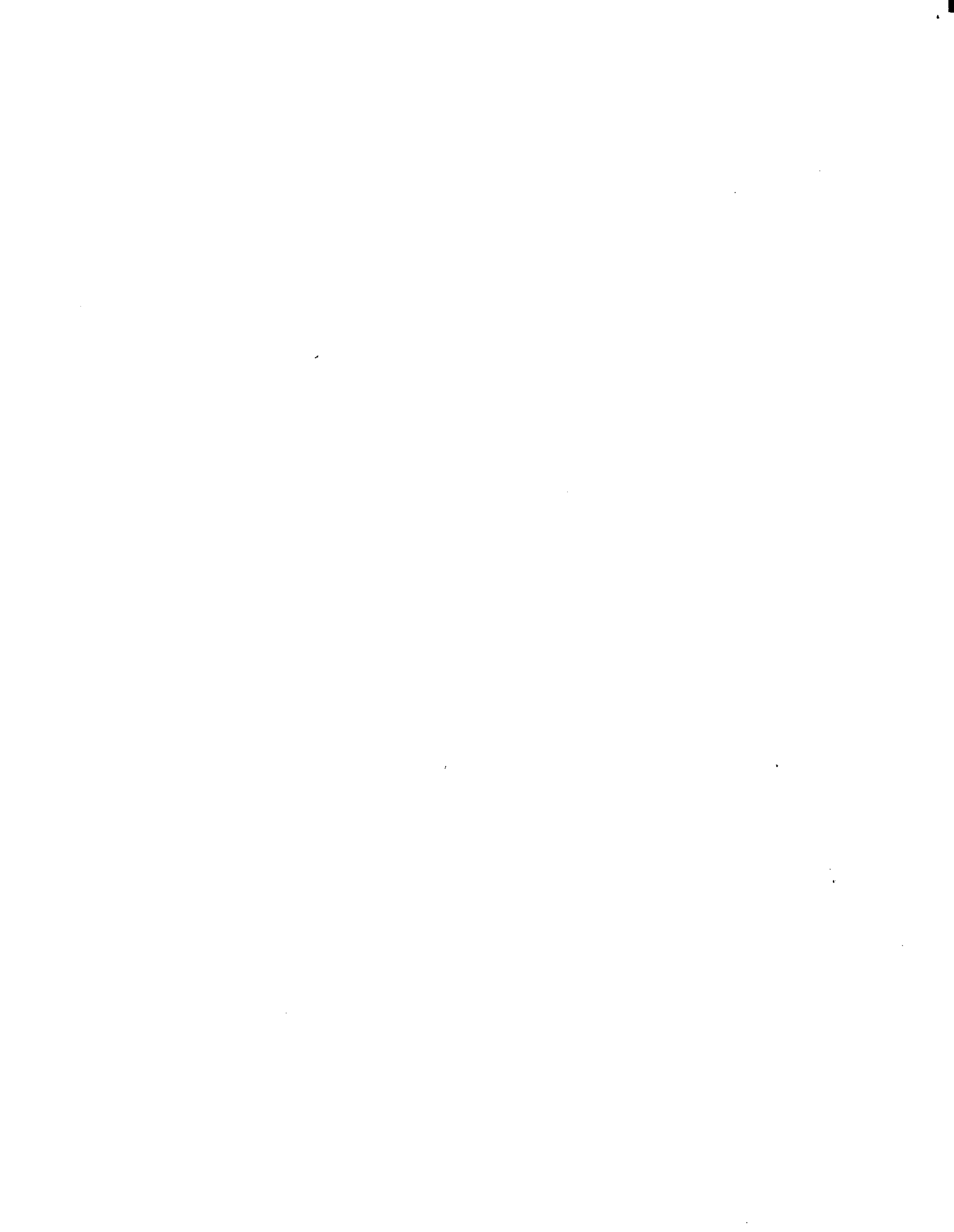
THE WILLIAM DAVIDSON INSTITUTE
AT THE UNIVERSITY OF MICHIGAN BUSINESS SCHOOL

East-West Joint Ventures in a Transitional Economy: The Case of Slovakia

by Sonia Ferencikova

Working Paper Number 27
March 1997

The research for this paper was funded by a grant from the Fulbright Foundation. The author gratefully acknowledges this support and also thanks Jan Svejnar, Vern Terpstra, Katherine Terrell, and Martha Lee for valuable comments on earlier drafts of the paper. The paper is the result of examination of a number of joint ventures since 1993. Comments are welcome and should be addressed to the author. (See page 1 for coordinates.) Copyright Sonia Ferencikova, 1997. Disseminated by the William Davidson Institute with permission of the author.



