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Participation in Tripartite Cooperation

by Dr Klaus Bolz and Dr Peter Plötz, Hamburg *

The following article is an excerpt from a study written by the authors on behalf of the UNCTAD. It is based on the experiences of German enterprises which have been participating in cooperation projects with CMEA-states and developing countries.

In terms of the traditional trade relations between the Federal Republic of Germany and the CMEA-countries of Eastern Europe number and quality of the so far realised cooperations are – in spite of all pleasing tendencies in the last years – modest¹. Even with regard to the low level of interstate cooperation relations the tripartite cooperation, at least with German participation, is nowadays in its first starting period². This is documented, on the one hand, in the number of the so far realised projects of some 15 only, as well as in the tardy development of this form of international division of labour, on the other. Moreover, out of the manifold range of possible cooperation forms with participation of German firms only one single form has been realised – construction of production plants in developing countries – and that only sporadically. This kind of cooperation however is in the final analysis nothing more elaborate than a classic export transaction for the construction of plant within the framework of a sales cooperation with a socialist partner. If major projects are carried out by consortia, it is mostly because for reasons of finance or trade, or less often owing to technical factors, none of the partners can undertake them by himself. Such transactions by a consortium of

firms are nothing out of the ordinary in the international trade of the industrialized countries of the West amongst themselves or with developing countries.

It appears from our enquiries that, leaving the construction of plants and extension of infra-structural services in the developing countries aside, German firms cooperate with East European partners only in the sale of products which are obtained as a result of bilateral cooperation agreements. In this case use is often made of service stations, sales organisations, etc., of the partners in the developing countries.

The investigators have not heard of any such cases – except one – where joint projects have been carried out in developing countries with capital participation by two or three partners. The only instance in which a joint enterprise involved capital participation is to our knowledge an entirely atypical case of copartnership: The East European partner (the CSSR) was virtually forced (in order to safeguard his claims) to agree unwittingly to a capital participation because the African customer (Nigeria) was unable to make payment³. German authorities with knowledge of the subject rule out the possibility of any such joint ventures being under negotiation nor are German enterprises seriously considering any such ventures. It can also be stated that there exist no instances of tripartite specialization cooperation, scientific-technical cooperation or processing-work cooperation nor have licensing agreements been concluded which would involve tripartite cooperation. Compared with the "ordinary" East-West cooperation the actual projects involving third countries are of little relevance.

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¹ Cf. Klaus Bolz, Peter Plötz, *Erfahrungen aus der Ost-West-Kooperation* (Experience with East-West-Cooperation), Hamburg 1974.

² It was difficult to collect data relating to concrete projects because German firms were involved in tripartite cooperation only in a few scattered instances. It must be made clear that the following remarks are largely based on conversations with representatives of firms engaged in cooperation activities in developing countries; information from firms which have analysed the advantages and drawbacks of tripartite cooperation but not considered concrete projects; material from chambers of commerce, industrial associations, government departments, etc.; data of credit institutes and insurance companies. It should therefore be stressed that the present study gives an assessment, from the German point of view, of the momentary situation in regard to tripartite cooperation.

³ This happened eight years ago.

Besides, some countries (the USSR and especially the German Democratic Republic) have so far displayed great reserve in this matter.

This is the present state of affairs although cooperation in Third World countries was expressly mentioned in many industrial cooperation agreements in recent years as part of the general declaration of intent. The inter-state agreements on the development of economic, industrial and technical cooperation between the Federal Republic of Germany and the various socialist countries of Eastern Europe all contain remarks to the effect that the contracting parties wish to promote the cooperation in third countries through their competent organisations and enterprises.

Motives of German Cooperation Partners

Of particular importance is the question why firms in the Federal Republic of Germany include East European firms at all in their activities in developing countries or else why they allow themselves to be brought in by East European firms. In the investigated projects the following practical considerations suggested to the German firms that cooperation with East European partners in developing countries would be to their advantage:

☐ The advantageous prices offered by East European partners for their supplies and services were undoubtedly of special importance. In "inter-systemary" consortia they can be a means of competitive tendering (cheaper). It can happen that the customer (the developing country) expressly demands an East European partner instead of an originally considered consortium member because he does not accept the price demanded by the original partner. The price advantage is usually considerable if the machines or materials are supplied by the East European partner from his domestic production. Cost advantages do not, according to the consulted German firms, arise at the assembly stage because owing to faulty organisation (e.g., failure to deliver building materials, machinery, etc., at the proper time) on the part of the East European partners it cannot be taken for granted that the assemblage will proceed in the best possible way.

