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## Small firms joint ventures in regional development

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## **SMALL FIRMS JOINT VENTURES IN REGIONAL DEVELOPMENT.**

### **1 Introduction.**

Growing tendency towards integration in European Community is a serious challenge facing all better or worse developed countries. It requires sacrifices from rich countries in favour of poor ones and the latter have to make greater efforts in seeking their own ways to equalize economic differences between them and the rich countries.

Regional policy and the problems of equalizing differences in the level of economic differences of regions lie in the centre of international and regional interest.

East European countries cannot count on quick integration with European Union.

They cannot fulfil the conditions posed by U.C. in short time. In addition to it the countries that possess less developed regions create additional difficulties.

Regions have vital role to play in European integration. The integration tendencies of Lublin, Biała Podlaska, Chełm voivodships deserve respect. They represent less developed regions in comparison with the other regions of Poland. Among the factors that decide on the qualification of regions are: the level of development of economic structure, unfavourable demographic tendency, disturbances in labour market, the level of investment and the standard of living.

These voivodships are characterized by greater than average recession in industry. The fall of production had considerable influence on the level of unemployment in the region. The low level of participation in the investment in the region is observed in comparison with the whole country. The great chance for these voivodships can create the cooperation with neighbouring voivodships of Belarus and Ukraine within the framework of Euroregion.

### **2 The role of joint ventures.**

Joint ventures with foreign capital should be the first successful step in the process European integration between East and West. Joint ventures as a form of international cooperation attract interest of the whole world. It should be propagated in Euroregion Bug because the creation of joint ventures should be a beachhead for greater integration, the form of testing partners, enforcing them in conviction that Euroregion is very attractive place for economic activity.

It is quite known now, that when East European countries establish joint ventures they will get a lot of advantages. They compete in the attraction of the partners from the West because they know pretty well that in this way they can gain modern management, new technology, know how and other expertises.

One of the forms of competition are legal regulations in these countries that describe the conditions of establishing and functioning of joint ventures. These regulations are still modernized.

One can get the impression that legislators from East European countries are more careful about foreign investors than domestic investors.

They give foreign investors more comfortable tax, (custom) duty and monetary conditions.

In general, legal regulations in Poland, Ukraine and Belarus have a lot in common.

These countries are also similar as far as unsaturated markets, cheap labour force, the lack of new technique and technology and first of all the lack of capital are concerned. Western investors do not favour this part of Europe as the place of creation of joint ventures.

Joint ventures have not been fully used as a chance of development in this part of Europe. This statement has been proved by the survey conducted in the Lublin voivodships which is the strongest region among five other voivodships that constitute the Euroregion of the river Bug. The survey tried to find the answers to the problems whether joint ventures invest in this region, create new work places, reduce unemployment, use up to date management methods offered by foreign partners.

### 3 Joint ventures in the Lublin voivodeship.

The shortage of possibilities for creation domestic capital should call forth the interest of foreign investment mainly realised in the form of joint ventures.

When we look at the map we come to the conclusion that regions of Lublin, Bielska Podlaska, Chełm, Tarnobrzeg are dominated by western regions because they have only 323 joint ventures in comparison to 32 888 in whole country which constitutes only 1 per cent.

#### *Number of joint ventures.*

	31,12,1995			31,12,1996			31,12,1997		
	S.A.	Ltd.	Total	S.A.	Ltd.	Total	S.A.	Ltd.	Total
<b>Poland</b>	<b>553</b>	<b>23533</b>	<b>24086</b>	<b>704</b>	<b>27918</b>	<b>28622</b>	<b>843</b>	<b>32045</b>	<b>32888</b>
<i>Including:</i>									
<b>Warsaw voivodship</b>	<b>245</b>	<b>7826</b>	<b>8071</b>	<b>315</b>	<b>9154</b>	<b>9469</b>	<b>374</b>	<b>10315</b>	<b>10689</b>
<b>Euroregion Bug</b>	<b>9</b>	<b>343</b>	<b>352</b>	<b>13</b>	<b>428</b>	<b>441</b>	<b>18</b>	<b>522</b>	<b>540</b>
<i>Including:</i>									
<i>Bialskopodlaskie</i>	0	37	37	0	45	45	1	57	58
<i>Chełmskie</i>	0	29	29	1	35	36	2	38	40
<i>Lubelskie</i>	7	222	229	10	258	268	13	310	323
<i>Tarnobrzekie</i>	1	34	35	1	61	62	1	81	82
<i>Zamojskie</i>	1	21	22	1	29	30	1	36	37

