A form of investment in Eastern Europe currently being practised is franchising. Most of the 900 existing joint ventures in Hungary take advantage of this. However, the above-mentioned problem of repatriating funds still exists, and questions have been raised about the ability of the Soviet legal system to deal with the relatively complicated rules governing franchises.

Although many multinationals moving eastwards require retail outlets, this can be very problematic in countries where stores usually only stock very few scarce products. Hence there is a shortage of shelf space, and no infrastructure for marketing, customer service, advertising or computerised stock control. Another problem is from the supply side, since only a few companies, such as McDonald's or IKEA, have found ways to supply their East European ventures locally.

The following is a table, published in The Economist on 7 April 1990, of Western firms retailing in Eastern Europe (or negotiating to do so).

Window-shopper's paradise: Western retail operations in Eastern Europe*

Country	Food/ restaurants	Clothing/ footwear	Electrical/ photographic	Other
Soviet Union	Asko (W. Germany)	Baginski (W. Germany)	Herlango (Austria)	Bloomingdale's (USA)
	Dr. Oetker (W. Germany)	Quelle (W. Germany)	Eastman Kodak (USA)	Alphagraphics (UK)
	Baskin-Robbins (USA)	Salamander (W. Germany)	Computerland (USA)	Ikea (Sweden)
	McDonald's (USA)	Alain Manoukain (France)	Rastile International (Venezuela)	Starup (Brazil)
	PepsiCo (USA)	Christian Dior (France)		Pukeva (Finland)
	Alfa Beta (Greece)	Benetton (Italy)		Aer Rianta (Ireland)
	Goodys (Greece)	Stafanel (Italy)		
	Delhaize (Belgium)	Coppernob (UK)		
		Jindo (S. Korea)		
Hungary	Asko (W. Germany)	Adidas (W. Germany)	Siemens (W. Germany)	Hertie (W. Germany)
	Tengelmann (W. Germany)	Neckermann (W. Germany)	Herlango (Austria)	Avanti (Austria)
	Bitta (Austria)	Quelle (W. Germany)	Niedermeyer (Austria)	INKU (Austria)
	Wiener Holdings (Austria)	Levi Strauss (USA)	Philips (Austria)	Julius Meini (Austria)
	McDondald's (USA)	La Redoute (France)	Walter Nettig (Austria)	Metro/Huma (Austria)
	Burger King (UK)	Benetton (Italy)	Sony (Japan)	Ikea (Sweden)
	Andre Trade (Switzerland)	Pop 84 (Italy)		
	Nestlé (Switzerland)	Marks & Spencer (UK)		
	Mercasa (Spain)			

Country	Food/ restaurants	Clothing/ footwear	Electrical/ photographic	Other
Bulgaria	Asko (W. Germany)	Quelle (W. Germany) Sandra (Italy) Lee Cooper (UK)		Claoudaios (Greece)
Poland	Julius Meini (Austria) Leclerc (France)	Puma (W. Germany) Quelle (W. Germany) Benetton (Italy)		Hertie (W. Germany) Ikea (Sweden) Affielou (France)
Czecho-slovakia	Julius Meini (Austria)	Bata (Switzerland)		
Romania	Leclerc (France)			

* Includes joint ventures under negotiation.

Source: Price Waterhouse.

Another surprising obstacle to foreign businesses, albeit a temporary one, is a shortage of property and office space in some Eastern cities. The result is that office space costs in Moscow have been rated as higher than those in Frankfurt, as shown below.

Prime commercial rents

City	December 1989 $\$/m^2$ per year
Toyko	1 800
London (city)	1 200
Paris	630
New York (midtown)	540
Moscow	520
Frankfurt	475
Beijing	370
Warsaw	350
Budapest	250
Brussels	200

Sources: Jones Lang Woofton; The Economist, 16 Dec. 1989.

The situation in Moscow is such that many foreign companies use apartments as office space, and their desire to expand will require some 80,000 more square metres of accommodation and 500,000 square metres of hotel and office space. Tourists are reportedly being refused visas to visit the Soviet Union due to a lack of hotel space. This in itself is enticing many Western hotels, such as the Sheraton and Hilton, to negotiate the building of new hotels in and around Moscow. Since the situation is roughly the same in Budapest and Warsaw, with property waiting lists lasting up to two years, many businessmen there also work from their apartments, houses and hotel rooms.

There are other related problems. Many of the buildings that do exist are in very poor condition due to lack of maintenance. Furthermore, property law is often changing, and claims to land by previous owners could be disputed for years to come. The desperate shortage of office space may be mitigated by joint ventures, such as the 2,000 square metre East-West Business Centre being constructed in Budapest by Sweden's Skanska and a group of Hungarian investors; or the Lim Centre in Warsaw, whose name is derived from its joint developers: Lot, the Polish airline, Ilbau, an Austrian construction company, and the Mariot hotel chain.

Sources: Trademark World, Apr. 1990: "Go East young man - Franchising in the Eastern bloc".
The Economist, 25 Nov. 1989: "East-West countertrade. A necessary evil".
ibid., 16 Dec. 1989: "Eastern Europe's mini-boom in property".
ibid., 7 Apr. 1990: "Retailing in Eastern Europe".
International Herald Tribune, 19 Dec. 1989: "Taking the rocky road East".
Business Week, 27 Nov. 1989: "The shape of Europe to come".
ibid., 26 Feb. 1990: "Forget junk bonds. Now, there's Eastern Europe".
Business Month, May 1990: "The hunt for red opportunities".
Financial Times, 8 Mar. 1991: "Eastern Europe - Hurdles still to be cleared" (survey on international property).

The Eastern European economies

The rapid transition towards market economies in Eastern Europe has had negative effects on both industrial output and employment levels. The table below shows that, for every country listed, industrial production has decreased since the beginning of 1990:

Basic Indicators for eastern European countries

	BULGARIA 1988	1989	1990	1991	CZECHOSLOVAKIA 1988	1989	1990	1991	HUNGARY 1988	1989	1990	1991
GNP US$bn	50.9	50.8	46.0	43.4	121.8	123.1	121.5	119.2	65.3	64.5	59.3	56.3
GNP growth	+0.6	−0.2	−9.5	−5.7	+1.8	+1.0	−1.3	−1.9	+1.8	−1.2	−8.2	−5.0
Consumer prices	+1.3	+9.2	+50.0	+100	+2.2	+4.0	+11.0	+35.0	+16.0	+17.5	-30.0	+22.5
Industrial output	+5.2	+2.1	−6.0	−3.0	+2.1	+1.0	−3.5	−4.5	0.0	−3.4	−9.0	−6.0
Agricultural output	+0.1	−0.4	−5.1	−2.5	+2.9	+1.1	−0.8	−0.4	+4.3	−2.0	−4.5	−1.2
Energy production	+4.8	−3.4	−0.5	+0.5	−1.2	−2.5	−3.0	−2.9	−3.0	+0.3	+1.7	+1.2
Net energy exports	−1.6	−0.5	−5.1	−1.9	−1.6	−1.4	+0.9	−2.2	−2.1	+0.4	−9.0	−7.8
Foreign trade US$m												
Current account	−770	−1,233	−378	+338	+139	+328	−300	+52	−807	−1,437	+221	+807
Net services	+247	+174	+225	+342	+76	+83	+83	+83	−333	−712	−26	−12
Trade balance	−884	−1,102	−211	+526	−68	+442	−301	+68	+489	+536	+1,374	+2,135
Hard curr exports	3,445	2,637	1,965	2,218	4,940	5,401	5,982	6,462	5,333	5,611	6,465	7,738
Hard curr imports	4,329	3,739	2,176	1,693	5,035	5,092	6,283	6,394	4,912	5,279	5,543	5,973
Gross debt US$m	8,890	10,220	11,053	11,519	7,281	7,915	7,300	7,361	19,625	20,605	20,272	21,472
Net hard curr debt	7,112	9,158	9,856	10,503	314	232	450	700	14,498	15,594	16,991	17,991
Net debt/exports	206	347	502	473	6.4	5.9	7.5	10.8	272	278	263	232
Exchange rate per $	0.834	0.844	0.800	16.0	5.32	15.06	24.00	32.40	50.4	59.1	62.0	76.0

POLAND 1988	1989	1990	1991	ROMANIA 1988	1989	1990	1991	YUGOSLAVIA 1988	1989	1990	1991	
175.5	172.8	140.9	134.9	109.0	105.7	86.0	82.9	130.9	129.5	117.8	111.0	GNP US$bn
+1.9	−1.6	−18.4	−4.3	+1.6	−3.1	−18.6	−3.6	+0.1	−1.0	−9.1	−5.8	GNP growth
+61.3	+639.6	+220	+27.5	+0.5	+1.1	+5.0	+70.0	+118.4	+1,256	+55.0	+27.5	Consumer prices
+5.1	−3.5	−20.0	−6.0	+3.6	−2.1	−20.0	−9.0	−1.0	+1.0	−11.0	−4.0	Industrial output
+1.2	+1.5	−4.4	−1.1	+2.9	−4.3	−6.8	−2.2	−3.7	+3.0	−3.5	−3.0	Agricultural output
−0.5	−7.6	−13.6	−1.9	−4.4	−1.9	−1.3	+0.0	−0.5	+0.8	−1.1	+1.6	Energy output
+0.0	+49.2	−78.4	−31.6	+9.5	+12.6	−19.0	−8.0	+3.4	+2.0	−6.0	−8.6	Net energy exports
												Foreign trade US$m
−580	−18,43	+2,081	+1,500	+3,800	+2,650	−1,248	−693	+2,398	+2,210	+2,000	+500	Current account
−48	−228	−50	−53	+410	+22	−193	−141	+3,232	+3,769	+5,212	+5,671	Net services bal
+1,082	+240	+3,231	+2,493	+3,550	+2,520	−1,139	−498	−804	−1,421	−3,705	−5,921	Trade balance
8,387	8,533	9,802	11,507	6,640	5,990	6,037	7,100	9,608	10,549	11,485	12,944	Hard curr exports
7,305	7,767	6,571	9,015	2,990	3,470	7,176	7,598	10,412	11,970	15,190	18,865	Hard curr imports
39,200	40,800	42,100	42,100	2,100	500	3,550	4,740	18,683	16,500	15,687	17,056	Gross debt US$m
35,576	36,956	36,175	36,200	1,291	−1,229	321	1,321	14,296	9,602	8,281	8,378	Net hard curr debt
424	433	369	315	19.7	−20.5	5.3	18.6	149	91	72	65	Net debt/exports
430.5	1,439	9,500	12,113	14.2	14.9	20.0	42.5	0.252	2.9	11.7	14.9	Exchange rate per $

Statistics for 1990 and 1991 are forecasts. Gross national product figures are US$bn. The trade breakdown including exports and imports are US$m.

The figures for consumer prices, industrial, agricultural output are annual growth rates of indices (1980=100). GNP, growth, energy production and net energy exports are annual growth rates of current price series. Net debt/exports is a percentage ratio.

<u>Source</u>: <u>PlanEcon Review and Outlook</u>, by PlanEcon Inc., 1111 14th St. NW, Ste. 801, Washington, DC 20005, USA. See also <u>Financial Times</u>, 4 Feb. 1991, "Transition in Eastern Europe".

According to the United Nations Economic Commission for Europe (ECE), industrial production in these six countries fell 18 per cent during the first nine months of 1990, compared with a year earlier. In a <u>Financial Times</u> survey of Eastern Europe (4 February 1991), it is suggested that this trend may continue with the modernisation brought about by Western investments. These have so far been focused more in areas of greater backwardness, such as telecommunications and transport, but are expected to increase if and when foreign investment legislation and accounting procedures in the East are revised. The survey states that countries which once measured their economic progress in terms of production levels are now, ironically, having the effectiveness of their reform policies judged in terms of the speed of production decline, the rate of factory closures and the rise in unemployment and bankruptcies. The survey predicts, however, that by 1993 Czechoslovakia, Poland and Hungary should all enjoy increasing levels of industrial production and a positive trade balance.

<u>Source</u>: <u>Financial Times</u>, 4 Feb. 1991, "Transition in Eastern Europe".

Joint ventures by industry: An overview

According to the United Nations Centre on Transnational Corporations (UNCTC), the overall number of registered joint ventures in CMEA countries and Yugoslavia was 3,345 at the end of 1989. This is a dramatic increase from a mere 165 at the beginning of 1988, and from 1,375 as of 1 July 1989. (These numbers exclude the German Democratic Republic, which had no laws concerning joint ventures until 1990.) The investments were primarily concentrated in Poland, Hungary and the USSR. Most joint ventures were in the manufacturing sector (49 per cent, 65 per cent and 61 per cent in the USSR, Poland and Hungary, respectively), followed by the service sector. FDI in primary products was minimal.

In some industries, the demand for goods is so large and production facilities so poor that Western joint ventures will need years to satisfy the market. The automobile industry is a prime example, where waiting lists in some East European countries still reach up to eight years. The Economist Intelligence Unit predicts that demand will exceed supply in cars in Eastern Europe for at least another decade, although production there is expected to survey in the coming years. At present, if all currently planned joint ventures materialise, they in themselves will account for roughly 2 million new cars and trucks produced each year.

Automobiles

The list of Western car companies with or seeking joint ventures in Eastern Europe is long. The market is seen to have enormous potential, given the large differential between Eastern and Western car ownership (see chart on p. 11). East European car production and sales has remained steady at about 2.3 to 2.4 million units a year throughout the 1980s until today (or 2.5 million with Yugoslavia), but this figure could double or even triple by the turn of the century, according to some estimates. By comparison, the 12 European Community countries produced 12.5 million cars in 1987, with roughly one-quarter fewer people.

Western investors can benefit greatly from low labour costs in the East, which currently accounts for only 2 per cent of the cost of building a car in the region, as compared with nearly 25 per cent in many developed countries. The average Skoda worker receives a mere $100 a month. For Easterners, joint ventures will hopefully create more jobs and greater skills, as well as personal mobility. The tables below show which companies are involved in joint ventures and the current vehicle production levels in different Eastern European countries.

GENTLEMEN, START YOUR ENGINES

Principle automobile ventures between Western and Eastern European auto companies.

General Motors

In Eisenach, Germany, with partner Automobilwerke Eisenach, intends to partially assemble 10,000 Opel Vectra cars annualy, for investment of $18 million. Is considering the assembly of 150,000 Opel Kadett subcompacts as a part of a $500 million expansion.

In Bratisiava, Czechoslovakia, with partner Bratislavske Automobilove Zavody (BAZ), will by late 1992 build 15,000 Opel Kadetts for the Czechoslovak market and up to 250,000 transmissions for export to the West. Cost to exceed $150 million.

In Gyor, Hungary, in co-operation with RABA, will build 15,000 Opel Kadett subcompacts, 200,000 four-cylinder engines and take a 67 per cent stake for investment of $150 million.

In Szombathely, Hungary, GM's Packard Electric Division will build automobile wiring parts and take a 60 per cent stake with Villszov.

In Togliatti, Soviet Union, will sell 150,000 engine systems and is duscussing the assembly of catalytic converters with VAZ (Volga Auto Works).

Volkswagen

In Zwickau, Germany, in partnership with IFA PkW AG's Sachsenring, GmbH subsidiary, will partially assemble 50 Polo subcompacts a day reaching annual production of 250,000 Golf subcompacts by 1996 with a total investment of $1.99 billion.

In Chemnitz, Germany, with IFA PkW AG's Barkas GmbH subsidiary, will receive 100,000 four-cylinder engines a year under a barter agreement in return for $377 million in parts and equipment.

In Sarajevo, Yugoslavia, in partnership with UNIS-TAS, plans to boost 49 per cent stake with an investment of $130 million and increase annual production by 40,000 Golf cars and pick-up trucks.

Volkswagen has entered a $6.4 billion joint venture agreement with Czechoslovakia's Skoda to modernise its operations and increase annual production to 400,000 from 180,000 currently.

Fiat

In Biatsko-Biala, Poland, with partner Fabryka Samochodow Malolitrazowych (FSM) will produce 240,000 cars annually by 1993, of which Fiat will receive a total of 500,000 in return for $650 million in parts and equipment.

In Warsaw, Poland, is negotiating with Fabryka Samochodow Osobowych (FSO) to jointly build 120,000 subcompacts based on the Fiat Tipo by 1993. Is also studying proposed engine and transmission plants in Poland and a proposed stake in a holding company for FSM and FSO.

In Kragujevac, Yugoslavia, is negotiating to increase its 18.5 per cent stake in Zavodi Crvena Zastava, which assembles the Yugo subcompact. Recently began production of the Fiat Uno subcompact.

In Yelabuga, Soviet Union, plans to invest in a $7 billion new facility to eventually make 900,000 cars a year.

Renault

In Bratisiava, Czechoslovakia, will build up to 30,000 Trafic vans starting in 1992 with partner BAZ.

In Novo Mesto, Yugoslavia, will build about 55,000 Renault R5 models with partner IMV.

Ford

In Szekesfehervar, Hungary, will build ignition and fuel system parts in a wholly owned subsidiary.