Abstract

This article is a contribution to the discussion about the effects of FDI on the transitional economies. The paper isa result of the examination of a number of joint ventures in the Slovak Republic since 1993. The author shows the positive and the negative impacts of FDI on the Slovak economy in four joint venture case studies (Whirpool, Volkswagen, BC Torsion, Samsung-Calex). In the conclusion she underlines many positive effects of the FDI on the individual firms, but at the same time she stresses the limited external effects on the Slovak economy.

East-West Joint Ventures in a Transitional Economy: The Case of Slovakia

Sonia Ferencikova
Associate Professor of International Business
Department of International Business
University of Economics
Dolnozemska 1
852 19 Bratislava
Slovak Republic
&
Fulbright Scholar
Business School University of Michigan
701 Tappan St.
Ann Arbor, MI 48109-1234
USA

The research for this paper has been funded by grant from the Fulbright Foundation. I gratefully acknowledge this support as well as the possibility to issue the research in the *William Davidson Institute Working Paper Series.* I would like to thank to Jan Svejnar, Vern Terpstra, Katherine Terrell, and Martha Lee for the valuable comments on the earlier drafts of this paper. This paper is a result of the examination of a number of joint ventures since 1993. The research involves interviews with enterprise managers, monitoring of international and Slovak economic press and statistical data. Comments are welcomed and should be addressed to the author (the mentioned addresses or sona_ferencikova@ccmail.bus.umich.edu or ferencik@internet.sk).

1. Introduction: Foreign direct investments in transitional economies

The political transition which swept across Central and Eastern Europe (CEE) during the late 1980s was almost universally recognized as epochal in its character. However, it quickly became apparent that the political and economic reform would take far longer to achieve than the more-or-less peaceful overthrow of previous centrally-planned structures. Most of the countries faced the need to redefine national identities, to establish new forms of politics and to realize economic reforms. In the early stages much was expected -- especially economically, but also politically -- from an anticipated wave of foreign direct investments (FDI) and also from privatization. In the privatization, a variety of schemes was adopted ranging from the issuing of vouchers to citizens that could be exchanged for shares of the former state-owned companies, for example in The Czech and Slovak Federal Republic (Czechoslovakia) in 1992 and later in the Czech Republic, to a greater dependence on foreign investments (for example, in Hungary).

It is obvious that foreign investment played an important role in the transition process: especially multinationals have privatized and restructured huge state-owned companies, they have increased their export performance and brought needed capital, technology and know-how to these regions. However, when we follow the situation from a broader perspective, more difficult questions emerge: What are the concrete impacts of FDI on the recipients' economies? "What role is Central Europe going to play in the global economy? Will increasing foreign direct investment turn Central Europe into a region of subsidiaries -- a passive recipient of crumbs off the global high table? Or will it boost overall competitiveness and spur local companies to become active global participants?" (*Business Central Europe* , 1996b: p.39-40).

The discussion goes on: many politicians, economists, researchers and reports underline positive effects of FDI on transitional economies (see, for example Dunning, 1993). Four key roles for FDI in the transitional economies in the 1995 UNCTAD annual report are also identified. (UNCTAD, 1995) Companies with FDI in Central and Eastern European countries have seen the highest level of productivity. Besides, inward investment has enabled the restructuring of key industries. FDI has promoted sales and exports (thereby reducing trade deficit) because foreign firms use their distribution network in Western Europe. Finally, enterprises owned or joint ventures controlled by foreign companies have seen the highest level of restructuring in the region. The report acknowledges a negative impact on employment in firms with foreign involvement, but it concludes that FDI can have a stabilizing effect on firms enabling them to overcome the "shock" of transition. The authors argue that multinationals initiate a cycle of restructuring, by bringing subsidiaries into their global networks and creating direct and indirect links with local companies. In their words as the economy develops, firms become increasingly competitive and some turn into multinationals in their own right. Restructuring should be then reinforced by interaction between foreign and local

global players. This situation was typical for Asia twenty years ago. However, the pattern has changed totally since the 1970's.

