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Entrepreneurial Cooperation between East and West in the first half of the 1980s

by Klaus Bolz, Hamburg*

The new forms of cooperation between Western firms and East European enterprises, begun with so much optimism in the 1970s, have disappointed the expectations placed in them. In both East and West the question as to the benefits and risks of this particular form of collaboration is now being posed. This article seeks to explain the present situation and to draw some conclusions concerning future trends.

In parallel with the volatile growth in East-West trade in the first half of the 1970s the new forms of cooperation between Western firms and socialist enterprises in Eastern Europe became increasingly important. Towards the end of the 1970s, however, the expansion of industrial East-West cooperation had already lost its impetus. During that single decade the Federal Republic of Germany was able to increase the number of cooperation agreements with partners from the CMEA nations from around 300 to more than 500 whereby the geographical pattern of the agreements underwent a marked change. The proportion of Hungarian projects grew from one-third to well over one-half¹ while the proportion of Polish projects fell from just under one-third to around one-fifth of all the cooperation arrangements involving German concerns because the net increase in German-Polish cooperation projects was relatively slight and many cooperation agreements had expired by the end of the decade. Over the ten years little change probably occurred in the total number of agreements with Romania, Czechoslovakia, the USSR, Bulgaria and the German Democratic Republic but in terms of individual countries there was a shift towards the Soviet Union and Bulgaria.

Signs of Stagnation in Cooperation with Hungary

The signs of stagnation in East-West cooperation in the early 1980s are now also perceptible in the case of Hungary, where they might not have been expected because that country has been able to achieve a comparatively satisfactory economic development and has successfully pushed ahead with its economic reform. In addition, Hungary's political relations with all

the Western industrialized nations have been rather friendly, despite the general deterioration in the climate between East and West. Although even a year ago one could certainly have spoken of a satisfactory-to-good growth in the number of cooperation projects, experts in Hungarian cooperation now consider that they can perceive a downward trend in that sector of Hungarian economic relations.² The most recent figures provided by the Hungarian Ministry of Foreign Trade and covering the period to the end of 1982 indicate that the trend may have reached its turning-point during 1982. The development in the total number of cooperation agreements in the previous years had continued to show considerable growth from year to year. Yet, when interpreting those figures, we must bear in mind that they also include cooperation with Yugoslavia and, possibly, other countries which cannot be counted as Western nations; in other words, if the number of cooperation agreements with the Western nations (unfortunately no data is available) were considered in isolation, that downward trend may perhaps have begun before 1982. When the cooperation projects with Yugoslavia and other countries are included, cooperation was virtually stagnant in 1982, i.e. in absolute terms the number of contracts increased only by 4 to 508.

If the total number of agreements and the number of new agreements concluded each year (1978, 53; 1979, 54; 1980, 79; 1981, 56; 1982, 74) are compared, we can

¹ This is based on some 350 German-Hungarian agreements, a number given by the Hungarian Chamber of Commerce, Intercooperations AG and other sources.

² For information on this point and the following see: Nachrichten für Außenhandel, No. 219 of 11. 11. 1983, p. 5.

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Table 1
Development of the Total Number of Hungarian
Cooperation Agreements and
Cooperation-related Trade

Year	Imports		Exports		Number of Agreements	
	million Forint	% of previous year	million Forint	% of previous year	Number	% of previous year
1978	4,546.1		5,149.7		363	
1979	4,615.3	101.5	6,559.1	127.4	390	107.4
1980	4,310.5	93.4	6,421.9	97.9	451	115.6
1981	5,606.7	130.1	6,469.8	100.7	504	111.8
1982	5,454.2	97.3	7,057.6	109.1	508	100.8

Sources: Hungarian Ministry of Foreign Trade (taken from Nachrichten für Außenhandel (NfA), 11. 11. 1983, p. 5); author's calculations.

conclude that quite a number of former agreements must have expired each year and in 1982 the number of expiries must have been almost as high as the number of new agreements.

In 1982 the 224 German-Hungarian cooperation agreements contrasted with the following cooperation arrangements with other countries: Austria 63, Yugoslavia 38, France 33, Switzerland 27, Sweden 22, USA 21, Great Britain 20, Italy 17 and the Netherlands 8.