Suzuki

In Esztergom, Hungary, will build 100,000 Swift subcompacts and take a 30 per cent stake with investment of $46 million with partner Autokonszern RT.

Daimler-Benz/Mitsubishi

Negotiating to build up to 300,000 Mitsubishi commercial trucks and Mercedes-Benz medium-sized cars annually in the Soviet Union.

Sources: Auto companies; UBS Phillips & Drew; Wall Street Journal, 14 Nov. 1990, and various newspapers.

Leading vehicle plants in Eastern Europe

Company/location	Products	Capacity (units)
USSR		
AZLK, Moscow	Moskvich; Aleko	180 000
GAZ, Gorsky and Saransk	Volga cars; trucks	240 000
IZHMAS, Ustynov	Moskvich	180 000
KAMAZ, Nabarezhnie, Tcheiny	6-24 ton trucks	120 000
UAZ, Ulianovsk	Cars/small trucks	150 000
VAZ, Zaporoche	ZAZ; Tavria	170 000
ZIL, Moscow	Trucks; limousines	220 000
Czechoslovakia		
AZNP, Mlada Boleslava	Skoda cars; vans; buses	180 000
TATRA, Koprivnice	Trucks; limousines	17 000
East Germany		
VEB, Sachsenring Auto Works, Zwickau	Trabant	140 000
VEB, SAW, Eisenach	Wartburg	80 000
IFA, Ludwigsfelde	Trucks	33 000
VEB Barkas, Karl Marx Stadt	Vans	33 000
Poland		
FSO, Warsaw	Polski Fiat	100 000
FSM, Blaisko Biala	Fiat 126	250 000
Hungary		
RABA, Gyor	9-16 ton trucks	1 600
Csepel Auto, Szigethalom	Buses; trucks	13 000
Ikarus, Budapest	Buses	14 000
Romania		
Motor Car Enterprise, Pitesti	Dacia	90 000
Oltcit, Craoiva	Oltcit	150 000
Motor Car Ent., Muscel	ARO 4WD	18 000
Bulgaria		
Assembly Plant, Lovech	Moskvich 2140	20 000
Yugoslavia		
IMV, Novo Mesto	Assembles Renaults	55 000
CIMOS, Koper	Assembles Citröens, Peugeots	7 000
UNIS-TAS, Sarajevo	Assembles VWs	35 000
ZCZ, Kragujevac	Zastava	220 000
IKARUS, Zemun	Trucks; buses	1 000
TAM, Maribor	Trucks; buses	10 000
Total listed capacity		3 527 600

Sources: EIU; Financial Times, 18 Sep. 1990.

Vehicle production in Eastern Europe

Country	Vehicle	1988	1989
USSR	Cars	1 318 666	1 335 000
	Trucks	790 000	730 000
	Buses	84 000	85 000
Poland	Cars	296 337	298 000
	Trucks	46 800	47 000
	Buses	10 500	11 000
Yugoslavia	Cars	290 048	302 867
	Trucks	36 483	35 338
	Buses	3 901	3 463
East Germany	Cars	218 000	216 969
	Trucks	39 600	39 000
	Buses	1 630	1 600
Czechoslovakia	Cars	159 160	165 000
	Trucks	51 500	52 000
	Buses	3 500	3 300
Romania	Cars	108 000	107 000
	Trucks	17 400	17 000
	Buses	3 000	3 000
Bulgaria	Cars	20 000	20 000
	Trucks	6 800	7 000
	Buses	2 750	2 700
Hungary	Cars	-	-
	Trucks	2 063	1 087
	Buses	12 350	11 930
Eastern Europe	Cars	2 410 411	2 444 836
	Trucks	990 646	928 425
	Buses	121 631	121 993
Total		3 522 688	3 495 254

Sources: EIU; Financial Times, 18 Sep. 1990.

Market potential: East and West car ownership levels compared
(persons per car, by country)

Soviet Union	22.5		
Poland	7.9		
Yugoslavia	7.6	Japan	4.0
Hungary	6.0	Western Europe	2.7
Czechoslovakia	5.6	North America	1.7
Average	9.92	Average	2.8

Source: International Herald Tribune, 9 Apr. 1990.

The initial euphoria that drew car makers east, however, proved to have many pitfalls. They discovered that the industry was deliberately neglected as a means of restricting people's freedom of movement; hence they are finding unusable plants, poor supply systems, unmotivated workers, and auto-makers more concerned with meeting output levels than with quality. The Wartburg plant in Eisenach is a good example. The plant, which once produced BMW AG's first cars, now still relies heavily on manual labour; at best, its 11,800 workers produced 200 cars a day, compared with 1,050 vehicles produced per day with 2,500 workers at Ford's plant in Atlanta, Georgia. BMW concluded that the Wartburg plant was more backward now than it was 45 years ago; hence, it has so far not invested in Eastern Europe and expects its future in the region to be limited to used cars.

The vehicle-producing multinationals that do have plans in the East are carrying them out cautiously. Most agreements involve the licensing of Western car designs, the transfer of manufacturing technology or the assembly of car "kits" sent from the West, all of which require only small investments and can easily be terminated. For months General Motors was considering less costly alternatives to its plan for the construction of a new GM-Opel plant in Eisenach, and Fiat, apart from expertise and equipment, had (as of November 1990) only invested $30 million (around 5 per cent) of the total $7 billion it planned to invest in the Soviet Union.

Telecommunications

Telecommunications is another industry desperately in need of improvement. Eastern Europe has fallen perhaps 20 to 30 years behind Western Europe in this area, a larger discrepancy than in most areas. The reasons for this are, on the one hand, the desire of former regimes to restrict the free flow of information and to prevent the modernisation of telecommunications systems by, for example, prohibiting direct international dialling. The other reason for this lack of development was the Coordinating Committee for Multilateral Export Controls (COCOM), the committee that regulates the transfer of Western technology to the East for security reasons. It is particularly careful about exports to the USSR, and foiled a deal by the French telecommunications company, Alcatel, with a Russian equipment maker, Krasnaya Zarya. On the other hand, Easterners realise that a good communications network is essential to attract new business from the West.

Some investment has been made anyway, such as between BHG, Hungary's largest telecoms-equipment producer, and Kapsch and Schrack of Austria and Northern Telecom of Canada. Hungary also has contracts with America's AT&T and Sweden's Ericsson. The need for more telephones in Eastern Europe can be seen in the following table (The Economist, 24 March 1990) comparing telephones per 100 people in the East and West.

Telephones per 100 people, 1988	
United States	90
Western Europe	60
Japan	60
Bulgaria	25
Czechoslovakia	22
GDR	21
Yugoslavia	15
Hungary	12
Romania	10
Soviet Union	10
Poland	9
Albania	2

Furthermore, in 1988 there were only 9.8 main telephone lines per 100 people in the six central European countries (excluding the USSR), compared to 40 in Western Europe. The figure for central Europe is in fact close to the same figure for less developed countries such as Costa Rica (9 lines per 100) or Malaysia (7 lines per 100).

Another industry greatly affected by COCOM regulations is the computer industry. Japan's NEC Corporation said that it planned to open representative offices in Budapest and Moscow but only under the assumption that COCOM's export controls would be deregulated. Sanyo Electric Company will expand its network for servicing home appliances in the USSR, and has a 5 billion yen ($35 million) contract to supply East Germany with 100,000 video tape recorders. A Japanese trading company, Marubeni Corporation, plans to distribute Canon and Hitachi goods through a wholly owned subsidiary in Budapest.

Compaq Corporation, a 3 billion-dollar computer company that is only eight years old, is now developing an East European strategy. Interestingly, what sparked this strategy was COCOM's decision on 1 July to relax its ban on the export of advanced personal computers and electronics equipment, enabling Compaq to ship its 32-bit desktop 386 model without individual licences. Faced with the difficulties of earning hard currency, the company has nevertheless decided not to accept soft currencies or barter. Earning hard currency is a question of making the right contacts in the East, the company said. Compaq intends to set up franchises with computer specialists in the East, together with training, once it has established reliable supply networks.

Management consulting

Management consulting firms are moving eastwards along with their clients. Roland Berger and Deutsche Gesellschaft für Mittelstandsberatung, both owned by Deutsche Bank AG, are operating in East Germany, as is McKinsey

and Company. In the fall of 1989, when Czechoslovakia, the German Democratic Republic, Bulgaria and Romania all underwent a sudden change in government, the major Western accounting firms were among the first to rush into Eastern Europe, primarily to service Western clients seeking advice on business opportunities in the East. Such services include auditing, tax consulting, research on joint venture partners, company evaluations, and developing business training programmes and strategic planning.

The accounting firms moved into Hungary first, since that country's economic reforms were more advanced in terms of privatisation and the opening of a stock exchange. Now all of the five major accounting firms are involved in a joint venture there: Arthur Andersen (60 per cent) with Kopint-Datorg; Coopers & Lybrand (60 per cent) and the Hungarian Credit Bank; Ernst & Young (98 per cent) and Bonitas; KPMG (100 per cent) and Reviconsult, and Price Waterhouse (80 per cent) and the Hungarian Foreign Trade Bank. The following table shows which firm is where, and when operations began:

<u>Who's set up shop where</u>

Country	Arthur Andersen	Coopers & Lybrand	Ernst & Young	KPMG	Price Waterhouse
Bulgaria	-	-	Contracts only	Being considered	Contract only
Czecho-slovakia	1990	1990	May 1990	1990	March 1990
German Democratic Republic	April 1990	1990	Co-operation agreement now, joint venture in 1990	1990	March 1990
Hungary	Sept. 1989 18 staff	June 1989 20 staff	April 1989 105 staff	June 1989 20 staff	Nov. 1988 60 staff
Poland	Rep. office 1989 3 staff	1990	Co-operation agreement January 1990	April 1990	April 1990
Romania	Being considered	-	-	-	-
USSR	March 1990 14 staff	1990	Co-operation agreement January 1989 joint venture January 1990	-	Sept. 1989 3 staff
Yugoslavia	Being considered	1990 or 1991	Contracts only	Possible joint venture in 1991	Contracts only

<u>Source</u>: <u>CA Magazine</u>, July 1990.

Perhaps more interesting for the purpose of this study are these firms' recruiting and training practices. Most offices in Hungary employ a combination of locals and expatriates, since it is important that employees speak the local language. The advantage of having locals is that they are familiar with the market; expatriates are more expensive but have more of the necessary skills and knowledge required. To lure expatriates, most firms will pay for housing, transportation and annual flights home.

In order to provide consulting services, many of which were non-existent in the East before, the accounting firms have invested heavily to train local economists and business graduates. Arthur Andersen's is the most extensive training programme; it sends Hungarians to its international training school in Chicago, then to apprenticeships at its offices in North America or Europe for up to six months, and then to study local law back in Hungary.

Sources: United Nations Industrial Development Organisation (UNIDO), 13 Mar. 1990: "Recent trends in foreign direct investment flows to European CMEA countries".
Boersen Zeitung, 15 July 1990: "UN registers significant increase in joint ventures".
Business Month, Apr. 1990: "Who will be who in Eastern Europe".
The Economist, 18 Nov. 1989: "Bankers peep through the curtain".
ibid., 2 Dec. 1989: "East European cars".
ibid., 24 Mar. 1990: "East European telecoms".
International Herald Tribune, 29 Dec. 1989: "Japanese join rush to East bloc".
ibid., 15 May 1990: "Western firms counting on Eastern markets".
ibid., 24 Jul. 1990: "Compaq: PDQ into E. European market".
ibid., 24 July 1990: "Management consultants head Eastward".
CA Magazine, July 1990: "New kids on the bloc".
Financial Times, 18 Sep. 1990: "World car industry. Eastern European markets are opening".
ibid., 4 Feb. 1991: "Telecommunications: Bridging the huge gap".
Time, 14 Jan. 1991: "Go East, young man".
Director (UK), Nov. 1990: "Moving into overdrive".
Wall Street Journal, 14 Nov. 1990: "To Western industry, East bloc auto market is losing some lustre".

The Soviet Union

General

The number of joint ventures in the Soviet Union is on the rise; since the beginning of 1987 some 1,000 ventures have been registered, and 800 during 1989. By end January 1990 the total number reached 1,274, and nearly 1,400 by March. The percentage breakdown, by country, is shown in the following table reproduced by The Economist (6 January 1990).

The illusion of success

Number of joint ventures in the Soviet Union
(Percentage, by country, September 1989)

W. Germany:	20.2	Italy:	9.2
Finland:	13.9	Austria:	9.2
United States:	12.3	Switzerland:	7.2
Britain:	9.4	Others*	18.6

* Sweden, France, Japan and Canada.

Sources: Ministry of Foreign Business Relations; The Royal Institute of International Affairs.

In February 1990, of the 1,274 ventures, the Federal Republic was still in the lead with 191 ventures, followed by Finland and the United States with 146 and 143 respectively. But of the 1,400 ventures officially registered in March, only 250 were actually operating, with average capitalisation at a mere $1.7 million. Furthermore, they are often aimed at foreigners, such as consulting and hotels or shops filled with Western goods that do not produce anything in the Soviet Union. This prompted one member of the Soviet State Foreign Economic Commission to complain that "very few [ventures] are in machine building, and less than 10 per cent are in consumer goods" (Business Week, 19 March 1990).

The tables on the following pages, reproduced in Management Review (March 1990), clearly demonstrate how most ventures are focused in areas such as consulting or other areas potentially of greater benefit to foreigners, and which countries were participating (note: tables only measure up to 1 October 1989).

Where the deals are: Soviet joint ventures registered as of 1 October 1989

Number of Soviet joint ventures signed with foreign partners

Foreign partners	Number of joint ventures	Charter Fund (Millions of roubles)
Socialist countries	105	352.1
Capitalist countries	748	2 036.2
Combined socialist and capitalist partners	12	26.2
Developing countries	60	63.2
Combined developing and capitalist partners	8	27.9
Total	933	2 505.6

Distribution of joint ventures by economic sector

	Quantity	Percentage
Scientific research, engineering consulting-intermediary services and executive training	287	30.5
Production of computers and software	122	13.0
Construction and production of building materials	60	6.4
Consumer goods	58	6.2
Trade and restaurants	58	6.2
Toursim, hotels and transport services	53	5.6
Chemical-forestry	47	5.0
Medicine, health care	46	4.9
Agro-industrial complex	41	4.4
Machine building (excluding production of computers)	40	4.3
Cinema, video and concerts	37	3.9
Light industry	31	3.3
Printing	25	2.7
Transportation and communications	18	1.9
Fuel-energy	5	0.05
Metallurgy	5	0.05
Total	933	100.0*

* Numbers may not add up to 100 per cent due to rounding.

Source: The Foreign Economic Commission of the Council of Ministers of the USSR Department of Joint Ventures.

Charter Fund investment

Participation of countries in joint ventures in the USSR

Socialist countries	124	Developing countries	69	Capitalist countries	794
Bulgaria	28	Afghanistan	1	Australia	10
China	14	Bangladesh	1	Austria	65
Czechoslovakia	4	Brazil	3	Beligium	9
East Germany	1	Cyprus	8	Canada	23
Hungary	22	Hong Kong	1	Denmark	2
North Korea	8	India	15	France	35
Poland	26	Iran	1	Finland	110
Vietnam	3	Jordan	2	Great Britain	65
Yugoslavia	18	Kuwait	3	Greece	6
		Lebanon	2	Ireland	3
		Malta	1	Italy	61
		Oman	1	Japan	20
		Pakistan	2	Liechenstein	12
		Panama	3	Luxembourg	6
		Saudi Arabia	1	Netherlands	16
		Singapore	9	New Zealand	3
		South Korea	1	Norway	4
		Syria	3	Spain	13
		Thailand	1	Sweden	38
		United Arab Emirates	3	Switzerland	43
		Venezuela	7	United States	97
				West Germany	153

Note: Soviet joint ventures registered as of 1 October 1989.