The authors of the next report also argue that economic growth and FDI inflows in the CEE economies are closely related. In their opinion and research results FDI strengthens economic growth and economic growth leads to more FDI that further stimulates growth (UNCTAD,1996: p. 66 - 67). They underline that the Visegrad group (Poland, Hungary, The Czech Republic, The Slovak Republic, Slovenia) which has the highest growth rates and strongest aspirations to integrate together with Western Europe, accounted for over 65% of inflows to the CEE region in 1995. Only in Slovakia has the good economic performance not been coupled with significant increases in FDI inflows. Generally, FDI inflows to CEE have soared to record levels. Having remained stagnant in 1994, FDI inflows to CEE nearly doubled in 1995. They reached an estimated US$ 12 billion. In 1995, the region of CEE accounted for 5% of world inflows, compared with only 1% in 1991. This growth was driven not only by waves of privatization, but also by economic recovery in some countries, especially in CEFTA countries (CEFTA - Central European Free Trade Agreement) (Table 1).

Table 1 FDI inflows in CEFTA countries

	1995	1990-1995	FDI per capita-1995
	(US$ bil.)	(US$ bil.)	USD
Hungary	4.4	11.2	682
Poland	2.5	7.148	130
Czech Republic	2.5	5.666	267
Slovak Republic	0.2	0.775	138
Slovenia	0.15	0.501	250

Source: Adapted from Done, 1996 and OECD, 1996

While many specialists insist on the important and dynamic role of FDI in central and east European transition, several authors, on the basis of empirical research, point to the fact that the experience of FDI in the relatively short time of transition is far more uneven. Some studies are focused on the different implications of FDI in the former East Germany (for example, see Grabher,1997), in Hungary (see Sadler , Swain, 1994) or in Slovakia (see Ferencikova, Smith, 1997). In a study of the Vienna-based WIIW research institute made by G.Hunya (see *Business Central Europe* , 1996b: p.39 - 40) there is dramatic dichotomy between multinationals and local companies in Hungary which is the biggest recipient of FDI among CEE countries. G. Hunya concludes that companies with foreign involvement may well be the only dynamic part of the Hungarian economy -- they have clear strategies,

invest more, restructure more rapidly, and have modern technology, management and Western market access. The problem is, whether these advantages benefit local companies and the Hungarian economy as a whole. Many companies with FDI are modern islands of export-oriented processing and assembly, combined with high unemployment and abandoned capacities in traditional industries. Hungary's economy growth is slow (3% is expected this year), unemployment, and inflation high as well as a current-account deficit. Foreign investors also contributed to these problems, via large initial lay-offs and a tendency to import more than they export. However, the major benefits of rapid restructuring and high investment inflow should be long-term. In contrast to the Hungarian strategy of integrating globally through multinational networks, the neighboring countries -- the Czech Republic, Poland and especially the Slovak Republic -- are oriented more to keeping companies in local hands or attracting more medium-sized investors.

2. Foreign direct investment in the Slovak Republic

Every government in Czechoslovakia and later in the Slovak Republic (Slovakia) since "the velvet revolution" has stressed the importance of FDI to the transformation process. At the beginning of the transformation process in the 1990's the Ministry of Economy and the Slovak Academy of Sciences estimated that at least SKK 12.5 billion (US$ 416 million) of foreign investment per year is required to generate minimal economic growth, ideally reaching between SKK 25 - 40 billion (US$ 833 million - 1,3 billion) (Balaz et al., 1995, : p.470). The level of FDI in Slovakia reached SKK 24,2 billion (US$ 808 million) at the end of the second quarter of 1996 which means investment US$ 155 per capita. Capital inflows have been smaller compared with those in other best developed transition countries (see table 1), but mostly higher than in other "less developed" CEE-countries.