Hungary's Foreign Trade

When developments in the trade turnover linked with cooperation are compared with the total number of cooperation agreements, neither imports nor exports appear to have developed in proportion to the number of agreements; in most years, imports and exports lag behind the growth in the number of cooperation agreements. Although the total number of cooperation agreements was stagnant in 1982 – despite a relatively large number of new agreements – Hungary had no real reason to complain because in that year it managed to increase the exports generated by cooperation by some 600 million Forint while imports from the West actually fell by some 150 million Forint. It is evident that new cooperation agreements concluded in previous years did not produce exports until 1982. Not only does this result provide some evidence about the functioning of cooperation agreements even during a period of economic recession; it also reflects the Hungarian efficiency in domestic and foreign trade.

As mentioned above, the Federal Republic of Germany was the leading country in 1982 with 224 agreements.³ Yet if the Hungarian imports and exports

caused by cooperation are taken as the criteria for determining the various countries' positions, Yugoslavia with a turnover of 3.9 billion Forint outstrips the Federal Republic and is the main Hungarian partner in cooperation. The large Hungarian surpluses on imports from Yugoslavia can probably be explained by Yugoslav-Hungarian cooperation projects on Yugoslav territory which mainly help to improve supplies to consumers in Hungary, as in the case of cosmetics which are often almost up to western standards owing to Yugoslavia's cooperation with western countries in that sector.

Although Hungarian expectations concerning the expansion of exports deriving from cooperation may not always have been fulfilled, it is nonetheless true that the annual balance of the imports and exports resulting from cooperation has been in Hungary's favour, due – at least in 1982 – especially to the import/export ratio with the Federal Republic of Germany. Yet, the development of imports and exports as such shows rather clearly that Hungary has so far been unable to achieve any real breakthrough in its exports to the West on the basis of cooperation. The figures also show, and particularly in relation to the Federal Republic – since German exports of some 1.3 billion Forint compare with imports of 2.4 billion Forint from Hungary – that the Western nations have also set their own export targets much too high. Yet, if it is evident that cooperation does not provide both sides with the broad expansions of the market which were hoped for when cooperation was agreed, the present greatly diminished interest in concluding further cooperation agreements is understandable.

Other countries' imports and exports generated by cooperation are well behind those of the Federal Republic (see Table 2) and their placings are different from those based on the number of cooperation agreements.

Table 2
Hungary's Cooperation-linked Turnover with its
Principal Partner Nations in Convertible
Clearances, 1982
(million forint)

Country	Imports	Exports
Yugoslavia	2,048.7	1,835.8
Fed. Rep. of Germany	1,305.1	2,410.4
France	394.1	470.1
USA	448.1	386.1
Sweden	379.7	389.6
Great Britain	369.1	296.5
Austria	210.3	332.3
Italy	71.5	379.6

Source: Hungarian Ministry of Foreign Trade (taken from Nachrichten für Außenhandel (NfA), 11. 11. 1983, p. 5).

³ These figures are lower than those employed earlier in this paper: the Ministry of Foreign Trade obviously applies stricter criteria when defining cooperation.

The importance of cooperation for the national economies involved becomes more evident if the cooperation-generated revenue is expressed as a proportion of the countries' bilateral trade. These figures show pronounced fluctuations in the early 1970s and, in the final analysis, the range of fluctuation makes them almost meaningless. The data are more reliable at the beginning of the 1980s. Transactions resulting from cooperation now account for 10 % of German-Hungarian exchanges of goods with the figure for Hungarian exports slightly exceeding that of imports. The data permits estimates to be made for the other partner nations and in most cases the proportions are somewhat smaller.

If we differentiate between the various sectors, we find that cooperation agreements are now of vital importance for Hungarian exports in certain sectors, such as mechanical engineering (30 %), machine tool engineering (as much as 50 %) and agricultural machinery (almost 100 %). When the total number of cooperation projects is compared with the volume of trade generated by cooperation, on average no cooperation project accounts for any really large volume of trade. Since in reality the distribution is very uneven, however, in the case of many cooperation projects following the initial attendant imports hardly any further movement of goods takes place.