☐ An important motive for the German partner in the medium or long-term view is the wish to cooperate with the East European cooperation partner more closely in future and to avail himself of possible outlets in Eastern Europe. It will be easier to establish contacts in Eastern Europe if one can refer to previous cooperation in plant construction.

Tripartite cooperation is thus an indirect *means* of gaining, holding or extending medium and

long-term positions in Eastern Europe. Such considerations of market strategy apply to ordinary commercial transactions as much as to genuine cooperation projects in that both sides surrender a part of their operational functions and accept a relatively close long-term interdependence. It is of increasing importance in this respect that experience shows that owing to the stringent foreign currency situation in the whole of the CMEA integration area almost all kinds of cooperation seem to be expedient as means of opening up the East European market in the medium and long term or, insofar as commercial relations already exist, maintaining and possibly extending sales there.

☐ Financial and trade agreements between CMEA states and developing countries with limited amounts of convertible currencies allow at least a part of any goods or services supplied in the framework of an East-West consortium to be settled by "soft clearing". Other things being equal, this will of course improve the chances for successful deals with developing countries because they would be impossible if payment had to be made strictly on a hard-currency basis.

☐ Certain industries have capacity problems. German enterprises (e.g., in the power station construction industry and especially its turbine sector) cannot cope with the world-wide demand for energy generating equipment. East European partners with the requisite capacities are brought in by them in order to meet their customers' time-schedules.

☐ That some industrial cooperation agreements stipulate copartnership in third countries is dictated by two major interests: This sort of skeleton cooperation agreement enables the German firm to draw on capacity reserves if required without having to finance them, and it provides an opportunity to use the East European partner's foreign trade links for the German firm's canvassing.

☐ In certain regions (North Africa, Persian Gulf, Arab states) developing countries like a partner from a socialist country to be included in the "working group"; that at least is the impression of some of the consulted German firms. Political rather than economic considerations account for this preference.

☐ East European partners sometimes show a greater willingness to accept deliveries of goods produced in jointly erected plants than do German firms. That is especially important if the domestic market of the developing country — or sometimes the world market — cannot or not yet absorb the whole output of certain goods.

☐ It may also be useful if the East European co-partner is able and willing to supply primary materials for the projected production (Poland for

instance supplies Morocco with elementary sulphur to be used in a combined phosphoric/sulphuric acid plant).

Speaking generally, German firms very rarely if at all include an East European partner in a "working group" for technical reasons. Their primary motive is commercial and, to some extent, political. For the European partners concerned it is after all a question of sales strategy if a joint tender (with the right „basket“) stands a better chance of acceptance by a developing country.

Concrete Problems of Past Tripartite Cooperation Projects

The written evidence as well as our conversations showed our informants to be rather reticent about problems: They either did not express an opinion at all or seemed to leave much ground uncovered. On the whole it appears that there is little interest in a frank discussion of such problems as exist. One reason given for this reticence was the wish not to hamper the cooperation with the socialist states of Eastern Europe or the developing countries either now or in future by what be very negative comments. This reluctance is in itself significant. No German firm wants to engage in a frank discussion which might jeopardize its gains from previous cooperation.

The difficulties which they encountered when carrying out consortium contracts have made some German firms wonder whether the advantages (e.g. in the matter of prices) of working with East European partners rather than with western partners are not overcompensated by the disadvantages during the actual work on the project.

The German firms feel that their main problem is the unexpected dearth of information and lack of coordination from their socialist copartners. Symptomatic of the difficulties is the faulty coordination of the basic ideas of the two partners, which puts quite considerable strains on their cooperation right from the beginning.

The foreign trade companies in Eastern Europe act like a kind of screen in front of the producing enterprises which are the real cooperation partners and prevent direct contact between the German partner and the organisation in the developing country, on the one hand, and the socialist enterprise, on the other, with all the negative consequences which this is bound to have on a purposeful adaptation of the commercial and technical measures. If time-schedules, for instance, cannot be arranged directly with those immediately concerned, namely the factories, purposeful cooperation becomes very difficult. It does not

seem to be an isolated instance if German firms are not free to correspond with the actual suppliers in Eastern Europe and even have to give a contractual undertaking that they will not enter into correspondence with them.

German firms which have to adhere to contractual time-schedules tend to exert increasing pressure on the East European foreign trade companies to let the German copartner know which eastern enterprises are taking part in the project. If time runs short, the German partner can then approach the enterprise concerned directly.

A fact to be remarked upon is the failure of eastern partners to adhere to agreed time-schedules. It is by no means rare for East European partners to fail to provide materials required for the continuation of the construction work at the right time. The delivery arrangements for materials and machinery are partly unsatisfactory, not so much because the East European cooperation partner is unable to effect delivery but often owing to incomprehensible bureaucratic obstructions. Lack of flexibility in the making of decisions is certainly a great impediment to smooth cooperation.