They are a number of reasons why FDI has been relatively limited in Slovakia, in comparison with the other CEFTA-countries. First, the establishment of an independent Slovak state after the break-up of Czechoslovakia in 1993 meant that investor uncertainty was high, fearing that the potentially unstable investment environment could develop in this country. Second, the initial level of FDI in Slovakia in 1993 was low in comparison, for example, to Hungary, Poland, Yugoslavia where economic reforms had started earlier (for example the first joint ventures in Yugoslavia were established in 1968), and also in comparison to the Czech Republic. Slovak politicians and economists who applied the independence argued that one clear reason for independence lay in "pragocentrism" (decision-making about Slovakia in Prague -- in the Czech part of the common republic -- in favor of the Czech lands). Some argue (see Sestak, 1997) that 85-90% of FDI placed in Czechoslovakia from 1990 till 1992 was directed to the Czech parts of the republic, and only 10-15% to Slovakia. Thirdly, there was some hesitancy in opening the capital of Slovak enterprises to foreign participation during the privatization process. The general trend has been to increasingly favor domestic

investors and owners, even when capital scarcity is high in the domestic economy. The policy environment has resisted the "wholesale selling" of the Slovak economy to foreign investors, partially as a result of Hungarian access and results in this field, and partially as a result of its own interests. However, there is no doubt that "newly-established" domestic owners will negotiate in many cases with foreign investors about their entry, especially in the "undercapitalized" enterprises. The difference is in the fact that the state shifted "decision-making power" and eventual profits from selling domestic companies to the new owners. This eventual loss for the state budget on the one hand could be connected with a big advantage for foreign investors on the other hand -- now in the case of their interest they can negotiate with concrete owners and not with the state bureaucracy. Finally, when we speak about the FDI-level in Slovakia, we cannot forget the size of Slovak market. As for number of consumers (inhabitants), it is two times smaller than the Czech and Hungarian market and about seven times smaller than the Polish market. Only the Slovenian market from CEFTA-group is smaller than the Slovak one.

As mentioned above, only in Slovakia from Visegrad group has the good economic performance (see table 2) not been connected with significant increases of FDI inflows. Slovakia is even the best (as for the inflation rate) or among the best (GDP growth) countries in EEC region. However, with the end of the privatization process and with the clearer orientation of the country towards the integration with Western Europe we also expect the increasing inflow of FDI in the country.

Whilst being comparatively low, levels of FDI into the Slovak economy have grown steadily since the early 1990s. The smallest absolute growth was recorded in the first year after independence (1993) because of investor uncertainty over the geo-political stability of Slovakia as a new state. While FDI picked up in 1994 and 1995, in the first half of 1996 the growth of FDI seemed to get slower. By the middle of 1996 9,419 entities with foreign involvement were established in Slovakia -- 3,793 (60%) of them were wholly-owned foreign companies with the volume of FDI of SKK 11,862 bil. (US$ 395 mil.). 5,626 (40%) were joint ventures with the foreign capital totaling SKK 12,343 mil. (US$ 411 mil.) and the domestic capital of SKK 8,803 bil. (US$ 293 mil.). It means the average wholly-owned foreign company was very small -- it placed only US$ 104,000 in its business in Slovakia. The average foreign participation in the joint venture was also only low and reached the volume of US$ 73 000. About 80% of all companies with FDI in Slovakia are even much smaller: they have fewer than 20 employees (many of them have 1 - 2 employees) and the volume of FDI in such companies is less than US$ 3,000. Their activity is usually oriented into trade -- they import and sell the foreign goods on the Slovak market. As for the number of enterprises, the smallest group, but as for the capital investment the strongest group is the group of so-called strategic investors (often multinationals) with their investment totaling more than SKK 100 mil. (US$ 3,3 mil.) per an enterprise. For example, in 1995 their number was 38 (0,46% of all

companies with FDI in Slovakia), but their FDI reached over 75% of total FDI in the country. (See Ferencikova,1996: p.32)