Serious Crisis in Poland's Cooperation

Whereas – for the time being at least – only indications of stagnation can be perceived in Hungary's industrial cooperation with the West, Polish cooperation is now undergoing a serious crisis and may be threatened with complete collapse in the near future. Only a few of the 100 or so German-Polish cooperation agreements existing in the late 1970s are likely to survive 1984. This can be deduced, firstly, from the deadlines of the cooperation agreements concluded up to 1979 and, secondly, from the fact that since 1980 Poland has been able to acquire virtually no new Western partners and only a few of the former agreements can have been extended beyond their agreed terms. Nor can the situation concerning cooperation between Polish enterprises and the other Western nations be any better because, on the whole, the arrangement and timing of those agreements are similar to the German-Polish cooperation arrangements. According to an unpublished Polish analysis, in 1981 only 51 cooperation agreements still existed with the entire Western World, actually falling to 41 in 1982. (In this connection it is interesting to note that the number of specialization and cooperation

agreements between Poland and its CMEA partners has also been greatly reduced as a result of the Polish economic crisis, i.e. from 190 in 1981 to only 156 in 1982, because many agreements have not been extended by continuation contracts after their expiry.)

In addition to the general factors detrimental to East-West cooperation – including the worldwide deterioration in general economic and political conditions – Poland also suffered from the general economic crisis in 1980 and its consequences and from its political instability and the imposition of martial law in December 1981. Thus, almost all the economic and political preconditions necessary for the thriving of cooperation with Poland are lacking.⁴

Before there is any hope of a recovery in Polish cooperation with the West, Poland will have to work hard to convince Western firms that cooperation with Polish concerns does not involve unreasonable economic and political risks and that entrepreneurial cooperation arrangements can expect profitable results not in the distant future but within a comparatively short time. It is a tragedy for Poland that, on the one hand, it now needs the benefits of cooperation with the West more urgently than ever before while, on the other hand, at the same time greater concessions regarding financial success than ever before have to be granted to potential Western partners in the private sector if they are to be prepared at all to enter a cooperation agreement. It is impossible to foresee how Poland will escape from this vicious circle.

The marked downward trend in industrial cooperation has further increased the overall significance of the cooperation project with Fiat Italy which was in any case the largest project between Poland and the West. In 1982 the Polish exports generated by that cooperation, which – unlike most of the other agreements – is certainly not expected to be broken off, accounted for 73 % of all exports resulting from cooperation. So all the other cooperation projects with Western firms produced only 27 % of the cooperation exports. The minor importance of those exports could scarcely be described more graphically than by this figure.

Table 3, based on unpublished Polish material, presents a rather more detailed picture as regards the diminishing significance of Western cooperation from the point of view of exports (for obtaining foreign exchange!) and imports (especially supplies of production inputs for the Polish economy). Figures are available for the first half of 1981 and the first half of

⁴ Cf. K. Bolz, P. Pissula. Die Erfahrungen deutscher Unternehmen aus der Kooperation mit polnischen Wirtschaftsorganisationen, Hamburg 1981, pp. 133ff.

Table 3
Poland's Cooperation-linked Exports and Imports from/to its Partner Nations

	Cooperation Exports			Cooperation Imports		
	1st half 1981 billion Zloty	1st half 1982 billion Zloty	1st half 1982 % of 1st half 1981	1st half 1981 billion Zloty	1st half 1982 billion Zloty	1st half 1982 % of 1st half 1981
All capitalist nations	6.5	4.7	72	1.8	0.5	28
Italy	4.0	3.0	75	0.9	0.4	44
Fed. Rep. of Germany	0.9	0.5	56	0.1	0.07	70
Switzerland	0.4	0.2	50	—	—	—
USA	0.4	0.3	75	0.5	—	—
France	0.3	0.2	67	0.05	0.006	12
Austria	0.1	0.09	90	0.2	—	—
Great Britain	0.09	0.3	333	0.02	—	—

S o u r c e: Foreign Cooperation and Specialization of Industry in 1st half of 1982, Head Office of Statistics, Warsaw 1982, unpublished.

1982. During that period total Polish cooperation exports to the West fell from 6.5 billion Zloty to 4.7 billion Zloty, i.e. to only 72 % of the volume achieved in the first half of 1981. The supplies obtained from Poland by some relatively important partner countries in the first six months of 1982 were only about half of the level for the equivalent period of 1981. Cooperation exports to Italy have fallen by only 25 % owing to the continuing, comparatively successful cooperation with Fiat.