The first 100 US-Soviet joint ventures registered in the USSR

Registration No.		Date of Registration	US partner	Planned business activity	Capital investment in millions of rubles by US partner
1.	(013)	11/26/87	Combustion Engineering	Process control systems	5.00
2.	(021)	12/29/87	Management Partnership Int.	Software, computers	3.30
3.	(037)	04/12/88	Elan International	Flavours	0.06
4.	(046)	05/13/88	Honeywell	Control systems	0.50
5.	(056)	06/16/88	Worsham Group	Construction	3.00
6.	(065)	07/06/88	Considar Project Development	Information systems	0.03
7.	(092)	09/02/88	Tambrands (Great Britain)*	Tampons	0.52
8.	(104)	09/21/88	Unicorn Seminars	Publishing, shops	0.98
9.	(108)	10/10/88	Interconcepts	Advertising	1.96
10.	(109)	10/14/88	Rank Xerox (Great Britain)*	Copy centre	0.34
11.	(116)	11/01/88	Robert A. Weaver	Management consulting	0.02
12.	(118)	11/02/88	Tambrands (Great Britain)*	Tampons	0.54
13.	(147)	12/02/88	Dresser Industries	Engineering	0.15
14.	(159)	12/24/88	McDonald's Rests. of Canada*	Restaurants	7.33
15.	(172)	12/26/88	USKO Investment	Consulting	0.50
16.	(179)	12/28/88	Foster Wheeler	Construction/petroleum	0.32
17.	(183)	12/28/88	American General Resources	Scrap ships	0.03
18.	(190)	12/29/88	Management Partnership Int.	Management training	0.09
19.	(203)	01/12/89	Ogilvy & Mather	Advertising	0.15
20.	(218)	01/20/89	AutoDesk (Great Britain)*	Automatic design	0.10
21.	(223)	01/24/89	Mobile Fidelity Sound	Concerts	0.375
22.	(233)	01/24/89	Satra (Great Britain)*	New export products	0.10
23.	(240)	02/07/89	Pheonix Radiology	Medical technology	0.10
24.	(274)	02/27/89	SIBIR	Computers	0.05
25.	(281)	03/01/89	ERGO Group	Data processing	0.02
26.	(282)	03/01/89	Global Technology Group	Advertising, printing	5.75
27.	(284)	03/02/89	BERUSA	Medical diagnostics	0.25
28.	(287)	03/06/89	Brownstone Productions	Animated films	0.03
29.	(301)	03/15/89	Eugene Enterprises	Reindeer horn processing	0.21
30.	(310)	03/17/89	GJI	Non-invasive diagnostics	0.01
31.	(313)	03/20/89	Transatlantic Agency	Hermitage exhibits	0.52
32.	(315)	03/21/89	Thurston Sails	Sails for yachts	0.05
33.	(317)	03/21/89	NETVAC	Metallurgy licensing	0.34
34.	(335)	03/24/89	Marine Resources	Shipbuilding/Aquaculture	0.08
35.	(339)	03/27/89	Hemisphere Publishing	Scientific publishing	0.15
36.	(346)	03/28/89	PepsiCo Eurasia	Pizza Huts	0.91
37.	(363)	03/31/89	Amsovinvest	Electronics	0.30
38.	(387)	04/17/89	AMEX Import-Export	Consumer products	2.10
39.	(389)	04/19/89	Ollsten Trading	Software	0.01
40.	(393)	04/20/89	American Laboritories	Condoms, syringes	1.28
41.	(400)	04/21/89	Columbus	Entertainment	0.37
42.	(401)	04/21/89	BERUSA	Chemicals, construction	0.34
43.	(411)	04/27/89	BERUSA	Personal computers	0.05
44.	(412)	04/27/89	World Ethnic Art Entertainment	Restaurants, trade	0.17
45.	(415)	04/27/89	Global Technology Group	Personal computers	3.35
46.	(423)	05/03/89	Considar Project Development	Recycle waste oil	3.00
47.	(429)	05/05/89	Spec International	Personal computers	0.13
48.	(433)	05/10/89	ASTRA Consulting Int.	Personal computers	0.06
49.	(455)	05/17/89	Young & Rubicam	Advertising	0.37
50.	(456)	05/17/89	Ruff Fur Dressing	Fur processing	0.72
51.	(465)	05/22/89	Cameron Iron Works (W. Ger.)*	Drilling technology	3.50
52.	(474)	05/24/89	APCO	Information, consulting	0.30
53.	(478)	05/24/89	East-West Arts & Entertainment	Cinema, concerts	0.03
54.	(483)	05/24/89	Winsome Food Technology	Fruit juice	1.50
55.	(492)	05/26/89	IDG Communications	Information, exhibitions	0.18
56.	(497)	05/29/89	Douglas Production Int.	Printing	0.04
57.	(508)	05/29/89	Perch Electronic	Consumer goods, radios	1.02
58.	(509)	05/29/89	Carlisle Syntec Systems	Roofing materials	23.57
59.	(514)	05/30/89	Hudson Street Int.	Patents, licensing	0.04
60.	(529)	06/01/89	Crystalltec Int.	Computer services	0.05
61.	(531)	06/01/89	Summit Ltd.	Production of corn and soy	0.13
62.	(538)	06/01/89	Sheldon Trading Co.	Gas marketing	0.01
63.	(542)	06/02/89	NEVA Ltd.	Fast food	0.02
64.	(546)	06/02/89	User Int.	Computers	0.84

Registration No.		Date of Registration	US partner	Planned business activity	Capital investment in millions of rubles by US partner
65.	(562)	06/05/89	Transcisco Industries	Railway cars	0.32
66.	(613)	06/16/89	Kent Management Group	Executive training	0.08
67.	(614)	06/16/89	JVT (David F. Kelley)	Consumer goods	0.04
68.	(621)	06/16/89	Classica Overseas Cyprus	Consumer goods	0.11
69.	(626)	06/20/89	Cook Products Int.	Toys, trading	0.14
70.	(627)	06/20/89	Economic Dev. Partners. Corp.	Construction	23.80
71.	(629)	06/20/89	Kofman Equities Ltd.	Consumer goods	0.15
72.	(632)	06/20/89	Slava Int.	Tourism	0.03
73.	(649)	06/23/89	ITI Trading Int. Inc.	Cosumer goods, tourism	4.93
74.	(651)	06/23/89	King Furniture Manufacturing	Consumer goods	0.11
75.	(659)	06/27/89	Hemisphere	Printing	0.10
76.	(675)	06/28/89	Space Commerce. Corp.	Scientific research, design	0.10
77.	(677)	06/28/89	Matrix Corp.	Personal computers	0.30
78.	(691)	07/05/89	ANSAT	Printing	0.43
79.	(698)	07/07/89	Sabey Corp.	Consumer goods, printing	1.20
80.	(709)	07/13/89	P. Citron Trading	Consumer goods	0.01
81.	(735)	07/28/89	Polaroid Int. BV	Cameras	0.92
82.	(760)	08/02/89	Olympian Embroidary	Consumer goods	0.25
83.	(761)	08/02/89	Lotus Trading Int.	Construction	0.10
84.	(765)	08/04/89	Alba Inc.	Consumer goods	0.88
85.	(773)	08/04/89	Great Lakes Paper Company	Building materials	1.26
86.	(779)	08/04/89	Int. Joint Venture Consultants	Intermediary services	0.19
87.	(788)	08/08/89	Pen Enterprises	Personal computers	0.15
88.	(793)	08/09/89	Dentsply Int.	Dental fillings	0.94
89.	(820)	08/15/89	World Crafts Inc.	Building materials	15.00
90.	(823)	08/17/89	Interorg	Scientific research	0.03
91.	(831)	08/17/89	Alex Import-Export	Consumer goods	0.60
92.	(839)	08/22/89	Atlantica DG Electr. Contr.	Medical goods	0.02
93.	(841)	08/22/89	TIW Systems	Personal computers	0.05
94.	(843)	08/23/89	R & L Int. C C Food Prod.	Foodstuffs	0.10
95.	(847)	08/24/89	F D Processing & Machinery	Machine building	0.02
96.	(873)	08/31/89	Forbes & Co.	Machine building	0.55
97.	(878)	09/01/89	Aricard Inc.	Printing	8.06
98.	(883)	09/01/89	Phargo Information Inc.	Printing, PCs	0.25
99.	(892)	09/05/89	MG Import-Export Int.	Intermediary services	0.05
100.	(913)	09/11/89	B & D Import	Restaurants	0.51

The prededing list was compiled from Soviet Ministry of Finance's lists of registered joint ventures in the USSR. The company names were transliterated from Russian and where possible cross-referenced with English language reports. Some are abbreviated.

The list was prepared by <u>Interflo: A Soviet Trade News Monitor</u> in Maplewood, N.J., and the Brown University Center for Foreign Policy Development Project on Soviet Foreign Economic Policy & International Security in Providence, R.I., with translations by Gerard Mryglot of New York City. The Harvard Russian Research Center List of Registered Soviet Joint Ventures was a major source of English language data. ASTERISKS (*) INDICATE JOINT VENTURES FORMED BY FOREIGN AFFILIATES OF US COMPANIES.

In the United States, an American Trade Consortium (ATC) was formed in March 1989, with the purpose of jointly negotiating ventures with the Soviets. It consisted of five American blue chip companies, namely Chevron, Eastman Kodak, RJR Nabisco, Johnson & Johnson, and Archer Daniels Midland. Together they planned some $10 billion in investments, as seen in the following table (Business Week, 19 March 1990).

A sampling of the planned US-Soviet ventures

Enterprise	Investment ($ billions)	Products
American Trade Consortium	10	Oil, food, cigarettes, medical equipment, film
Occidental Petroleum	6	Polymers
Asea Brown Boveri Combustion Engineering	2	Petrochemical processing and controls
American Medical Consortium	2	Medical equipment, consumer goods
McDermott International	2	Natural gas processing

Source: DATA, Business Week.

Forming joint ventures in the USSR is not an easy task. Apart from the already-mentioned problem of earning hard currency, there is the difficulty of dealing with Soviet bureaucracy. As with other ministries, the Russian Oil Ministry and Gas Ministry have been merged, split up and re-merged, such that it is often difficult to ascertain who exactly has the authority to make decisions. It is also difficult to assess the financial stability of potential Soviet partners since balance sheets and other relevant information is unavailable. Once a partner has been decided upon, it may be necessary to obtain the approval of both central Soviet and local state authorities. Recently, Western partners have also complained about delays in payments by Soviet partners, and in some cases have stopped exports to such partners.

Chevron intended to produce petroleum at the Korolev oilfield in Kazakhstan, but then faced environmental concerns about the high sulphuric content of the oil there. It then considered building a $600-800 million plant to remove the sulphur, then faced Soviet demands that the plant would not pollute.

A final complaint of Western firms is the problematic infrastructure in the USSR. Communications systems are unreliable and one cannot always count on efficient transportation and safe storage of goods by port and railway authorities. This, combined with interministerial squabbling and political uncertainties in the USSR, makes foreign investment a risky business.

Sources: The Economist, 6 Jan. 1990: "Soviet free enterprise".
ibid., 24 Feb. 1990: "America's trade with Russia".
Business Week, 19 Mar. 1990: "Big deals hit big trouble in the Soviet Union".
International Herald Tribune, 6 June 1990: "US capitalists hang back from Eastern promise".
Il Mondo, 16 July 1990: "Joint ventures with the Soviet Union are running into trouble".
New York Times, 4 Feb. 1991: "Soviet ventures are losing appeal for US businesses".

The transportation industry

Within weeks of the first break in the Berlin Wall on 9 November 1989, the Italian car manufacturer, Fiat, announced a joint venture worth $1.8 billion with the Soviet Union. The agreement, reached on 28 November 1989, would have Fiat producing some 300,000 units of its new small car called the A-93 in the city of Yelabuga, south-east of Moscow, as of 1994. The Soviets and Italians would own the venture, with a 70:30 ratio respectively, and the deal had apparently been under discussion for 14 months previously. Fiat's Chairman, Cesare Romiti, said that this was the Soviet Union's largest joint venture to date, and hoped that the rouble would be convertible by the time production began. Early in 1990 Fiat agreed to building the manufacturing facilities for a further 300,000 of its Panda cars, also in Ylabuga, as of late 1992; and yet another 300,000 medium-sized Fiat cars, possibly a Tipo or Tempra, would be built at the same site as of 1996. The three projects together will have Fiat investing some $7 billion and producing 900,000 cars a year in the Soviet Union.

The deals would contribute to the Soviet Union's desire to reach an annual production level of 2 million cars in the 1990s, nearly twice its current output, thereby satisfying 60 per cent of its demand for cars, up from 45 per cent today. One-third of the new A-93 produced would be aimed at export to Western markets. The model, measuring 3.45 metres in length and weighing 640 kg, would reach a speed of 150 kph. Fiat is responsible for providing the technology for body assembly, painting, large plastics components pressing, final assembly and testing. In Italy it is hoped the agreement will help internationalise Fiat, which is more confined within its domestic borders than its Western competitors, having no car plants outside Italy and relying on that country for two-thirds of its Western European sales.

In a related deal, the Italian tyre company Pirelli will invest $250 million in a joint venture in Nizhnekolymsk, south-east of Moscow, to produce some 5 million tyres a year as of 1991. The venture company, to be one-third owned by Pirelli, will use Pirelli's manufacturing technology and Soviet raw materials and labour. It is possible that the Soviet subsidiary of Fiat will be one of the venture's main clients. General Motors also has an agreement worth $1 billion to supply the Volga Auto Works (VAZ) with catalytic converters and engine parts. The Soviets have agreed to buy enough parts to build 100,000 to 150,000 cars for five years, beginning in 1992. The components, which reduce car emission, will be needed if the makers of the Lada meet tougher West European emission standards; currently, some 75,000 Ladas are sold in Western Europe each year. Russian engineers still need to learn more about electronic and emission controls, GM said.

Sources: International Herald Tribune, 28 Nov. 1989: "Italy leaps at Soviet market".
ibid., 29 Nov. 1989: "Soviets and Fiat set a new car venture".
ibid., 12 June 1990: "GM finds risks and rewards in selling to Soviets".
ibid., 6 Aug. 1990: "Fiat looks East for growth".
Financial Times, 18 Sep. 1990: "Pole position in the race eastwards".
The Times, 20 Oct. 1990: "Pirelli in $250 million Soviet deal".

Food and drink

Undoubtedly the most publicised breakthrough in the food and drink industry was the opening of a McDonald's outlet on Pushkin Square in Moscow in January 1990. After a full 14 years of negotiations, begun by Canada's McDonald's President, George Cohon, whose Toronto-based subsidiary began meeting with Soviet officials at the 1976 Olympic Games in Montreal, the deal was finally signed in April 1988. The deal is worth $50 million and is 51 per cent owned by the Food Service Administration of the Moscow City Council, while McDonald's Canada owns the remaining 49 per cent.

The subsidiary is the largest of McDonald's chain of 11,300, able to seat 700 people and serve 50,000 a day. It is the first of 20 planned for the Soviet Union, and the others will be financed with the roubles earned from the first outlet, since roubles are still inconvertible into hard currency.

According to Cohon, overcoming the red tape was a formidable task in the USSR. Arranging for supplies was the hardest: "When we need more sand or gravel for building and go to the department in charge, they say, 'Sorry, you're not in my five-year plan'". Hence to ensure uninterrupted supplies, potato and cucumber seeds were imported from the Netherlands, and Soviet farmers were trained to harvest them and pack the produce; cattle farmers were taught how to raise leaner beef, and a $40 million distribution plant, with dairy and meat-processing units, was built near Moscow. The plant itself is expected to employ about 300 to 350 Muscovites.

When the restaurant opened, it employed 605 people, chosen from 27,000 applicants. After six months in operation, its crew nearly doubled to 1,150 people. Thirty restaurant managers were trained in Toronto and Europe, in areas such as customer service, maintaining cleanliness and even making a Big Mac. The starting salary at McDonald's is 1.5 roubles an hour, about average in the USSR, although top managers earn more than their Russian counterparts, not to mention the prestige of working for a Western firm. On the other hand, food at the restaurant is more expensive than in state-run restaurants.

One of the more novel agreements with the Soviet Union, and the largest ever by an American firm, was Pepsico Inc.'s deal to obtain exclusive rights to market Soviet vodka in the United States in exchange for selling Pepsi-Cola in the Soviet Union. The deal is valued at $3 billion, and should allow Pepsico to double its sales in Russia. The company intends to double its number of bottling plants there from 26 to 50, and someday to introduce aluminium cans and plastic bottles to replace the cumbersome and expensive glass bottles currently being used. In the agreement, Pepsico also agreed to buy at least ten Soviet tankers, worth about $300 million in total, to sell or lease in the United States. It planned to use the revenue from this to help finance the two Pizza Hut restaurants that it later opened in Moscow in September 1990. Pepsi-Cola is the leading soft drink in Eastern Europe, despite Coke's world-wide lead, but both companies have previously made

countertrade agreements in the region (see <u>Advertising Age</u>, 19 February 1990, for other such deals).

<u>Sources</u>: <u>TIME</u>, 5 Feb. 1990: "Moscow's Big Mac attack".
ibid., 23 Apr. 1990: "A Pepsi float".
Press releases provided by McDonald's, Canada.
<u>International Herald Tribune</u>, 10 Apr. 1990: "Pepsi signs $3 billion Soviet barter pact".
<u>New York Times</u>, 11 Sep. 1990: "Soviet Pizza Huts have local flavour".