The best position with regard to this problem has Lublin region. There were 323 joint ventures with foreign capital in comparison to 19 registered 1990 with the growth of 1900 per cent. High dynamic of growth of joint ventures is clearly seen in the city of Lublin.

About 10 joint ventures were registered by 1989, 19-by 1990, 97-by 1993 but 323-by 1997.

In 1992, the value of initial capital of registered joint ventures in Lublin amounted to 23,3 mln zlotys and the participation of foreign investment constituted 70 percent

By the end of 1996, the value of initial capital amounted to 208 000 000 zlotys, while the domestic capital amounted to 102 000 000 zlotys in Lublin voivodship.

In the country these figures were 14384,6 million zlotys and 4327,7 million zlotys.

In 1992, among foreign investors, German firms dominated with 34% and were followed by Italian firms with 11,1%. These firms put in 2,5 mln together. USA which invested 9 mln zlotys (63,3 %) and Belgium which invested 2,4 mln zlotys (16,6 %) lead with the regard to the amount of invest capital.

By the end of 1996 the biggest foreign capital came from Korea, Netherlands, Switzerland [look at the table below].

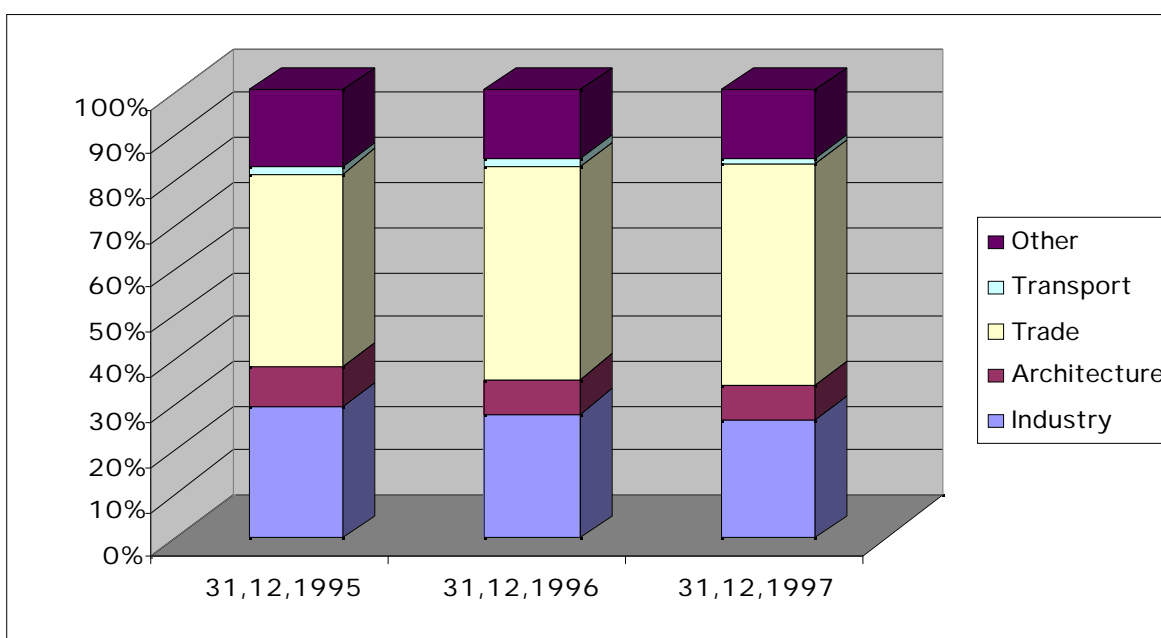
**Foreign investments in 1996 - Lublin voivodeship.**