Even in the first half of 1981 Poland's cooperation imports of 1.8 billion Zloty were extremely low but they fell even further in the first half of 1982 to less than 30 % of that figure. The figures in Table 3 clearly reflect the drop in the total number of cooperation agreements. But further conclusions can be drawn from them: despite the fall in cooperation exports, it can certainly be assumed that that part of exports would have been even further reduced if special efforts had not been made in that sector. The drop in cooperation imports indicates Poland's desperate attempts to keep all its imports low for foreign exchange reasons — despite all the detrimental consequences for Poland's industrial output and export capacity.

These figures also show Poland's hopeless position in solving its economic problems. While cooperation was formerly accompanied by a certain degree of euphoria in Poland as regards the objectives it was to achieve, for the time being it is impossible to attach any hopes whatsoever to that sector as a means of developing the Polish national economy.

Growth Prospects

The political conditions in the 1970s certainly favoured the expansion and intensification of industrial

cooperation between East and West. If, despite this, the real breakthrough in cooperative relations has not been achieved — and this is true even of Hungary's cooperation with the West — the reasons for this failure must be sought in the economic sector and in the fact that the problems of collaboration between the two systems have been particularly serious in relation to entrepreneurial cooperation. As in the case of East-West trade, the signs of stagnation in East-West cooperation which could be perceived towards the end of the decade can be explained primarily by the unfavourable general economic conditions in the Eastern and Western nations involved in cooperation.

The downward trend of East-West cooperation which was heralded at the beginning of the 1980s can to some extent also be attributed to the drastic deterioration in East-West political relations but this did not in itself initiate that trend. This view is shared, inter alia, by Hungarian experts on cooperation, both theorists and practitioners, who cite economic factors as the principal cause of the unsatisfactory development of cooperation, referring to the political factors only as a secondary cause.⁵

Even former keen advocates of East-West cooperation now have to resign themselves to the fact that, despite many years' experience of cooperation, no particular progress has been achieved; instead, and precisely because of that experience, both sides have learned that the objectives of cooperation often cannot be fully achieved (e.g. the Western partners' aim of expanding their markets in the CMEA or reducing costs,

⁵ Cf. B. Kádár: Formen und Motivationen der industriellen Kooperation, in: Marketing in Ungarn, Vol. 4, 1983; and Nachrichten für Außenhandel, No. 219 of 11. 11. 1983.

or the Eastern partners' expectations regarding technology transfer, the strengthening of their competitive position in the West, savings in foreign exchange and higher foreign exchange earnings). Moreover, even after more than ten years' practical experience the fundamental, frequently described problems of cooperation – most of which are inherent in the system – are still a routine element of cooperation, a situation which has constant detrimental effects upon some of its objectives. So it is not surprising that, in view of the general deterioration in the economic and political preconditions for cooperation, those responsible in the East and the West are increasingly posing the question as to the benefits and risks of this form of East-West collaboration.

The thriving of East-West entrepreneurial cooperation requires stability and calculability of general economic and political conditions. Because neither can be expected in the foreseeable future and also because certain processes are inducing a change in the world's economic and political priorities, it is at present impossible to foresee any serious prospects for East-West cooperation.

Some Theses Concerning Future Developments

In order to offer more than just an overall view of the growth prospects of East-West cooperation we shall examine in thesis form some phenomena and factors which help us to understand the present situation of East-West cooperation and/or draw conclusions concerning the trends in development over the coming years:

□ In view of the manifold problems and risks of East-West cooperation it is no longer surprising that the forms of cooperation have been only slightly intensified since cooperation was established in the late 1960s. It can be proved that firms from the OECD nations have so far preferred forms of cooperation contracts which involve them in only a small degree of commitment to the Eastern partner. Licensing agreements in particular are still employed essentially as a means of acquiring better access to the socialist markets. Since the low growth rates and the debt problems in the socialist nations give little hope of any real expansion of Western exports to that region in the foreseeable future, Western firms' interest in cooperation is bound to remain seriously subdued for the medium term too.