<u>High technology</u>

It would appear that nearly every deal concerning computers and telecommunications has had to grapple with COCOM regulations. Samsung, an electronics company in the Republic of Korea, reached an agreement with the USSR in May 1990 to export and jointly produce its Time Digital Exchange (TDX) systems, a sophisticated telecommunications system that can deliver data and sound. But the deal involves the joint development of fibre-optic cables with the Soviets, which is banned by COCOM. The company hopes that the regulations will be relaxed before its first planned deliveries in 1992. US West Inc., together with seven other telephone companies (Kokusai Denshin Denwa Co. of Japan, Italy's Societa Finanziania Telefonica, British Telecommunications PLC, OTC of Australia, Great Nordic Telegraph Co. of Denmark, and West Germany's Deutsche Bundespost Telekom), also agreed to work with the Soviet Union to lay fibre-optic cables across the Soviet Union and on to Japan and Europe, thereby greatly improving the Soviet's primitive domestic and international telephone system. This deal, however, was rejected by the US Department of Commerce which cited security concerns regarding the transfer of sophisticated telecommunications equipment as its reason. In October 1990, US West entered a much smaller joint venture to provide the citizens of Leningrad with basic local telephone services. Meanwhile, US Sprint, a unit of United Telecommunications, Inc., obtained approval in September 1990 for a joint venture with the Soviet Ministry of Post and Telecommunications to provide high-speed data communications services in the USSR, namely fax or digital transmissions, such as electronic mail service, both domestically and internationally. The 30 employees at the venture's switching centre are expected to be mostly Soviet citizens.

<u>Sources</u>: <u>The Economist</u>, 27 Jan. 1990: "A bug for Russia's computers".
<u>International Herald Tribune</u>, 11 June 1990: "Soviet deal violates COCOM, Samsung says".
ibid., 9 Dec. 1989: "US West nears Soviet deal".
<u>Wall Street Journal</u>, 6 June 1990: "Agency rejects US West's plan for Soviet job".
ibid., 3 July 1990: "US Sprint and Soviet Agency form venture in USSR".
ibid., 17 Sep. 1990: "Sprint to supply Soviet venture with switches".
ibid., 23 Oct. 1990: "US West venture slates cellular phones with Russia".

<u>Media</u>

Western investment has so far expanded the range of media activity in the Soviet Union. Already in the first half of 1990, ten new Western joint venture journals appeared in Soviet kiosks. The first ever Soviet-American weekly newspaper was launched on 4 July; it is called We/Mui (equals "we" in

both languages), and its 70,000 copies were sold out in five days. It is a joint venture between Izvestia and New York's Hearst Newspapers. The paper is written and edited in Moscow and Washington and printed in Texas.

Other ventures include McGraw Hill's joint venture with Kniga Publishers of Moscow that now publishes Business Week/USSR in Russian; McGraw Hill also introduced a Russian version of its Aviation & Space Technology in September 1990. Another US publisher, International Data Group (IDG), also launched publications in 1990 such as PC World USSR and Manager, a magazine for Soviet managers. Rodale Press produced a Russian-language version of its New Farmer (Novii Fermer) magazine in February 1991, describing the latest farming techniques in the West. The Soviet partners are Vneshtorgizdat, a publishisng house of the Soviet Ministry of Foreign Trade, and a Soviet state farm. The magazine will discuss how to improve soil conditions, grow and raise livestock without excessive grain and how to use greenhouses to extend the growing season, all of which are aimed at alleviating the Soviet Union's critical farming problems.

Time Warner, now the world's largest media conglomerate, plans to open multi-screen movie theatres in Moscow and Leningrad, equipped with the latest sound and projection technology, which will show both Western- and Eastern-made movies.

The theatres, opening late in 1991, are to be 60 per cent owned by Time Warner, and 40 per cent by GOSKINO (State Committee of the USSR for Cinematography). They are being constructed by joint Soviet and European contractors, and will be managed by Soviet staff trained at "Warner Brothers International Theatres" in the UK. Saatchi and Saatchi, a Western advertising firm, plans to train Soviet economists in the West in the fields of marketing and sales promotion during nine-month training periods. Either the company itself or its clients will provide the training. The hope is that those trainees will someday be clients themselves of the Saatchi company.

Along with products being introduced in the USSR comes advertising. Some major players, such as Young & Rubicam, BBDO, McCann Erickson, Ogilvy & Mather and D'Arcy Masius Benton & Bowles, have opened, or agreed to open, representative offices in Moscow, so as to serve their clients who are operating there as well. Companies like General Electric, ICI, Samsung, Matsushita and Siemens have bought advertising space in Izvestia, and Visa was the first from the West to advertise in Argumenty i Fakty. The surge in advertising is in the hope that there will soon be a Russian free market, but there is no data available to measure the effectiveness of advertising in the Soviet Union. Advertising agencies have one advantage in operating in the East; most agencies are paid in the West by their clients in hard currencies and hence have fewer problems in repatriating their profits.

Sources: Financial Times, 6 Apr. 1990: "Saatchis teach rising Soviet marketing stars how to shine".
ibid., 15 Nov. 1990: "Beware the Eastern promise".
International Herald Tribune, 1 Mar. 1990: "After McDonald's, Western deluge?".
ibid., 21 July 1990: "Business Week Magazine launches Russian version".
The Economist, 16 June 1990: "Advertising in Russia".
TIME, 23 July 1990: "Thundering off the presses".
Business Marketing, Oct. 1990: "Opportunities ripening for US business publishers in Eastern Europe".
Business America, 12 Mar. 1990: "Time Warner Inc. and Soviet film corporation sign joint venture to build theatres in USSR".
New York Times, 11 Feb. 1991: "Rodale's Soviet venture".

Natural resources

Investment in the East European natural resources industry has the advantage that the products are usually marketable in the West, and hence generate hard-currency earnings. The drawbacks include inefficient extraction methods, defective equipment, labour unrest in the East in this sector, and the fact that extraction methods are so environmentally destructive that they have become a major target of Eastern Europe's growing Green Movement. Still, many multinationals have been lured in by the potential rewards.

In chemicals, the New York-based Combustion Engineering, now owned by Asea Brown Boveri Ltd. (ABB), will build and operate a plant in Tobolsk, in Western Siberia. The plant, to be built by 1993 and costing $2 billion, will process chemicals used in consumer products such as automative and medical equipment. Another agreement was reached to build a similar plant in Surgut, in the same region. America's Dow Chemical will build $1 billion-worth of chemical plants in Kazakhstan; Ferruzzi will have another five polypropylene plants in Tomsk worth $2.3 billion; and Western companies, including Ferruzzi and Enichem of Italy, America's Occidental and Japan's Marubeni, agreed early in 1990 to build $5 billion worth of polyethylene, polypropylyne and methanol plants in Tenghiz, Kazakhstan.

In the Soviet oil industry, France's Societé Nationale Elf Aquitaire made a legal precedent in May 1990, when it won the sole right for oil exploration within 13,500 square miles of land in Kazakhstan, north of the Caspian Sea. It will virtually control exploration, investment and production, and will share its earnings with the Soviets. Analysts say that the venture will be expensive due to harsh weather conditions and the area's remoteness. The Soviets, for their part, seem more intent on enhancing the output of existing oilfields in the USSR.

In other deals, Hyundai Wood Industries Co. of the Republic of Korea, a subsidiary of Hyundai that makes furniture, signed a 30-year joint venture with the Soviets for logging and wood processing in Siberia. The new company will be a 50-50 joint venture, with the right to cut 1 million square metres of timber annually.

In July 1990 it was announced that the Soviet Union would sell its diamonds through an international cartel controlled by De Beers of South Africa. The deal, worth $5 billion, alleviated fears that the Soviets might dump their precious metals on to the market to earn desperately needed foreign currencies. De Beers would advance $1 billion to the Soviets, and its Central Selling Office (CSO) in London would accept the equivalent value in uncut diamonds as collateral. It is expected that the money would be invested in the development of Siberia's diamond industry. The deal was reached with a Swiss subsidiary of De Beers, De Beers Centenary AG of Lucerne.

A group of contractors, including Reynolds Metals of the US, Fata, an Italian industrial company, the San Paolo Bank of Italy and a Soviet consortium also agreed in 1989 to build a $200 million aluminium foil plant in Sajanogordsk, in Siberia. Fata will provide 100 per cent financing, and the technology to build and equip the plant, and Reynolds will operte it in return for management fees. About 70 per cent of the 47,000 tonnes of foil produced annually will be destined for export. The plant is expected to employ 650 people.

Otis Elevator, a subsidiary of United Technologies and the world's largest elevator maker, has entered two joint ventures in the Soviet Union that should enable it to capture around 10 per cent of the elevator market there. In July 1990 it agreed to form a new joint company with the

Shchebrinka Lift Plant, located 15 miles from Moscow. Otis will supply the equipment and training for the Soviet workers at the existing plant. The second venture was finalised in February 1991 with Leningrad's Experimental-Mechanical Factory (OMZ) and the Leningrad Construction Committee (LSK), and will construct a 17,000 square metre plant in Leningrad to build Otis-designed elevators as of 1992. The elevators will be destined for office buildings and small hotels.

Sources: Business Week, 11 June 1989: "Fields of dream: The West gets a crack at Soviet oil".
International Herald Tribune, 29 Nov. 1989: "Western firms to build Soviet chemicals plant".
ibid., 30 Dec. 1989: "Hyundai signs deal for Soviet venture".
ibid., 27 July 1990: "Diamond industry hails De Beers' deal".
The Economist, 3 Mar. 1990: "Chemicals in Eastern Europe".
Financial Times, 26 July 1990: "Moscow in $5 billion diamond agreement with De Beers".
ibid., 16 Aug. 1990: "Diamonds are a State's best friend".
ibid., 17 Oct. 1990: "West wraps up Soviet aluminium foil deal".
ibid., 12 Feb. 1991: "Otis Elevator in move to strengthen Soviet venture ties".
Wall Street Journal, 31 July 1990: "Otis, Soviet agency form joint venture".

The new Germany

Unification and foreign investment

The political changes in the former German Democratic Republic were a major catalyst for foreign investment. Within weeks of the historical break in the Berlin Wall on 9 November 1989, German unification climbed to the top of the Federal Republic and Chancellor Helmut Kohl's political agenda. With his help, the Christian Democratic Union (CDU) in the neighbouring Democratic Republic, led by a previous lawyer, Lothar de Maizière, came to power on 18 March 1990 in the first democratic elections in 57 years. That the CDU was in power in both Germanies meant that there would be fewer ideological differences between the parties as they negotiated the terms of unification.

The rush towards unification, although opposed by many both inside and outside Germany, became necessary to stem the flow at the time of 2,500 refugees a day from the Democratic Republic into the Federal Republic, by convincing Easterners that change would come - and soon. Indeed in July of 1990, Kohl had obtained Soviet President Gorbachev's acceptance of a united Germany wholly within NATO, and the last obstacles to unification had been overcome.

On 1 July 1990, German Economic and Monetary Union (GEMU) occurred, whereby Democratic Republic citizens between the ages of 15 and 60 were able to convert a maximum of 4,000 of their old Ostdeutschmarks for West German marks at par, as this would become the new currency in the East. The same offer was extended to citizens under 15 and over 60 years old for 2,000 and 6,000 marks respectively; accounts in excess of these limits were exchanged at a rate of 2 to 1. The initial fear of the West German Bundesbank that Democratic Republic citizens would go on a spending spree and cause inflation did not happen. But for foreign businesses, it meant that hard currency could now be earned in the Democratic Republic. The final step towards unity took

place with the conclusion of a unification treaty under the terms of which the former German Democratic Republic ceased to exist upon its entry into force on 3 October 1990. This also brought eastern Germany into the EC, with full access to its markets but likewise complete vulnerability to its industrial competition. It was hoped that with political and economic integration with the West, the former GDR would attract more foreign investment. General elections followed on 2 December 1990.

Certainly the market potential exists. Recent statistics compiled by the Deutsche Bank put car ownership as a percentage of households at 52 per cent in the eastern part of Germany, compared with 97 per cent in the western part; the same figures for colour televisions were 52 to 94 per cent, and for telephones a mere 9 to 98 per cent. The vast majority of investment so far has come from the Federal Republic; one estimate in early 1991 put the Federal Republic's contribution at 90 per cent of all joint ventures in eastern Germany (the remaining 10 per cent were formed by 78 non-German businesses); or, in real terms, another estimate stated that by early March 1990, 140 West German firms had signed 1,400 joint ventures in eastern Germany. Apart from the obvious similarities in language and culture with the former GDR, the Federal Republic had always maintained more contacts with East European businesses generally, and was the main Western trading partner for nearly all Eastern bloc countries; its Ostauschuss, or "Eastern Committee", had for three decades represented the joint interests of businesses of the Federal Republic in communist countries.

The problems currently encountered when investing in eastern Germany, similar to the rest of Eastern Europe, are overstaffed and inefficient companies, and labour productivity at about 40 per cent of the Western level. Estimates of the cost of reunification, in other words achieving the same standard of living in the East as in the West, range from 1 to 2 trillion marks, and lasting ten to 15 years. This is expected to be brought about by a combination of industrial and public sector spending.

In March 1990 the then communist Government of the GDR established the Treuhandanstalt, or trust company, to preserve the "socialist structures" - or jobs - in the country. In June the new Government changed the mandate to transferring state assets to the private sector with minimum social damage - not an easy task for its first President, Dr. Detlev Rohwedder, former head of Hoesch AG of the Federal Republic (later murdered by terrorists). He and his successor are responsible for privatising Eastern Germany's 8,000 state-owned firms, which once constituted the 220 so-called Kombinate, or state-owned monopolies, which accounted for 85 per cent of the Democratic Republic's economy. The Treuhand has come under criticism, however, for being too bureaucratic, and indeed for possibly discouraging interested bidders, such as Lufthansa and British Airways, from acquiring the collapsing East German airline, Interflug, and saving some of its 2,900 jobs.

Perhaps another major hurdle to foreign investment is the question of property ownership. There are currently over 1 million claims by Germans in both the East and the West on property expropriated under communism, and a further 9,000 claims on companies. Hence potential investors are afraid of possible legal battles that could drag on for years, despite recent government attempts to assuage these fears with laws designed to protect investors from future claims.

Sources: The Economist, 18 Nov. 1989: "The Germany in the mirror".
ibid., 31 Mar. 1990: "West German firms rush into East Germany".
ibid., 20 Oct. 1990: "Restructuring Germany".
ibid., 26 Jan. 1991: "Investment in Eastern Germany".
ibid., 16 Feb. 1991: "Interflug - Unwanted, unloved".

International Herald Tribune, 2 May 1990: "Business chooses different roads to East".
ibid., 5 June 1990: "West German firms dash East".
TIME, 23 Apr. 1990: "It's a buyer's market".
ibid., 2 July 1990: "New kids on the bloc".
Business Week, 12 Feb. 1990: "Dealmakers pour through the Brandenburg Gate".
ibid., 2 Apr. 1990: "Going for broke: The daring plan to rebuild the East".
Le Monde Diplomatique, Aug. 1990: "Conquérante Allemagne".
Fortune, 3 Dec. 1990: "The new Germany's glowing future".
New York Times, 20 Sep. 1990: "East Germany's economy far sicker than expected".
Financial Times, 7 Feb. 1991: "Bonn to boost investment in East".
For a reproduction of the Economic-Monetary and Social Treaty between the two Germanies of 1 July 1990, see Europa-Archiv-Zeitschrift für Internationale Politik (25.7.90).

Unification and East German labour

The impact of unification on general employment levels in East Germany can only be defined as grim. Statistics from the Ministry of Labour speak for themselves; the number of unemployed has risen from 35,000 at the end of March 1990 to 142,000 at the time of monetary union (1 July), to 642,200 at year end and 787,000 by 28 February 1991. This last figure represents 8.9 per cent of the estimated workforce of 8.8 million in East Germany, a considerable increase from the official zero unemployment maintained under 40 years of communism.

Added to this is the steady increase in the number of short-time workers (Kurzarbeiter) in East Germany; that is to say, the Government was paying their companies to retain them at 65 per cent of their regular wages to prevent them from becoming unemployed. The Labour Ministry defines short-time workers as "employees who work less than before or not at all, but are nevertheless not dismissed". The number of such workers rose from 229,975 in June 1990 to 1.9 million at the end of February 1991, and at the end of 1990, only 150,000 were involved in retraining. The job market is expected to improve towards the end of 1991 with new foreign investment and businesses in the East.

As a result of a less active workforce and increased Western competition, industrial production in East Germany fell by a half in 1990; the decline is expected to continue until mid-1991 and to rise thereafter, according to the IDW Economic Institute in Cologne.

The Wartburg, for example, was the Democratic Republic's most sought-after car, with a 16-year waiting list. Now the car's sales are down to nothing in the East, where people prefer to buy Volkswagens or Opels. The same can be said for a wide range of products previously produced in the GDR.

The availability of cheap and skilled labour in Eastern Germany has probably hurt Western trade union members indirectly. It is worth noting that wages in West Germany are among the highest in Western Europe, as the table below indicates.

The big gap in German wages

	Factory hourly wage ($)	Hours per week	Holidays per year
West Germany	21.00	38	30
Japan	17.50	42	11
Italy	16.90	40	31
United States	16.40	40	12
France	14.40	39	25
Britain	14.20	39	27
East Germany	5.40	44	21

Sources: DATA, German Institute for Economics; Business Week, 21 May 1990.