<i>LARGENESS [mln z ]</i>	<i>COUNTRIES</i>
<i>10 – 100</i>	<i>Korea Netherlands Switzerland</i>
<i>2. – 10</i>	<i>Germany France Austria Belgium</i>
<i>less than 2</i>	<i>USA Italy United Kingdom Denmark Sweden</i>

In 1992 the present small joint ventures registered in Lublin whose initial capital doesn't exceed 10 mln zlotys dominate in Lublin. The firms of this size constitute nearly a half of all joint ventures.

**Sections of national economy in which were create joint ventures on the Lublin voivodeship .**

Lp.	Sections of national economy	31,12,1995		31,12,1996		31,12,1997	
		Number	%	Number	%	Number	%
1	Industry	67	30%	74	28%	85	26%
2	Architecture	20	9%	21	8%	24	7%
3	Trade	98	43%	126	47%	159	50%
4	Transport	4	2%	5	2%	5	2%
5	Other	38	17%	40	15%	48	15%
<b>ALL</b>		<b>227</b>	<b>100%</b>	<b>266</b>	<b>100%</b>	<b>321</b>	<b>100%</b>



When we consider if the capital invested by foreign partners stimulate the development of region we can give the positive answer with the reservation that its role should be greater. The number of created joint ventures has positive influence on realization of process of privatization and the influx of foreign capital although small is the only source of financing the economic activity of enterprises.

The important aspect of establishment of joint ventures in Lublin region is the influence of this kind of enterprises on the limitation of unemployment.

In 1992 joint ventures in Lublin employed 4144 which had given 32 persons in one enterprises on average.

Overwhelming majority of them were the enterprises with a small employment (from two to three persons).

Having analysed the localization of joint ventures in the Lublin voivodeship, we come to conclusion that joint ventures were not interested in setting up their companies in the areas with high rate of unemployment. 97 joint ventures are situated in Lublin i.e. 74% of all joint ventures. The rate of unemployment for Lublin is 12,8%. The above analysis has proved that despite the dynamic rise of founding joint ventures in the Lublin region, newly created work places have little effect on reduction of the rate of unemployment in this area. Joint ventures are not eager to look for employees through employment agencies but frequently they outbid employees in existing companies by giving them higher wages.

In the future the task of recruiting unemployed and responsibility of their professional development should be clearly assigned to joint ventures and this process will be expected from them on a larger scale than it has been done so far.

Small and medium size joint ventures should be fully used as a factor of the development of any Euroregion. The rising number of small and medium size joint ventures should definitely meet the needs of the contemporary economy. Such joint ventures are usually responsible for up to date production processes introducing new technologies and methods of management.

In the present highly – developed economies we can observe that the economic rise is experienced in the areas where there are leading academic institutions, laboratories and research centres.

The process of cooperation between research centres and industry should be strongly enhanced by the well developed network of investors and entrepreneurs, who are open to adopt and stimulate new solutions in order to improve products and services.

Unfortunately in the Euroregion of the river Bug it has been observed that the communication between 5 universities of Lublin and existing companies is very limited.

Another important economic target that is ahead of joint ventures in the Euroregion of the river Bug is creation of a network between Poland, Belarus and Ukraine based on new principles.

It would be desirable to have a support of the western capital that would stimulate the quality of goods that are meant for the markets of Ukraine and Belarus. It is important because the Polish companies have been spoiled by the easy entrance on the undemanding markets of the above countries supplying them with poor quality of products

The existing joint ventures haven't played a sufficient role in the development of the Lublin region yet.