□ We are all too well aware that for reasons inherent in the system and the markets a large number of socialist firms had little interest in cooperating with the West. Nor can any change be expected in the future, particularly

since even those socialist firms with many years' experience of cooperation are now questioning the advantages of cooperation with the West in view of what has actually been achieved. Like the Western firms, they too often conclude that the risks of cooperation and the difficulties to be overcome are disproportionate to the profit. As long as Western firms usually give their Eastern cooperating partners access only to second-class technology, the prospects of exporting to the West and thus of foreign exchange earnings are hardly likely to improve. In addition, the cooperation agreements frequently include market restrictions which prevent or impede the Eastern partner's access to Western markets. Even if the socialist enterprise is able to improve its market position in its own country or in the CMEA as a result of the technology transfer effected as part of the cooperation, this does not at all mean that the demand for entrepreneurial benefits from cooperation has been answered in the affirmative. In the final analysis, a satisfactory response to the demand for benefits from cooperation with the West will depend first and foremost upon the net inflow of foreign exchange because the cooperation is usually contingent upon the employment of a hard currency. Yet only in special cases can foreign exchange be earned from CMEA sales.

□ Whereas over-employment in the Federal Republic and other countries formerly encouraged the conclusion of cooperation agreements with the socialist states, the labour market is now unequivocally acting as a brake upon cooperation. A quite significant effect is that cooperation is now seen as a risk to jobs which are in short supply in any case. It should be added that, as a general principle, the existence of unused production capacities cannot favour cooperation. It is very improbable that firms which postpone investment in their own countries because of unused capacities and their unfavourable assessment of the market situation will enter into cooperation arrangements with the Eastern countries. Moreover, industrial involvement in the socialist countries no longer necessarily produces a substantial improvement in the overall cost situation, especially if in earlier years this was contingent upon low prices for raw materials.

□ Whereas during phases when their production equipment was fully utilized Western firms may have transferred the production of certain items in their own range of products – e.g. lathes of a specific size and capacity – to enterprises in Eastern Europe and used their own equipment for more valuable products, it may now once again be profitable to manufacture in their own works the products formerly transferred to the

Eastern cooperating partner in order to make better use of capacities, thus reducing the overheads per production unit.

□ The socialist nations must also have realised by now that other economies – such as the so-called newly industrializing countries in the Far East – can often offer Western firms more favourable cooperation than they can, especially since some socialist nations themselves are now endeavouring to take advantage of the lower costs of the newly industrializing countries.

□ The constant references in this paper to economic conditions do not relate solely to the cyclical movements and trends in international trade but also to the radical restructuring processes which have long been taking place. Mention has already been made of the process of integration of the newly industrializing countries into the world economy. Nor will East-West cooperation remain unaffected if the growing tendency to transfer high technology only in conjunction with capital continues;⁶ in other words, such transfers are increasingly taking place as part of the interlinked system of the multinational firms. Competition often makes it impossible to allow others a share in the benefits gained from modern technologies which have been developed in return for a high capital outlay. If modern technology is in fact employed in other countries, this is not by way of licensing arrangements but increasingly through direct investment, i.e. the technology is accompanied by the

firm's own capital. Only in this way can the firms retain their full power of control. Although several socialist nations now offer the possibility of setting up joint ventures, the large majority of Western firms prefer to invest their technology and capital in other countries, and especially in South-East Asia, whose economic conditions and economic systems are less restrictive upon the firms' room for manoeuvre than those of the CMEA countries. If they retain their existing arrangements for the commitment of foreign capital, within the foreseeable future the socialist countries will find it almost impossible to ensure an inflow of the most modern technology by way of cooperation agreements. As long as Western firms can employ their capital and technology in countries with comparatively liberal investment laws and with better prospects of profits, they will shun the cumbersome socialist economies which restrict their room for manoeuvre. In future the socialist countries will have the best chance of being chosen as a partner in cooperation only when it is a question of utilizing and marketing second-class technologies.

□ One vital factor affecting the prospects of developing East-West cooperation has not yet been mentioned: COCOM. No matter how long the lists of embargoes eventually become or how the controls are strengthened to maintain export restrictions, one thing is certain: the precautions taken by the Western nations – led by the USA – on the grounds of security will be more detrimental than ever to industrial cooperation with many countries and especially with the socialist states.

⁶ Cf. B. K á d á r, op. cit., pp. 20 ff

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