When the Federal Republic's most powerful trade union, IG Metall (with 2.6 million members) went on strike for a day in May 1990 it sought an 8.5 per cent wage increase and a 35-hour work week for at least five years. In the end, it settled for a 6 per cent wage hike, and IG Medien, the printers' union also settled for a 6.8 per cent raise and a 38 1/2-hour work week. One Dresdner Bank economist explained that "a high number of potential workers in East Germany will certainly pressure West German unions to limit their requirements". Franz Steinkühler, chief of IG Metall, has attempted to increase wages and benefits in the East, but the differences are too large to eliminate quickly; he does not predict wage parity for metalworkers in the East and West to occur before 1995 at the earliest. Also, labour leaders in the West are hesitant to deal with eastern unions that have commonly been associated with communist rule. Hence for the time being, at least, unions in Germany do not enjoy quite the same level of density as before unification. Perhaps the negative side of this is that claims have arisen in East Berlin that employers are taking advantage of this to dismiss certain unprotected categories of workers.

Sources: International Herald Tribune, 6 June 1990: "Unemployment soars 50 per cent in East Germany".
ibid., 13 July 1990: "East Germany pays to retain workers".
Business Week, 21 May 1990: "What's haunting West German unions: East Germans".
Financial Times, 3 Aug. 1990: "East German unemployment soars".
ibid., 26 Mar. 1991: "From middle ages to modern era".
New York Times, 13 Feb. 1991: "Germans lower expectations on East's economic recovery".
Der Spiegel, 18 June 1990: Interview with IG Metall Chief Franz Steinkühler.
ILO Social and Labour Bulletin, 3/90, pp. 234-236.

Financial services

Banks in the Federal Republic were among the first in their country to see business opportunities in the East. They played a pivotal role in greeting new refugees from the Democratic Republic after the Berlin Wall came down in November 1989. By keeping their branches along the borders with the Democratic Republic open on weekends they were able to distribute the DM100

($54.30) to newcomers that was provided by the Bonn Government. Commerzbank was offering refugees free checking accounts and information packets about Western banking services and markets, in the hopes of attracting new retail customers.

By early 1990, banks were planning new operations in the Democratic Republic. Such plans were limited to German banks. American banks, analysts said, were hesitant after losing so many loans in Latin America. Deutsche Bank AG, West Germany's largest private bank, announced its initial plans on 30 January to open six offices in the Democratic Republic cities of Rostock, Magdeburg, Erfurt, Leipzig, Dresden and Karl-Marx-Stadt. Since it was not yet allowed to carry out Western banking activities there under Democratic Republic law, the offices were staffed by three to five specialists, each of whom could give advice on banking to Easterners, and on business opportunities in the East for Western clients. By June, it was decided that these would become full-fledged branches of the bank.

Also in June, it became apparent that Deutsche Bank had the most ambitious plans in the Democratic Republic. It paid DM148.5 million ($88.6 million) for a 49 per cent stake in a joint venture with the Democratic Republic state-owned Deutsche Kreditbank. The agreement, which took effect on 1 July, made Deutsche the largest single shareholder in the venture. Georg Krupp, head of Deutsche Bank's operations in the Democratic Republic, said that his bank hoped to acquire 100 per cent of the venture someday. The venture consists of about 150 bank branches in the East, and employs 8,500 Kreditbank employees and 800 more contributed by Deutsche.

Dresdner Bank, the Federal Republic's second largest bank, also announced a joint venture with the Deutsche Kreditbank in the Democratic Republic, to be called Dresdner Bank Kreditbank AG, which began operations on 1 July. Dresdner is the largest shareholder, with 49 per cent, Kreditbank has 47 per cent, and 4 per cent is shared by Carl Zeiss Jena, the optical company, VEM-Antriebstechnik, an engineering company, and Radelberger Exportbier brewers. The joint venture would have 72 branches, and Dresdner would provide a further 35 of its own; it will employ 3,500 from the Kreditbank, and 800 Dresdner Bank employees initially. The reason for the 1 July opening is that full banking operations became possible that day as part of the monetary union treaty. The third largest bank, Commerzbank, now operates about 50 branches and several mobile outlets in Eastern Germany.

The most controversial takeover in the financial sector was done by Allianz, Europe's largest insurer. It took over 51 per cent of the Democratic Republic's state monopoly in insurance, the Staatliche Versicherung der DDR, at a cost of DM271 million in June 1990. Analysts say that a need for life insurance and pension plans will develop in the East with reunification, and for Allianz the deal is a significant expansion of its market. It has exclusive rights to the former monopoly's list of customers, and has absorbed its estimated 13,000 employees, 35,000 part-timers, as well as 30 million policies. Allianz sent 1,300 of its own staff members eastwards to teach Easterners the modern insurance business.

Originally Allianz had bid for 49 per cent of the monopoly, provoking criticism from both politicians and competitors. The President of the Federal German Cartel Office in Berlin, Wolfgang Kartte, explained: "We must take care that East German state monopolies are not simply transformed into private industrial monopolies". Despite such widespread fears of monopolisation, however, Allianz had only captured 25 per cent of new motor insurance business in the East, and 20 per of new life insurance business by March 1991. Furthermore, in its first six months of operations in the East, Allianz lost DM100 million, and expected this to rise in the short term. This was due, on

the one hand, to a 75 per cent rise in road accidents there with speedy Western cars and worn-down Eastern ones sharing the same poorly maintained roads, and also because of considerably lower insurance rates in the East. There are currently over 300 insurance firms operating in Eastern Germany. The Allianz bid did prompt officials in both Germanies to try to set up a regulatory board to ensure free competition before other such deals were reached. The company was able to raise its stake to 51 per cent because the initial law in the Democratic Republic limiting foreign ownership in joint ventures to 49 per cent had been abolished. Allianz's President, Wolfgang Schieren, predicted a start-up period of five years and investment of DM2 billion to develop his company in the former Democratic Republic.

Sources: Financial Times, 27 June 1990: "Dresdner in East German venture".
ibid., 28 June 1990: "Allianz wins East German state insurer".
International Herald Tribune, 17 Nov. 1989: "Bonn's banks are on alert for Eastern prospects".
ibid., 30 Jan. 1990: "Deutsche Bank turns to East".
ibid., 30 Mar. 1990: "Allianz's move into East Germany causes anger".
ibid., 2 June 1990: "Suez's East German move could be too little, too late".
ibid., 27 June 1990: "Dresdner to open 72 East offices".
Information Week, 9 July 1990: "Meeting of the marks".
The Economist, 22 March 1991: "Financial services in Eastern Germany".

Automobiles

The automobile industry in the Democratic Republic, which produced Trabant and Wartburg cars, has fallen largely into the hands of West German car makers. Volkswagen, West Germany's largest car maker, was the first to announce its investment plans in the Democratic Republic on 21 January 1990. The company signed a joint venture agreement worth DM5 billion ($2.9 billion) with the Democratic Republic's IFA-Kombinat Personenkraftwagen based in Karl-Marx-Stadt. It plans to produce 250,000 cars a year, including 100,000 of its VW Polos, and more than East Germany's total present car production level. Production began in May of 1990 in Mosel, near Zwickau, at the same plant where the renowned two-cylinder Trabant was built. Volkswagen also plans to build a new plant, to be in operation as of 1994 and with an output level of 1,000 cars a day by 1996.

The modernisation of the IFA plant will have to be done quickly, because wage differentials between the two Germanies will not last for long. Carl H. Hahn, Volkswagen's Chairman, believed that "in the initial phase there will be a wage differential, but the more these two countries become reunited, the more this differential will be substantially reduced". Hence, he said that "in our medium term, we don't consider East Germany as a low-wage country" (Business Week, 2 April 1990). Volkswagen's headquarters in Wolfsburg are only 300 km from both Zwickau and Eisenach, where East German cars are made. The company has also had hundreds of applications from potential car dealers in the East.

The next major deal was announced on 11 March by Adam Opel AG, General Motors' main European subsidiary. It agreed to form a joint venture with Automobilwerk Eisenach (AWE), the maker of Wartburg cars; the new venture is called Opel-AWE. Under this agreement, AWE is assembling 10,000 Opel Vectra cars annually with kits imported from the West. The new line in Eisenach employs some 200 AWE workers, who are being trained by Opel. Apparently,

however, there was some discontent among Eisenach's Wartburg employees concerning the recruitment of these trainees. Of the 6,800 workers, only 600 applied for a position - most were not used to the hiring process, which included aptitude testing, essays and oral presentations. Nevertheless, Opel was pleased with the initial car output and therefore confirmed its plans in December 1990 to invest DM1 billion to build a new car plant in Eisenach. It is expected to produce 150,000 Vectra and Corsa cars annually as of 1992 and to employ 2,000 people. About 10 per cent of the investment is to be spent on environmental protection. Apparently the decision was costlier than to reopen the GM plant in Antwerp, Belgium, but was made in spite of this to increase the company's presence in Eastern Europe. In other deals, Daimler Benz has launched a joint venture with IFA-Kombinat Nutzfahrzeuge, the East German concern for commercial vehicles based in Ludwigsfelde. This is the first deal with the truck industry in East Germany. Mercedes Benz's President, Weiner Niefer, said that his company would initially help the IFA develop and market vans and small trucks. Bayerische Motoren Werke (BMW) has so far withheld investment, in the belief that its line of products is still out of reach to too many East German citizens.

Sources: Financial Times, 23 Jan. 1990: "VW has DM5 billion East German plan".
ibid., 13 Mar. 1990: "Leading car makers plan move into East Germany".
ibid., 14 Dec. 1990: "Opel reveals details of Eisenach car plant".
International Herald Tribune, 12 Mar. 1990: "Opel plans East German operation".
ibid., 26 May 1990: "Opel sets autumn start in East Germany".
The Economist, 31 Mar. 1990: "West German firms rush into East Germany".
Der Spiegel, 11 Feb. 1991: "In Eisenach wäckst das Misstrauen gegenüber den Investoren aus dem Westen".
Wall Street Journal, 11 Dec. 1990: "GM Opel unit to built plant in Eastern Germany".

Media

The media has moved eastwards in all its forms, from newspapers and magazines to television and radio. Television commercials now advertise Western coffees and environmentally friendly cars, and earned the state television some DM40 million ($24 million) in 1990. This can be used to buy Western films and attract new viewers. The following table, entitled Who is with whom in the East German newspaper market, gives some indication of the major Western players in newspaper ventures in East Germany.

Gruner and Jahr, a subsidiary of Bertelsmann, is currently selling 80,000 copies of Stern magazine and 180,000 copies of the women's Brigitte magazine in East Germany. Its marketing director explained that "the main question we face is whether to transport existing West German magazines to the East or buy up East German magazines and push up their circulation" (International Herald Tribune, 24 May 1990). Bertelsmann also has 400,000 East German members of its book clubs.

Mr. Robert Maxwell, owner of Pergamon Press, and Gruner and Jahr, has paid DM400 million for a 50-50 partnership in the East German Berliner Verlag. The company, with 100 employees, is the publisher of Berliner Zeitung, a newspaper whose sales dropped by 25 per cent in 1989 alone. Under its new ownership, the newspaper intends to modernise its printing process. Mr. Maxwell has promised the journalists editorial independence.

Bild Zeitung, published by Axel Springer, had a daily circulation in East Germany of 1 million as of August 1990. Apparently the Sunday edition of the Frankfurter Allgemeine Zeitung, with its more than 100 pages, does not fit into most Eastern mailboxes. All in all, some 300 dailies and weeklies from West Germany are circulated in East Germany.

Not all is positive regarding Western investment in East Germany. Since four companies, Burda, Bauer, Springer and Gruner and Jahr, have essentially cornered the market, with contracts between them with some 500 agents, there is a fear of monopolisation. Complaints have come from the Journalists' Union that "the dictatorship of the party must not be replaced by the rule of West German media grants" (International Herald Tribune, 2 May 1990). The International Journalists' Federation has expressed similar concerns. The West Berlin Cartel Office indicated that the present situation in East Germany would not be allowed under anti-monopoly laws in West Germany.

The East German print media also fears having to lay off much of its staff due to widespread competition from the West; nine months after the Berlin Wall was opened, the Democratic Republic's national newspapers had a 54.7 per cent decrease in circulation. The two main Communist dailies, Neues Deutschland and Junge Welt had lost two-thirds and three-quarters of their circulation respectively. Most West German publishers say that they intend to keep existing staff, although their only experience is in producing government propaganda sheets. Media advertisers will be imported from the West, they say.

In general, printing and publishing firms are seeking to control a relatively untapped market where consumers are longing for media products that were hitherto unavailable to them. However, they are not competing with each other. Instead their investments are complementary in the sense that those which primarily own dailies, weeklies or regional, as opposed to national, newspapers or magazines in the West tend to go into the same line of business in the East.

In addition, those companies which have previously not been publishing in the German-language market will, through a single joint venture with an existing company in either East or West Germany, now have access to a market of over 80 million people. For example, the News of the World's magazine Sunday will now be printed in Germany as a result of a joint venture between Rupert Murdoch's News International and Burda. Production will be transferred to a site on the southern outskirts of Berlin once construction of a new plant, Burda News Drück, has been completed.

Sources: Financial Times, 13 Sep. 1990: "Bertelsmann plans investment in E. Germany".
ibid., 30 Oct. 1990: "Maxwell enters Berlin from the East".
ibid., 2 Apr. 1991: "East Germany braced for Western-style news".
International Herald Tribune, 2 May 1990: "Media giants rush to satisfy East Germany's news hunger".
ibid., 24 May 1990: "Media moguls looking East".
ibid., 5 Aug. 1990: "Free press lifts East German eyebrows".
Der Spiegel, 12 Mar. 1990: "Westdeutsche Pressekonzerne sind dabei, die DDR unter sich aufzuteilen".
ibid., 2 Apr. 1990: "Verlage - Wie die Fliege im Netz".

Who is with whom in the East German newspaper market

Bauer-Verlag	Springer	Gruner and Jahr	FAZ	WAZ	Robert Maxwell
Junge Welt[1] (Auflage 1.6 million)[5]	Deutsches (200 000)	Sächsisch Zeitg.[1] (570 000)	Neue Zeit[1] (152 000)	Thüring, (135 000)	Berliner Zeitung[1] (438 000)
Märkische Oderzeitung[1] (216 000)	Der Morgen[1] (112 000)	Die Wirtschaft[2,3] (25 000)	Der Demokrat[1] (25 000)	Osthüring. Nachricht.[4] (240 000)	BZ in Abend[1] (204 000)
Nordkurier[1] (210 000)	Nordd. Zeitung[1] (30 000)	Berliner Allg.[2] (80 000)	Der Neue Weg[1] (45 000)	Leipziger Volkszeitg.[4] (487 000)	horizont[1,3] (130 000)
Nordd. Neueste Nachr.[1] (50 000)	Lib.-Demokr. Zeitung[1] (70 000)	Brandenburg. Neueste N.[3] (25 000)	Thüringer Tageblatt[2] (35 000)		Wochenpost[1,3] (1.22 million)
Schweriner Volkszeitung[1] (207 000)	Sächsisches Tageblatt.[1] (80 000)	Nordd. Neueste N.[2] (50 000)			
Brandenburgische Neueste N.[1] (25 000)		Sächsische Neueste N.[2] (50 000)			
Magdeburger Zeitung[2,3] (16 000)					

1 Joint venture. 2 Co-operation. 3 Weekly newspaper. 4 In discussion. 5 Circulation as of Feb. 1990.

Source: Neue Zürcher Zeitung, 9-10 June 1990; "Run auf den Ostdeutschen Medienmarkt".

Consumer goods

With an increased standard of living in East Germany, the demand for consumer products is on the rise. Among the more modern ventures was an agreement by Reiner Pilz, a Bavarian-based high-tech audio company, with the Democratic Republic's VEB-Kombinat Robotron worth $140 million; they are planning a factory to build some 24 million compact discs a year, beginning in 1992. NCR GmbH, the West German subsidiary of NCR, also has a venture with Robotron's import-export division to market IBM products, in particular cash registers and personal computers, to local companies, as well as to service them and provide training for their users. One report, however, claimed that Robotron was laying off hundreds of workers so as to improve its negotiating position with Western companies (Business Week, 2 April 1990). IBM Deutschland GmbH has agreements with 11 computer centres in East Germany (called Datenverarbeitungszentrum, or DVZ), to develop software, and Digital is planning offices in East Berlin, Dresden and Leipzig.

Philip Morris has acquired VEB Kombinat Tabak, the state-owned tobacco company, and plans to produce 10 million cigarettes a year in Dresden; Coca-Cola plans to have ten bottling plants in East Germany producing Coke, Diet Coke, Fanta and Sprite. The company is spending $30 million in Weimar to construct the city's first market-driven factory with modern assembly lines, computers and vending machines. McDonald's opened an outlet in Plauen in December 1990, employing about 60 people, with six to ten more outlets planned in East Germany by the end of 1991. Among West German retailers, Deutsche Spar, one of the country's biggest grocery chains, is planning about 30 supermarkets in the East, and Morten is planning a hypermarket near to Jena.

Sources: International Herald Tribune, 2 May 1990: "US firms respond to call for foreign investors in East".
ibid., 31 July 1990: "New use for Berlin Wall: Foiling a Big Mac attack".
Fortune, 13 Aug. 1990: "How Coke is invading East Germany".
International Management, Dec. 1990: "Robotron fights for its life".
New York Times, 25 Nov. 1990: "Can Eastern company survive in a Western market?"