Queries by German partners relating to technical plant details are answered fairly quickly by the East European project design offices, but if their inquiries concern commercial or, especially, financial matters, the East European partner has usually to check with the foreign trade bank, and that naturally takes time.

Technical difficulties are rather rare. The East European staffs are often excellent — quantitatively and qualitatively. The work on foreign construction sites has special attractions which evidently makes it easy for the authorities in the socialist countries to recruit enough qualified personnel for the tasks involved. The German partners, on the other hand, all report that it is a problem to make a sufficient number of qualified German workers available for the developing countries.

The results of tripartite cooperation to date do not seem to be encouraging, either quantitatively or qualitatively. To go by the practical experience gained with the few projects which have so far been effectuated, it does not seem to present significantly greater difficulties than are usually encountered in the specific circumstances of intersystemary cooperation. Obviously the difficulties will not be less acute if a developing country has to be integrated as a third party beside the German and East European partners.

Just as there is no independent central authority to advise or coordinate concerning East-West co-

operation or cooperation between firms in western industrialized countries and enterprises in developing countries, so there is as yet no coordinating agency for the more complicated sphere of tripartite cooperation.

Institutional and Legal Framework

On the other hand, firms which are interested in such cooperation cannot draw on the experience of others because virtually none of the few effectuated tripartite cooperation ventures has so far advanced beyond the test stage. Cooperation contracts cannot be drafted on the basis of generally binding regulations or standardized agreements. Every contract has to be drawn up separately by the contracting parties without of course violating the existing laws of the developing country.

The German (western) and the socialist partners play crucial parts in determining the coordination between the cooperation partners and their various contributions and functions when the tripartite cooperation gets under way. One reason for this is that usually neither partner, from East or West, wants to be liable to the developing country for other services than his own. Besides, German partners in particular want to make sure that their firm's goodwill does not suffer if the other two partners do not come up to scratch. It is noticeable that the partners engaging in joint projects tend to emphasize the borderlines between them. In the form which tripartite cooperation has taken hitherto it is easy to pursue such tendencies. Most of the known projects were not designed with a view to a permanent juncture between the partners.

As far as the contractual relations between tripartite cooperation partners are concerned, the known case histories do not allow general statements to be made except on a few points. Almost all consulted firms used the term "consortium" to describe the legal relationship. It is a typical feature of the relationship between the consortium partners that the German firm acts as the consortium leader and negotiates with the developing country directly. Not only do the developing countries want this, but as a rule it is also welcomed by the socialist partners.

Typically the consortium contracts differ widely in the treatment of liability and warranties. The liability for the correction of faults is best divided in proportion to the individual contributions to the total project. Commercial risks which might otherwise arise from possible joint liability for consortium services are excluded by this kind of arrangement which turns the consortia into some-

thing more akin to loose groupings of contractors. The relationship has in such cases little to do with cooperation: The copartners are merely two or more sub-contractors working on a project carried out on behalf of the developing country.

If judgement is to be passed provisionally on the institutional coordination apparatus, it must be that where consortia are eroded by a multitude of secondary arrangements, they have not proved a particularly satisfactory method of establishing permanent tripartite industrial cooperations. There seems to be little chance at present that the aims of development policy will be served by the forms of cooperation which develop from such agreements.

In our view tripartite cooperation cannot become more successful unless it seeks new forms for such arrangements which make allowance for the special interests of the potential partners in a triangular relationship of economic copartnership. The UNCTAD remarks on this subject which have come to our notice seem to be far too optimistic; the nature and intensity of the motives prompting Western and East European firms are not such that many or substantial cases of tripartite cooperation in the form of permanent participation are likely to materialize in the near future.

As in the relations between German firms and socialist enterprises in Eastern Europe, several years will certainly elapse before intensive partnership links between German, socialist and developing country enterprises can be established on any significant scale. Desirable though it may be from the point of view of a developing country on political and other grounds to enter into co-operation with German (western) and socialist partners at the same time, it would be unrealistic to expect that the cooperation between German and socialist partners could be intensified quickly just when a developing country with its specific problems joins in as a third partner.

Before forms of cooperation involving joint production and capital participation can be developed successfully, tripartite cooperation will first have to take the form of licensing, processing, specialized and sub-contracting cooperation and the plant construction business will also have to be intensified further.

Bilateral cooperation of developing countries in separate projects involving either western firms or East European enterprises may offer a better prospect of success. From the point of view of development policy it may be argued despite certain political and other objections that an attempt should first be made to gain more experience with such "bilateral" cooperation.