Services

Among the services in most need of foreign investment in East Germany is the telecommunications network. There are currently only ten phones per 100 people, and the demand for service far exceeds capacity. Some major Western firms have announced investment plans. France's Alcatel, formed in 1987 after a merger between the Compagnie Générale d'Electricité and the US ITT Corporation, was the first major investor in communications in a deal it signed with VEB Kombinat Nachrichtenelektronik of East Berlin in March 1990. The joint venture, to be owned 50-50, will produce roughly 900,000 high-tech digital telephone lines a year as of 1991 for East German post office, Deutsche Post. The new plant will be on the Kombinats premises in Arnstadt, and will provide training for its workers.

Other communications companies have followed. Siemens AG of Munich, an electrical engineering company with world-wide employment figures reaching 365,000, has some 30 projects in Eastern Germany in communications, data processing, medical, energy and transport technology, factory automation, and environmental protection. It plans to invest DM1 billion ($595 million) in the East in the next few years, and to employ between 25,000 and 30,000 people there. More recently a West German engineering group, Mannesmann Mobilfunk

GmbH, was nominated to develop a mobile telephone network for East Germany, which it was already doing in the West.

The most ambitious and costly effort to revamp the East German telephone system has been undertaken by Bundespost Telekom of West Germany. It plans to install about 7.3 million new subscriber lines, requiring some 10 million miles of fibre-optic cable, and to install about 68,000 public telephone booths. The plan should be completed in 1997 at a cost of $36 billion, by which time the same telephone standards should be achieved in the East as in the West. It will also make Bundespost Telekom the largest employer in the East, with 42,000 telecommunications workers in the region.

The East German electricity sector is also in dire straits. VEBA AG, an electrical producer, said in 1990 that it planned to invest DM8 billion over the next five years to allow for expansion into East Germany. Its Director, Klaus Piltz, said that restructuring the antiquated electricity network in the East would cost DM60 billion. A move early in July 1990 by VEBA, RWE AG and VIAG AG, West Germany's three largest electricity producers, to take control of the former Democratic Republic's electricity network was initially blocked by the West German Cartel Office, but later approved under revised terms allowing for greater competition. Hence the three firms signed the agreement with the Treuehand and the East German Government on 22 August, and will own 75 per cent of the East German electricity concerns. The companies will invest DM1.9 billion to modernise and clean up the East German electrical sector, eventually in the hopes of achieving West German environmental standards. They agreed to keep job cuts at a "socially acceptable" level.

In other services, Federal Express has an office in West Berlin to serve both sides of the city, and is considering opening elsewhere in East Germany. Japan's Nissei Opto Co. and MEI Japan Inc. signed an agreement with Robotron to produce roughly 100,000 of Nissei's G-3-type TR100 facsimile machines a year as of 1991, thereby creating some 350 jobs. The products are intended for sale in East Germany and for export to Eastern Europe. A hotel group in West Germany called Steigenberger plans to build about 40 hotels in the East, and several thousand Western applications have been received in East Berlin to build, lease or buy restaurants and bars, or to set up travel agencies in the East.

Sources: International Herald Tribune, 10 Mar. 1990: "Alcatel in phone venture".
ibid., 2 May 1990: "US firms respond to the call for foreign investors in the East".
ibid., 13 July 1990: "VEBA sets its sights on East" and "East German venture set by Japanese".
ibid., 31 July 1990: "East German Utility Plan".
ibid., 31 July 1990: "Mannesmann moves East".
ibid., 3 Aug. 1990: "Germans dispute hotel deal".
Financial Times, 28 June 1990: "East German investment by Siemens".
ibid., 30 July 1990: "West German power companies agree takeover terms with East Germany".
ibid., 23 August. 1990: "E. German power industry sale given green light".
ibid., 6 Dec. 1990: "Veba to invest DM8 bn. in the East".
The Economist, 25 Aug. 1990: "Innocents abroad".
New York Times, 10 Dec. 1990: "German phone system is taxed by unification".

Construction

Deals in this sector have been comparatively small, but it is in another field where Eastern firms need a lot of restructuring. Asea Brown Boveri (ABB), a joint Swedish-Swiss electrical engineering company (the largest in Europe) said that it hoped to reach annual sales of $1.2 billion in East Germany by the mid-nineties, on top of the estimated $1.5 billion for the rest of Eastern Europe - hence, together, 11 per cent of total sales. It plans joint ventures with some 20 companies in East Germany, with a total workforce of 11,000. It is jointly setting up a power plant in Berlin with East Germany's Bergmann-Borsig that will employ 4,500 people. In early 1991 ABB announced its decision to take over Automatisierungsanlagen Cottbus, a leading East German electrical company which employes 2,000 people. ABB will provide training for managers and apprentices and intends to invest DM40 million by 1995, but also said it would reduce staff by 500.

In other deals, France's Lafarge Coppée SA bought out VEB Karsdorf, making the French construction company the largest cement producer in Europe. It injected an initial DM50 million ($29.4 million) in the Eastern company to pay for the salaries in the coming months. Robert Bosch of Stuttgart and FER Fahrizeugelektrik of Eisenach formed a joint venture in October 1990 to produce headlights, wiper installations and wiper motors at a new plant in Eisenach, that should be operational as of 1992 with 2,500 employees. The old FER plant in Brotterode will become part of the new company and continue to produce headlights.

Sources: International Herald Tribune, 17 July 1990: "French firm takes over East German cement unit".
Le Monde, 17 July 1990: "Le groupe francais Lafarge achète la principale cimenterie est-allemande".
Financial Times, 10 July 1990: "ABB sets $1.2 billion sales target for East German enterprises".
ibid., 14 Feb. 1991: "ABB and Siemens to take over German companies".
Handelsblatt, 2 Oct. 1990: "Bosch and FER Fahrizeugelektrik form joint venture".

Hungary

"Hungary's early moves towards capitalist reforms made it one of the first Eastern countries to attract Western investment. The Boston Consulting Group estimated that Hungary may in fact have been the biggest recipient of Western investment since June 1989, ahead of even East Germany. This is due partly to less bureaucracy, as many joint ventures no longer require government approval, and tax exemptions for investments in production. Available statistics in early 1991 indicated that over 5,000 registered companies in Hungary had foreign shareholders, but in reality most were small shops or importing and exporting businesses. In the year ending in August 1990, for example, foreign companies invested $600 million in Hungary but took out $500 million in profits. Nevertheless, Hungarian statistics suggest that 25 per cent of the country's exports now come from foreign joint ventures.

Electronics

On 15 November 1989 General Electric of the United States took over 50 per cent of Tungsram for $150 million, making it the largest investment in

Eastern Europe since the Second World War to that day. Tungsram is Hungary's formerly state-owned lighting manufacturer. General Electric officials said the move was made to capture a larger share of the European market. Tungsram controlled 7 per cent of the West European light bulb market, and General Electric had only 2 per cent, hence the takeover boosted its share to 9 per cent (see figure below). GE is currently second only to Philips in the global lighting market.

The big bid for market share

	Percentage of Western Europe's light bulb market	
	1988	1990
Philips	36	36
Osram (Siemens)	33	33
Sylvania	10	10
Thorn EMI	9	-
Tungsram	7	-
Other	3	3
General Electric	2	18*

* After acquiring Tungsram and the European light bulb operations of Thorn EMI.

Source: New York Times, 16 Dec. 1990.

Europe's total lighting business is valued at $2.5 billion. Tungsram has annual sales of $300 million, of which 70 per cent is destined for export to Western Europe. This meant not only that there were hard currency earnings to be made, but also that the products already met Western standards - indeed even Mercedes Benz was a Tungsram client. George F. Varga is a Hungarian-born executive at GE, now President of Tungsram. He said the new subsidiary can produce light bulbs for 30 per cent less than any Westerners because its employees earn only one-tenth of their United States counterparts, or $3,000 versus $30,000. Furthermore, at Tungsram labour only accounts for one-quarter of the cost of making a light bulb, compared with one-half in the United States.

This has become a problem though for both Tungsram workers, who are demanding wage increases of up to 45 per cent (inflation in Hungary is currently 37 per cent), and for GE, which is trying to cut costs. When GE took over, the staff at Tungsram's 12 factories (one is in Vienna) totalled 18,000, the same as for the whole of GE, but their output was valued at $300 million and $2 billion respectively. One example of the labour intensiveness at Tungsram was that 150 staff were needed to stuff 17,000 pay envelopes with

cash every month since cheque accounts barely exist in Hungary. Also, during communism Tungsram had up to 11 layers of management in some areas, with one white-collar worker for each two-and-a-half blue-collar workers, compared with a ratio of one to seven at GE. Mr. Varga had already reduced employment to 15,000 by the end of 1990, and is aiming for 13,000 in 1991. This is done mostly through early retirement and a hiring freeze. However, GE claims that those who remain will earn more and has introduced a merit raise system in which workers can receive raises from zero to 40 per cent, thereby hoping to stress the importance of individual performance. GE is providing management training for 32 Tungsram executives in Hungary, and has sent others to the United States for training.

GE is also grappling with huge inefficiencies in operations, and expects to invest a total of $60 million in 1990 and 1991 to modernise and expand production. The new management found unpaid bills, bulbs reported as sold that were still stocked in warehouses, and some boxes filled with rocks so that shippers could collect higher bonuses for heavier loads.

General Electric is installing new equipment to enable Tungsram to produce compact fluorescent bulbs and high-powered sodium bulbs for street lamps. It is spending $10 million to improve Tungsram's production of automobile headlights, one of its few high-tech successes that is now trying to meet tougher quality standards set by Western auto-makers. GE engineers have also reduced from 70 per cent to 30 per cent the amount of potential production that was lost at a halogen bulb factory because of breakage, defects or machine breakdowns, by adjusting bulb thickness and glass-making temperatures. The figure for such losses in the West is 20 per cent. GE also installed quality control equipment to test bulbs as they are made. Tungsram often waited a week before testing, which meant unpacking and repacking bulbs and sometimes discovering that the entire week's production was defective.

Although Hungary explicitly conceded to GE the right to repatriate its profits, GE has indicated its intention of reinvesting nearly all its profits in Tungsram for several years. The GE-Tungsram joint venture is among the more visible Western investments in Hungary, and is being closely watched by other American multinationals that are considering eastward expansion. Digital Equipment Corporation announced a joint venture in Hungary in February 1990, to be called Digital Equipment (Hungary) Ltd. and 51 per cent owned by Digital. The venture, also owned by the Central Research Institute for Physics of the Hungarian Academy of Sciences and by Szamilk, two Hungarian state-owned engineering companies, will sell and service Digital computers. US West has a $10 million joint venture with Magyar Posta, the Hungarian postal, telegraph and telecommunications service, to install cellular telephones in Budapest that will be operational in 1991. Contel will begin a competing service in Budapest by early 1991 in a $35 million venture with private Hungarian partners.

Sources: The Economist, 16 Feb. 1991: "Investment in Eastern Europe".
Die Presse, 9 July 1990: "Not every joint venture benefits Hungary".
Financial Times, 16 Nov. 1989: "GE pays $150 million for 50 per cent stake in Hungarian group".
ibid., 20 Nov. 1989: "General Electric plans attack from the East".
ibid., 12 Feb. 1990: "Digital sets Hungarian venture to sell computers".
Business Week, 30 July 1990: "GE carves out a road East".
New York Times, 16 Dec. 1990: "GE's new light bulb company".
Fortune, 22 Oct. 1990: "GE in Hungary: Let there be light".
Wall Street Journal, 5 Dec. 1989: "US West, Hungary set joint venture".

Media

Most of the Western activity in the Hungarian media has been in the form of newspaper takeovers. In April 1990 Axel Springer Verlag of West Germany took control of four Hungarian newspapers, with a combined circulation of 187,000, reportedly without paying for them due to the absence of Hungarian legislation concerning the disposal of state-owned assets. Springer will be responsible for all the production costs and rent in this venture, and has indicated a preparedness to invest a further DM40 million in Hungary in the coming two to three years. Maxwell Communications also has a 40 per cent stake in both Esti Hirlap and Magyar Hirlap newspapers in Hungary. Murdoch's Newscorp's PLC has a 50 per cent stake in Hungary's popular Reform magazine and the daily Mai Nap. Italy's Finnivest has deals in Hungary, Poland and Czechoslovakia to provide programmes for local TV stations in exchange for air time for Western advertisers.

Bertelsmann AG of Germany, Europe's largest media company, bought part of Nepszabadsag, Hungary's largest daily newspaper with a circulation of 350,000 to 400,000. The paper, which was once a mouthpiece for Hungary's former Communist Party, cost Bertelsmann 140 million forints ($2.14 million), while private investors, including the editorial staff and some banks, contributed a further 200 million forints to start up the Nepszabadsag Joint Stock Co. A Bertelsmann spokesman said that his company would "allow the journalists and editorial offices to operate independently".

Sources: International Herald Tribune, 4 Apr. 1990: "Springer gains control of four Hungarian papers".
ibid., 24 May 1990: "Media moguls looking East".
ibid., 1 Aug. 1990: "Bertelsmann takes stake in Hungarian daily paper".

Automobiles

General Motors (GM) has the most ambitious plans for Hungary in this sector, having signed a joint venture agreement in January 1990 with Raba, Hungary's state-owned maker of trucks, engines, tractors and axles. The President of GM Europe, Robert Eaton, said that Hungary's market-oriented policies were a factor in the decision. The venture consists of a plant to be built in Szentgotthard, a mile from the Austrian border, which will produce some 30,000 Opels and 200,000 engines a year as of 1992. The total cost will be $150 million, of which GM will contribute $100 million. The venture is expected to create 880 jobs, with GM supplying equipment and technology.

Suzuki Motors of Japan also has a $132 million venture to build 15,000 Suzuki Swift cars a year in Hungary as of 1992, with 100,000 cars a year as its ultimate goal. Half the parts will be shipped from Japan, and the other half will be produced locally at the plant in Esztergom, 25 miles north of Budapest. Suzuki hereby became the first Japanese car maker to gain a foothold in Eastern Europe. In February 1991 Fiat of Italy also formed a joint venture with the Hungarian car company Autoker to import, distribute and service Fiat vehicles in Hungary.

Consumer goods

Several minor but interesting ventures have occurred here. A Chicago-based bicycle-maker, Schwinn, paid $1 million for control of Csepel, Hungary's bicycle monopoly that made heavier brands. Schwinn has developed new sporty models with newly installed paints and welding equipment. The

company has doubled the salaries of Csepel workers to $210 per month, and lengthened their workday to a full eight hours.

Mister Minit is a shoe-repair and key-cutting chain of stores, with 4,500 outlets world-wide and annual gross sales of $570 million. In December 1989 it opened four outlets in Hungary, serving an average of 100 customers a day; 16 more outlets were planned for 1990. The chain is capitalising on the services that it offers in minutes that might take days elsewhere, both in Eastern and Western Europe.

Jacobs Suchard of Switzerland and a Hungarian state-owned company, Budapest Edesipari Vallalot (BEV), have each taken a 50 per cent stake in a new company worth 3 million Swiss francs called Jacobs Suchard Budapest GmbH. BEV has 3,200 employees and produces 69,000 tonnes of sweets annually. The new company will produce chocolate bars and packaged coffee in Hungary.

In January 1991 British-American Tobacco (BAT) formed a joint venture with Pecsi Dohanygyar, the Hungarian state-owned cigarette factory, with 40 per cent of the national market of 26 billion cigarettes annually. Pecsi, which joined the venture as part of the country's privatisation plan, employs 800 people 200 km south of Budapest; Pecsi's objectives in joining the venture were modernisation of the plant, improved product quality, a more efficient sales and distribution network, a larger domestic market share with the possibility of exporting in the future, and the maintenance of current employment levels. It also sought to improve the quality of Hungary's tobacco crops. BAT will invest 20 million sterling in the venture, its first in Eastern Europe.

In February 1991 Sara Lee bought a 51 per cent stake in Compack Trading and Packaging Company, Hungary's largest coffee roaster with 2,000 employees and 1990 sales of $140 million. Apart from introducing new products in Hungary such as shoe polishes and insecticides, Sara Lee will bring new marketing techniques and build a better distribution capability for Compack in Hungary.

Sources: Financial Times, 15 Jan. 1990: "GM in joint venture to produce cars and engines in Hungary".
ibid., 21 Jan. 1991: "BAT taps into world's new political order".
TIME, 23 Apr. 1990: "Heel bars for Hungary".
ibid., 2 July 1990: "New kids on the bloc".
Wall Street Journal, 10 Jan. 1990: "Suzuki reaches accord in Hungary".
ibid., 21 Feb. 1991: "Sara Lee to enter Eastern Europe".
Agence Europe, 14 Dec. 1990: "Jacobs Suchard establishes chocolate bar joint venture".
Corriere della Sera, 9 Feb. 1991: "Italian Fiat signs agreement with Autoker".

Poland

General

Statistics provided by the Agency for Foreign Investments, established in Poland in January 1989, show that at the end of March 1990 some 1,175 joint ventures had been granted permission in Poland. Most of them were concentrated in the Warsaw and western regions, or the administrative regions. The number of joint ventures had risen to 2,799 by the end of 1990.

The number might seem encouraging, but the total value of all the ventures was $544 million, including $374 million contributed by foreign partners; hence a mere foreign contribution of roughly $134,000 per venture on average, and many have only the legally required minimum of $50,000. (Source: BBC Monitoring Service, 21 Feb. 1991.) Most investment thus far has been in industries such as food, clothing, timber and construction and trade.

Table 1. Foreign joint ventures in Poland by country or region (as of March 1990)

Country of capital	No. of companies involved in joint ventures	% share of total	Capital involved	
			Polish (mil. zloty)	Foreign '000 US$
Fed. Rep. of Germany	404	35.3	49 694.5	42 612.3
Sweden	101	8.8	26 740.6	19 740.3
Austria	74	6.5	34 034.4	8 913.6
United States	74	6.5	10 919.8	10 618.0
West Berlin	65	5.7	14 048.7	13 026.9
Great Britain	49	4.3	4 843.6	5 347.2
France	49	4.3	5 554.2	3 487.6
The Netherlands	48	4.2	20 339.6	16 762.7
Italy	47	4.1	23 597.7	10 459.2
Multinational	46	4.0	38 549.5	15 574.9
Switzerland	29	2.5	5 985.6	4 199.2
Belgium	27	2.4	5 272.3	4 713.2
Canada	24	2.1	6 195.5	2 259.3
Denmark	22	1.9	7 014.6	1 726.1
Others	87	7.6	36 092.4	26 967.8
Total	1 146		288 883.0	185 908.3

Source: Foreign Investment Agency in Poland and Dr. Jan Bogutyn, Director, All-Poland Trade Union Alliance, International Relations Department (00-924 Warsaw 56, Kopernika Str. 36/40).

The following table shows the number of joint ventures in Poland per month, up until October 1989, shortly before the fall of the Berlin Wall the following month.

Table 2. Number of joint ventures in Poland (December 1988-October 1989)

31 December 1988-1 July 1989	52
1 January 1989-28 February 1989	9
March 1989	21
April 1989	41
May 1989	60
June 1989	72
July 1989	105
August 1989	92
September 1989	90
October 1989	115
Total	657

Source: United Nations Industrial Development Organisation (UNIDO), 13 March 1990: "Recent trends in foreign direct investment flows to European CMEA countries".

Electronics

Asea Brown Boveri (ABB) has included Poland in its drive to increase its Eastern European sales to $1.5 billion by 1995, up from its present $200-300 million. These figures, which exclude East Germany, would represent a rise from 1 to 4 per cent of the company's total sales. The Chief Executive, Percy Barnevik, indicated in June 1990 that these sales would be achieved through acquisitions and joint ventures. The company also said that its ventures would create 7,600 jobs in Poland. In March it acquired Zamech, Poland's largest turbine and generator manufacturer. ABB says that by introducing its technology and efficiency standards at Zamech, which employs 5,000 people, the latter would be able to compete for low-cost energy projects in the Third World. Zamech's low-cost components would also be used by ABB at its plants in Western Europe. In July ABB entered a joint venture with Poland's Dolmel, which will manufacture power generators and motors for trains. The venture will be run by local management and employ about 3,300 people.

Siemens AG of West Germany has a joint venture with ZWUT, Poland's largest maker of electronics and public telephone networks. Siemens will own 49 per cent of the venture, thereby investing DM50 million; the venture will produce Siemens' EWSD public telecommunications switching systems as of 1991.

In October 1990 Alcatel of France established a joint venture with the Polish state telecommunications company Telcom-Teletra de Poznan. The venture, to be called Alcatel-CIT-Polska, will produce a total of 30,000 digital telephone exchanges a year under French licence in Poznan.

Sources: Financial Times, 14 Dec. 1989: "ABB in Eastern Europe expansion".
ibid., 7 June 1990: "ABB plans sales drive in Eastern Europe".
ibid., 29 June 1990: "Siemens in Polish telephones venture".
The Independent, 13 July 1990: "ABB to create 7,600 jobs with series of joint ventures".
Les Echos, 8 Oct. 1990: "Alcatel in telecommunications joint venture".

Fiat

Fiat probably has the most ambitious and costly venture running in Poland. As the following table shows, ownership of cars by Poles is limited, even by Eastern European standards.

East Europeans and their cars
(cars per thousand people, 1989)

East Germany	226
Czechoslovakia	181
Hungary	169
Yugoslavia	136
Bulgaria	132
Poland	121
USSR	53
Romania	49
Average	133.4

Source: International Herald Tribune, 6 Aug. 1990.

In a huge $1.3 billion project with Fabryka Samochodow Malolitrazowych (FSM), a major Polish car manufacturer, Fiat intends to produce 160,000 subcompacts a year, called Micros. FSM will provide $650 million for the new plant in Tychy, in southern Poland, while Fiat will invest the same amount to buy machinery. The Micro was designed by Fiat to be produced exclusively in Poland, since Fiat itself admits that the project would not be profitable using Western economies of scale: 70,000 Micros will be destined for export to the West every year. Fiat is introducing new technology and management training in accounting and labour management, and the venture is expected to create jobs. Fiat also won a contract with Poland's second car producer, Fabryka Samochodow Osobowych (FSO) in Warsaw, in which FSO will use Fiat's technology to build 120,000 Fiat Tipos per year by 1993. Altogether, Fiat expects to sell 300,000 cars a year in the West from its East European ventures.

Sources: International Herald Tribune, 6 Aug. 1990: "Fiat looks East for growth".
Financial Times, 18 Sep. 1990: "Survey of the world car industry".

Czechoslovakia

Automobiles

Skoda was a unique case as a Western takeover target because for many months it was being courted by several Western multinationals, including Volkswagen AG, Renault, Bayerische Motoren Werke AG, General Motors, Citröen SA and Subaru. What attracted them to Skoda was its relative efficiency compared with its East European competitors and its strong position in the East European car market. Hence it was in a position to wait for the best offer.

The company is based in Mlada Boleslav, a town of 50,000, and accounts for about 80 per cent of the cars in circulation in Czechoslovakia. In 1989 it produced 183,000 of its only brand - the Favorit - of which 60,000 were exported to the West, with the main destinations being the United Kingdom (with 13,600), Denmark and West Germany. About 15,000 were exported to Eastern European markets.

Skoda was formed in 1894 by Vaclav Klement and Vaclav Saurin. It originally made bicycles and motorcycles, and began producing cars in 1905. In 1946, the company fell under state control.

Foreigners are attracted by cheap labour, although wages are expected to rise. The average Skoda worker now earns 3,100 crowns a month, 100 crowns above the national average but still well below Western salaries. Moreover, the Czech market is hungry for cars. With 181 cars per 1,000 people in Czechoslovakia, if this were brought up to the Western European average of 350 per 1,000 people, it would require an additional 2.7 million cars in that country alone. Skoda itself wants to raise its output to 400,000 annually by the mid-nineties.

Early in 1990 a Skoda spokesman, Jiri Danhelka, said that a takeover had to meet three conditions: that Skoda be allowed to keep its name, retain all its 22,000 employees, and continue to carry out its own research.

These conditions seemed to have been met when the Czech Government announced on 9 December 1990 that Volkswagen AG of Germany would be allowed to buy a 31 per cent stake in Skoda, which is expected to rise to 70 per cent by 1995. Volkswagen plans to invest DM9.5 billion ($6.4 billion) to modernise Skoda's operations over ten years, including new assembly, engine and gearbox plants. It plans to raise Skoda's annual production to 400,000 by 1997, and to make it more internationally competitive by expanding its European network of dealers and increasing its exports outside of Europe. This was important for Skoda, which wants to compete more on products in the 33 foreign countries where its cars are sold, as opposed to relying on the low cost of roughly 5,000 pounds ($8,000) for which its cars are sold in the West.

Of equal importance to Skoda was that both its dealers and its cars would retain their own identity. Volkswagen currently has three separate management boards to run each of its car brands: VW, SEAT and Audi. It will now form a fourth board for Skoda, in which Skoda's chairman will have a seat. Skoda's employment level is expected to drop to around 16,000 after its non-production facilities such as child-care centres, holiday homes and repair shops are shed.

Volkswagen's models so far have complemented each other well: the Audi aims at the upscale market, SEAT (bought from the Spanish Government in 1986) produces cheaper cars, and VW falls in between. Now the takeover of Skoda will give Volkswagen a foothold in the growing East European car market, while at the same time consolidating its position as Europe's largest car maker (see table below).

Western Europe's car market

January-October 1989	Sales $000s	% change on year earlier	Market share %
Volkswagen	1 739	1.9	15.5
Fiat	1 624	-4.9	14.2
Peugeot Cirtoen	1 483	1.0	13.0
General Motors	1 344	2.7	11.7
Ford	1 324	-3.7	11.6
Renault	1 117	-5.0	9.8
Mercedes-Benz	373	2.8	3.3
Rover	344	-5.8	3.0
BMW	314	-5.4	2.7
Volvo	204	-10.3	1.8
Japanese	1 339	6.1	11.7
Others	235	-5.0	2.0
Total	11 440	-0.9	100.0

Includes sales by subsidiaries.

Source: Automative Industry Data

Source: The Economist, 15 Dec. 1990.

Bratislava Automobile Zavodi (BAZ), Skoda's only Czech rival in the car industry, also has two agreements with Western partners. In January 1990 Renault signed an agreement with BAZ to build 15,000 of Renault's Trafic vans a year as of 1992 in Bratislava, eventually to rise to 30,000. In March 1991 Volkswagen won the regional Slovak Government's approval for a joint venture to build 350,000 transmissions a year at the BAZ factory by the end of 1991, and at a later stage to build up to 200,000 Volkswagen passenger cars annually.

Other Western companies have also been negotiating to acquire a stake in Skoda Engineering, the largest engineering company in Eastern Europe, with 30,000 employees. General Electric, ABB and Siemens AG have all expressed an interest. The engineering factories have an estimated value of $1 billion.

Sources: Financial Times, 17 Jan. 1990: "Renault to build vans in Czechoslovakia".
ibid., 27 Jan. 1990: "Western companies may take stakes in Skoda Engineering".
ibid., 7 Aug. 1990: "Renault favourite for Skoda stake"
ibid., 10 Dec. 1990: "Volkswagen beats Renault and Volvo for Skoda stake".
ibid., 11 Dec. 1990: "VW and Skoda unveil DM9.5 bn. strategy".
ibid., 27 Dec. 1990: "VW stake in Skoda could reach 70%".
ibid., 6 Mar. 1991: "VW wins approval for BAZ venture".
ibid., 2 Apr. 1991: "Western car groups make their marque".
International Herald Tribune, 9 Apr. 1990: "Why Western suitors line up for Skoda".
ibid., 25 May 1990: "Toyota holds talks on Czechoslovak cars".
The Economist, 15 Dec. 1990: "The people's car heads East".

Other negotiations

In June 1990 the Czech Government selected US West and Bell Atlantic to build a cellular telephone network to expand the phone network in the country; currently there are only 2.2 million phone lines for 15.5 million people. The companies will invest $80 million over the next ten years, and will own a 49 per cent stake in the venture, with 51 per cent being held by the Czech Ministry of Post and Telecommunications.

Bata shoes, founded in 1894 in the Czech town Zlin, now produces 300 million pairs of shoes a year. Thomas Bata, the company's President, now living in Canada, returned to Czechoslovakia in December 1989 to visit the Bata factory, nationalised by the Government in 1945. Bata has agreed to a joint venture to modernise the plant, which still uses the same equipment as before it was nationalised.

Young & Republicam, an international advertising agency with annual sales of $6 billion, bought an agency in Prague called AB Line Studios, to form Young & Republicam Czechoslovakia. Saatchi & Saatchi Advertising Worldwide also has an office there and Axel Springer Verlag has a joint venture in publishing with a private Czech company, Studio Dobre Nalady (SDN).

Sources: International Herald Tribune, 17 Aug. 1990: "Young & Republicam buys ad agency in Prague".
Wall Street Journal, 21 June 1990: "Bell Atlantic Corp., US West set venture with Czechoslovakia".
ibid., 19 Nov. 1990: "Bell Atlantic, US West, sign E. European pacts".
Reuter, 8 Jan. 1991: "Axel Springer sets up publishing venture in Prague".

Romania and Bulgaria

Both Romania and Bulgaria have lagged far behind in attracting foreign investment. If there is a correlation between political change towards democracy (together with the introduction of a market economy) and increased foreign investment, this could well explain the lack of interest in those countries by foreign investors.

In Romania, one of the most conservative leaders of the Communist Eastern bloc, Nicolae Ceausescu, was overthrown in December 1989 and replaced by Romania's current Prime Minister, Petre Roman. Many of the members of his new National Salvation Front are former members of the Communist Party.

Romania perhaps needs foreign investment more than any of its Eastern neighbours; its GNP per person is about $4,100 per year, 25 per cent less than in Poland and only a half of that in the former Democratic Republic, which itself is bound to rise. Romanians own 11 cars per 1,000 people (206 in East Germany) and 111 telephones per 1,000 people (248 in Bulgaria). Most plants are overstaffed and inefficient, and now have inexperienced managers who replaced communist managers under Ceausescu. The Government has recently introduced new laws to attract foreign investment.

Among two deals currently under way in Romania, Renault of France has a licencing agreement in the country whereby its Renault 12 has been built there under the Dacia name since 1969. Control Data has been building disk drives and computer products in Romania since 1973, with half being exported to the

West. However, it is clear that both these deals were reached long before even the mildest political or economic changes had taken place in the East, and hence cannot be attributed to these.

Much the same can be said for Bulgaria. Although Todor Zhivkov, the country's Communist leader for 35 years, resigned in November 1989, he was replaced by his own Foreign Minister, Mr. Petar Mladenov. His Communist Party renamed itself the Socialists, and won the June 1990 elections in Bulgaria, hence becoming the only Communists in Eastern Europe to retain power. Since then Mr. Mladenov was forced to resign, and the leadership and economic direction of the country seem to be up in the air.

In April 1990, Robert Maxwell agreed to buy the Bulgarian television channel BTV2. Club Med in Paris also intends to build a resort with a golf course and a 600-room hotel on the Black Sea coast, but again, Club Med has already existed in Bulgaria for 12 years. Hence there is not much to say about foreign investment in Bulgaria brought about by the political changes in the past two years.

Sources: International Herald Tribune, 11 Nov. 1989: "Bulgaria's Zhivkov out after 35 years".
ibid., 24 May 1990: "Media moguls looking East".
ibid., 7 Aug. 1990: "Ceausescu's harsh economic legacy".
The Economist, 14 July 1990: "Bulgaria: Tanks, stanko".
TIME, 2 July 1990: "New Kids on the Bloc".

Eastern Europe and the Declaration

In 1977 the Governing Body of the ILO adopted the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy. The Declaration aims "to enhance the positive contribution which multinational enterprises can make to economic and social progress and to reducing or resolving the difficulties to which their operations may give rise".

This rationale behind the Declaration is still valid today and in particular with respect to Eastern Europe. Anyone who reads the Declaration will notice that extensive reference is made in it - either in the body of the text, in footnotes or in its appendices - to a number of basic ILO Conventions and Recommendations.

Since its formation in 1919, the ILO has adopted some 170 Conventions, of which 22 are referred to in the Declaration. The table on the following pages shows which of the Conventions mentioned in the Declaration have been adopted by Eastern European countries, and the totals, ranging from five out of 22 for Bulgaria and Albania to 14 for Czechoslovakia and 17 for Yugoslavia. After that is a list of the Conventions themselves together with their official titles. (The full texts relating to the Conventions can be found in ILO: International Labour Conventions and Recommendations, 1919-1981, and subsequent offprints.)

Before proceeding perhaps a few words are required about the classification of Conventions referred to in the Tripartite Declaration. Very briefly, several of the Conventions referred to in the Declaration fall into the category known as basic human rights Conventions and include the three fundamental freedoms of:

(a) association (Conventions Nos. 87, 98 and 135);

(b) choice (Conventions Nos. 29 and 105); and

(c) opportunity and treatment (Conventions Nos. 100, 111 and 156 which refer to equality and non-discrimination).

Another group of Conventions referred to in the Declaration fall under the heading known as <u>employment</u> Conventions and include:

(a) employment policy (Conventions Nos. 122 and 136);

(b) vocational guidance and security (Convention No. 142); and

(c) employment security (Convention No. 158).

In addition to the freedom of association Conventions already referred to above - which are also <u>industrial relations</u> Conventions - one more (Convention No. 154 concerning collective bargaining) also falls under this classification.

After this comes the <u>occupational safety and health</u> Conventions. These include those with:

(a) general provisions (Conventions Nos. 155 and 161); and

(b) protection against specific risks - i.e. toxic substances and agents (Conventions Nos. 115, 139 and 162), machinery (Convention No. 119) and air pollution, noise and vibration (Convention No. 148).

This leaves us with two remaining Conventions which are likewise referred to in the Declaration, i.e. No. 110 concerning <u>conditions of work</u> of plantation workers and a <u>social security</u> Convention No. 130 concerning medical care and sickness benefits.

In addition to a preamble and a section on general policies, the Declaration itself deals with four main issues: employment, training, conditions of work and life, and industrial relations. Based on the information provided so far in this study, it shall be the purpose of this section to analyse the foreign investment in Eastern Europe in light of the Declaration and to highlight the trends towards the adherence thereof to date. Potential problems for the future will also be taken into consideration.

As an initial step, governments are asked in paragraphs 9 and 36 to ratify - or at least "to apply to the greatest extent possible" - eight specific Conventions - these are Nos. 87, 98, 111, 115, 119, 122, 136 and 139. As can be seen from the table, only the first three have been ratified in all the countries concerned, and no one country had ratified all of them as of 1 June 1990. Of these eight Conventions, the level of ratification ranges from three for Bulgaria to seven for Czechoslovakia, Hungary and Yugoslavia.

<u>Status of Eastern European countries' ratification of ILO Conventions referred to in the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy</u> (as at 1 June 1990)

Convention No.:	29	87	98	100	105	110	111	115	119	122	130	135	136	139	142	148	154	155	156	158	161	162	Total 170 ILO Conventions [22 Conventions referred to in the Declaration]	
																							Total No. of MNE-related Conventions ratified	Total No. of ILO Conventions ratified
Albania	X	X	X	X			X																5	17
Bulgaria	X	X	X	X			X																5	80
Czechoslovakia	X	X	X	X			X	X		X	X		X	X	X	X		X			X		14	65
German Dem. Rep.		X	X	X			X	X		X		X			X						X		9	29
Fed. Rep. Germany	X	X	X	X	X		X	X		X	X	X	X	X	X								13	69
Hungary	X	X	X	X			X	X		X		X	X	X	X						X		12	52
Poland	X	X	X	X	X		X	X	X	X		X			X								11	74
Romania	X	X	X	X			X			X		X	X										8	39
USSR	X	X	X	X			X	X	X	X					X	X							10	46
Yugoslavia	X	X	X	X			X		X	X		X	X	X	X	X		X	X	X	X	X	17	76

List of international labour Conventions referred to in the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy

Convention (No. 29)	concerning Forced or Compulsory Labour, 1930.
Convention (No. 87)	concerning Freedom of Association and Protection of the Right to Organise, 1948.
Convention (No. 98)	concerning the Application of the Principles of the Right to Organise and to Bargain Collectively, 1949.
Convention (No. 100)	concerning Equal Remuneration for Men and Women Workers for Work of Equal Value, 1951.
Convention (No. 105)	concerning the Abolition of Forced Labour, 1957.
Convention (No. 110)	concerning Conditions of Employment of Plantation Workers, 1958.
Convention (No. 111)	concerning Discrimination in Respect of Employment and Occupation, 1958.
Convention (No. 115)	concerning the Protection of Workers against Ionising Radiations, 1960.
Convention (No. 119)	concerning the Guarding of Machinery, 1963.
Convention (No. 122)	concerning Employment Policy, 1964.
Convention (No. 130)	concerning Medical Care and Sickness Benefits, 1969.
Convention (No. 135)	concerning Protection and Facilities to be Afforded to Workers' Representatives in the Undertaking, 1971.
Convention (No. 136)	concerning Protection against Hazards of Poisoning arising from Benzene, 1971.
Convention (No. 139)	concerning Prevention and Control of Occupational Hazards caused by Carcinogenic Substances and Agents, 1974.
Convention (No. 142)	concerning Vocational Guidance and Vocational Training in the Development of Human Resources, 1975.

List of Conventions adopted since 1977 (inclusive) which contain provisions relevant to the Declaration

		Paragraphs of the Declaration to which the instrument is relevant
No. 148	concerning the Protection of Workers against Occupational Hazards in the Working Environment Due to Air Pollution, Noise and Vibration, 1977	36
No. 154	concerning the Promotion of Collective Bargaining, 1981	9, 49
No. 155	concerning Occupational Safety and Health and the Working Environment, 1981	36
No. 156	concerning Equal Opportunities and Equal Treatment for Men and Women Workers: Workers with Family Responsibilities, 1981	21

No. 158	concerning Termination of Employment at the Initiative of the Employer, 1982	9, 26, 27, 28
No. 161	concerning Occupational Health Services, 1985	36
No. 162	concerning Safety in the Use of Asbestos, 1986	36

The Declaration's general policies section seeks to achieve harmony between the activities of multinationals and the development priorities of the countries in which they operate (paragraph 10). Several multinationals have already declared their intention of assisting in the restructuring of Eastern Europe, and many are importing new technology - hence there seems to be general adherence with this provision. The Declaration also asks the governments of home countries to "promote good social practice" (paragraph 12) by its MNEs abroad, which will be an issue to watch regarding Eastern Europe.

In its section on employment, the Declaration puts the onus on host governments, to ensure that employment is "productive and freely-chosen" (paragraph 13). Multinationals can assist in making employment productive, but to ensure the freedom of choice is primarily a government's responsibility.

In dealing with employment, the Declaration asks multinationals "to increase employment opportunities and standards" (paragraph 16), and to do so "in harmony with national social development policies" (paragraph 17) of the host country. This is a highly relevant issue with regard to FDI in Eastern Europe, because some of these countries are facing unemployment for the first time.

A general trend can be observed in the activities thus far. In cases where Eastern and Western companies have agreed to joint operations, the result has generally been that each partner will provide a certain share of the workers from their respective companies. Deutsche Bank's branches in the eastern part of Germany, for example, will recruit 8,500 workers from the state-owned Kreditbank as well as providing 800 of its own employees; Dresdner Bank is combining 800 of its own employees with a further 3,500 from the Kreditbank for its activities in East Germany. GM's joint venture with AWE to build Opels in Eisenach in East Germany is expected to employ 200 people, but again drawn from the 9,000 workers at AWE. Hence, while these figures do not represent actual job creation, these joint ventures have not caused unemployment.

Several joint ventures have already or are expected to create real employment where it did not exist before. GM's venture with Raba in Hungary is expected to create 880 new jobs there. The new McDonald's outlet in Moscow has hired 1,150 people, and the company will likely hire more as it expands into other cities in the USSR. Likewise, in Plauen, in the eastern part of Germany, McDonald's is expected to employ 60 people, and will probably need more at its other outlets intended for East Germany in 1991.

The question of unemployment becomes much more relevant in such cases where there has been an actual takeover of a state-owned company by a Western multinational. Foreign firms that have always maintained employment practices aimed at staying competitive in the Western world must deal with inefficient Eastern companies whose artificially high employment levels were a means of hiding real unemployment in their countries. Such as the case with Hungary's Tungsram, taken over by General Electric, which had the same number of

employees as GE (18,000), but produced only one-seventh as much in monetary value. GE intends to reduce the number of Tungsram workers to 13,000 through attrition and early retirement, although the company is under pressure not to increase unemployment in Hungary. Czechoslovakia's Skoda was also concerned about maintaining its 21,000 workers after any takeover, but had the advantageous position of being able to wait for the best offer from various Western companies that were interested.

In the eastern part of Germany there is no doubt that unemployment is on the rise, but this is due more to competition from West Germany than from foreign investment. As Western businesses sell their products in the East, Easterners are no longer quite as interested in reading Eastern newspapers or magazines, driving Eastern-made cars, or generally in consuming consumer goods from the East. However, the staggering unemployment in what was the German Democratic Republic cannot be attributed to multinationals, but rather to the relative inefficiency of Eastern companies vis-à-vis the West, and to the inevitable shift of consumers' demands from Eastern- to Western-made products as these became available. The changes in East Germany are abrupt, but the unification of the two Germanies provides an example, for the first time in history, of a merging of a planned and a market economy.

Paragraphs 19 and 20 of the Declaration refer to developing countries, but could apply equally to Eastern Europe. Multinationals are asked to use "technologies which generate employment" and to adapt them to the host country's needs, and to carry out manufacturing locally. This has been one of the more apparent characteristics of FDI in Eastern Europe thus far, since one of the prime reasons for going East has been to make use of the labour there.

The Declaration asks that multinationals "make qualifications, skill and experience the basis for recruitment, placement, training and advancement of their staff at all levels" (paragraph 22), and that priority should be given to nationals of the host country (paragraph 18). Also, discrimination based on sex, religion, colour, political opinion should be avoided (paragraph 21). There is no evidence as of yet that multinationals in Eastern Europe have not hired based on merit. This would be against their own long-term interests.

As for giving priority to nationals, this could present some problems, especially at the managerial level. There is no doubt that at the blue-collar level, East European workers are skilled and, for the time being at least, cheaper than their Western counterparts. Hence there is no evidence of Western firms importing Western blue-collar workers to the East. As for white-collar workers, multinationals going East have reported a lack of skills in several areas of business management, for example, general accounting and book-keeping, labour management, quality control, marketing and sales and general managerial experience. Hence for those kinds of jobs multinationals have been reported to bring in Western talent (see International Herald Tribune, 14 June 1990: "New East West trade: Managers cross borders"). However, in the case of General Electric, the company took one of its Hungarian-born executives to lead its team managing Tungsram in Hungary.

Paragraphs 24 to 28 of the Declaration request that multinationals respect the security of employment, avoid arbitrary dismissal, provide reasonable notice of large changes in operations with major employment effects and provide, together with governments, some income protection for dismissed workers. The section also mentions the "discontinuation of operations" which are "likely to accentuate long-term unemployment" (paragraph 25). Even if Western multinationals do not themselves discontinue operations in the East, their more sophisticated production facilities might bring other inefficient operations in the East to a halt. Since most Western takeovers and joint ventures in the East have been fairly recent, these issues have for the most

part not been very significant. However, it is possible that if takeovers continue to occur, and Eastern companies are transformed to meet Western standards of efficiency, the issue of dismissing workers and the treatment of dismissed workers will become important. The policies of multinationals in this respect will likely depend on the legislation adopted, if at all, by Eastern countries in this regard, and on the influence of the relevant trade unions in the East. Should joint ventures fail to perform as expected in the future, the result may lead to dismissals.

The Declaration's second major area of concern is in training. It asks multinationals to provide training that meets the company's needs and the development policies of the host country, which develops skills and promotes career opportunities for the trainees (paragraph 30). Multinationals are also requested to broaden local management expertise (paragraph 32). Compliance with this so far seems promising: Siemens is funding university and research education in East Germany; Deutsche Bank, Dresdner Bank and Allianz are training their Eastern colleagues in Western-style banking and insurance; McDonald's trained its Moscow employees extensively on maintaining a major retail outlet. On the managerial side, Saatchi & Saatchi will teach Soviet economists Western marketing strategies; General Electric is teaching management skills to Tungsram executives both in Hungary and in the United States, and Fiat is doing the same in its joint venture with the FSM carmaker in Poland. Much of the training is necessary to enable workers to handle new technology that Western firms are introducing, and hence the training is likely to have long-term benefit for the workers involved.

In its section on "Conditions of work and life", the Declaration urges multinationals to provide wages and benefits no less favourable than those of local enterprises (paragraph 33). Here, multinationals have not only adhered so far in Eastern Europe, but seem to have offered better wages on many occasions. McDonald's in Moscow offers the national average in salary in general, and more for top managers; General Electric has introduced a merit pay system at Tungsram in Hungary; and Caterpillar is reported to pay its workers in the USSR twice the amount that they would get in a state organisation, plus a clothing allowance in hard currency, and possible training trips to the West (see International Herald Tribune, 5 April 1990: "West lures best talent from East Europe states"). There have been no reported examples of multinationals actually offering lower wages than their local counterparts. Governments, for their part, are asked to ensure that "lower income groups and less developed areas benefit as much as possible from the activities" of multinationals (paragraph 35).

The Declaration goes on to ask multinationals to maintain "the highest standards of safety and health" for their employees (paragraphs 36 and 37), in conformity with national requirements, and to make known "any special hazards and related protective measures associated with any new products and processes" (paragraph 37). Subsequent to the Declaration's adoption in 1977, a number of Conventions have been adopted dealing with the working environment (namely Conventions Nos. 148 and 155) and which are referred to in its addendum. Very little has been reported on the health and safety standards maintained by Western multinationals in the East, but a lot has been made known about the immense pollution created by Eastern companies and the lack of, or weakness of, emission control standards in the East. It is widely hoped in the East that the introduction of new technology and the modernisation of plants in the East by Western multinationals will indeed reduce pollution levels in Eastern countries. Environmentalists in West Germany hope that any takeover of Eastern Germany's utilities will render them less pollutant; the Soviets were concerned about Chevron's intention to extract highly sulphuric oil from the oilfields in Kazakhstan; East European car manufacturers are generally concerned about meeting West European emission control standards,

that are to be tightened after 1992, making the car makers more dependent on imported technology. In general, if multinationals were merely to implement in the East the environmental protection standards that they maintain in the West, this would already be a considerable improvement. Since most of the products and processes they will introduce in the East are probably already in existence in the West, these are unlikely to create many health-related problems. General compliance with the Declaration will also depend on relevant government regulations and their enforcement.

The final section of the Declaration deals with industrial relations. To begin with, multinationals should have standards of industrial relations no less favourable than those of comparable employers in the host countries (paragraph 40). Workers, it states, should "have the right to establish and ... to join organisations of their own choosing without previous authorisation" (paragraph 41). Also, when governments offer special incentives to attract FDI, these "should not include any limitation of the workers' freedom of association or the right to organise and bargain collectively" (paragraph 45). As was seen earlier, new workers' unions are being created under different names and with less party-affiliation in many East bloc countries, and many of them boast high membership levels - hence it would not appear so far that multinationals have overtly impeded union membership in the East as long as there was a break with the past. The same can be said for government initiatives to date to attract foreign investment, since there is no evidence that these have systematically had adverse effects on union membership either.

Multinationals are also asked to "support representative employers' organisations" (paragraph 43) and it is here that MNEs might have a special role to play in introducing this concept of free and independent employers' organisations to economies where this concept was previously absent. Workers' representatives in MNEs should be allowed to consult among themselves (paragraph 46), and representatives of both workers' and employers' organisations should be allowed to enter a country, if invited by domestic organisations, to consult "on matters of mutual concern" (paragraph 47).

According to the Declaration, workers in multinational enterprises should have the right "to have representative organisations ... for the purpose of collective bargaining" (paragraph 48), and the representatives of these organisations should be allowed to negotiate with members of management who are authorised to take decisions (paragraph 51). Workers' representatives should be assisted "in the development of effective collective agreements" (paragraph 50), and workers should be allowed to submit a grievance "without suffering any prejudice whatsoever as a result", and an "appropriate procedure" should be available to examine such grievances. This is of particular importance in countries which do not abide by the ILO Conventions pertaining to freedom of association and forced labour (paragraph 57). Multinationals are requested to provide workers' representatives "with information required for meaningful negotiations", in particular regarding the enterprise as a whole (paragraph 54). Finally, multinationals should not threaten to transfer their operations to another country in order to influence the outcome of such negotiations (paragraph 52). In respecting these basic principles, MNEs could play a leading role in helping to introduce generally accepted industrial relations principles to Eastern Europe and to assist in the transformation of their economies.

In general, the above conditions concerning industrial relations have not as of yet applied to multinationals establishing themselves in Eastern Europe. Most of the major ventures are fairly new, i.e. less than two years old, and would likely require more time before a proper analysis of their policies, especially concerning industrial relations, could be made. This

includes policies on union membership, collective bargaining, and procedures for dealing with workers' grievances. Nevertheless, the above paragraphs outline the Declaration's major areas of concern and how it may become relevant in Eastern Europe, given the rapidly changing nature of business there. As such, the Declaration could provide guidance in social policy matters for the four parties to which it refers: governments, employers' and workers' organisations, and multinational enterprises themselves.

Company index

Listed below are the names of all Western companies mentioned in the text

ABB
Alcatel
Allianz
Archer Daniels Midland
Arthur Anderson
AT&T
Axel Springer

Bata
Bauer
BBDO
Bell Atlantic
Bartelsmann
BMW
Bosch
British Airways
British American Tobacco (BAT)
Burda

Canon
Caterpillar Inc.
Chevron
Citröen
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Commerzbank
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Contel
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De Beers
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Digital
Dow Chemical
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Fata
Federal Express
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Ford

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Hearst
Hilton
Hitachi
Hyundai

IBM
IKEA
Ilbau
IDG

Jacobs Suchard
Johnson & Johnson

KPMG

Lafarge Coppée
Lufthansa

Mannesmann Mobilfunk GmbH.
Mariot Hotels
Marubeni
Matsushita
McCann Erickson
McDonald's
McGraw Hill
McKinsey & Co.
Mister Minit
Montedison
Morten

NCR
NEC
News International
Nissei
Northern Telecom

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Otio (United Technologies)

Pepsi Cola
Pergamon Press (Robert Maxwell)
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Salamander Import/Export
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Societé Nationale Elf Aquitaine
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