Table 2 FDI and basic macroeconomic figures in Slovakia

	1993	1994	1995	1Q1996	2Q1996
FDI (SKK bil.)	10,8	16,5	21,9	22,5	24,2
FDI (US$ mil.)	360	550	730	750	808
Annual FDI growth (%)	62,8	53,8	32,3	-	-
FDI per capita (US$)	68	109	138	142	155
GDP (US$ mil.)	11,045	12,166	16,0	-	-
GDP per capita (USD)	2,084	2,295	3,000	-	-
GDP growth (%)	-4,1	4,8	7,2	7,3	6,9
Share of private sector					
on GDP (%)	39	58	65	71	
Production growth (%)	-13,5	8,5	8,4	7,1	3,4
Productivity growth(%)	2	7	6		
Inflation rate	23,2	12,1	7,2	6,1	6,2
Unemployment rate	10,4	14,8	13,1	13,3	12,1
Foreign debt (US$ bil.)	3,7	4,3	5,8	-	6,4
For. exchange.reserves					
(US$ bil.)	0,4	1,7	3,4	3,6	3,7
Trade balance (US$ bil.)	- 0,99	0,06	0,02	-0,5	-0,9

Note: FDI (1992) = SKK 6,6 bil. = US$ 220 mil. Calculations are based on exchange rate US$ 1 = SKK 30.

Source: Adapted from Sestak, 1997and OECD,1996

In the middle of 1996 the investment to Slovakia came from 89 countries. As a country, the biggest investor is Austria (table 3). Austria is a neighboring country to Slovakia, partially sharing common history. The Austrian businessmen know the economic, political and cultural environment of Slovakia very well. Many people, especially managers, in Slovakia speak German -- the language spoken in Austria and the distance between the capitals of both countries Vienna and Bratislava as centers of both politics and business is only about 30 miles. The similar situation in many features exist for the second and the third investing country -- Germany and the Czech Republic. The USA is the fourth biggest direct investor to Slovakia: on the

other hand many US financial institutions take part in large projects in Slovakia, especially through syndicated loans, for example Citibank in Slovak refinery Slovnaft, J.P. Morgan in Vodohospodarska vystavba, Chase Manhattan in the biggest Slovak company - steel-producing company Vychodoslovenske zeleziarne and recently Bank of America and Citibank in the Slovak-American joint venture Eurotel.

Table 3 FDI in Slovakia by country of origin (1996)*

Country	Volume of FDI (US$ mil.)	%	Number of companies
Austria	166,5	21,0	1,412
Germany	157,4	19,8	1,161
Czech Republic	120,0	16,4	1,829
USA	82,97	10,5	223
Great Britain	51,8	6,5	74

* by June, 30, 1996
Source: Bulletin SU SR (1996b)

Slovakia is not different from other CEE economies in terms of regional imbalance in the distribution of FDI. Over 60% of FDI is located in Bratislava -- the capital of Slovakia -- largely in the Volkswagen investment (Volkswagen is the main foreign investor in manufacturing) and many others in manufacturing sector plus banking and financial investment, especially from Austria etc. In the German study EAO Empirica Delassas from 1994, Bratislava was evaluated as the best perspective investment site among 414 European regions. The study took 14 incentives into account: the quality of labor force, research, transportation and communication facilities, environment, position etc. (See Regional Study Supported by the EU Commission by the Directorate General XXIII and the VW Bratislava, 1996). However, most regions in Slovakia have received only limited investment and many (particularly those in the most peripheral eastern and southern areas) have close to none.

Most of FDI in Slovakia has been in the manufacturing sector (43% of the whole volume in the middle of 1996). Among the biggest investors in this sector are Volkswagen (Germany), Rhone-Poulenc (France), Samsung (Korea), Molnlycke (Sweden), Whirlpool (USA) etc. The wholesaling and retailing sector has also received a large proportion of FDI (32% at the same period). K-Mart investment alone (purchase of several key outlets of the PRIOR department store chain) accounted for some 35% of FDI in this sector. The Coca-Cola and Pepsi-Cola companies have also started their operation on the Slovak market (but they invest

through their branches in the Netherlands and Holland Antilles). The third significant sector is finance and insurance (17%) where a number of Western banks have investment, for example, Creditanstalt and Volksbank (Austria), Credit Lyonnais (France), German financial and insurance companies etc. Although Slovakia has many propositions for tourism, hotels and restaurants have attracted only 2% of FDI.

It is interesting to follow the relation between joint ventures and the wholly-owned companies and their share in mentioned sectors (table 4 and 5).

Table 4 Number of enterprises with foreign involvement in Slovakia

Number of enterprises	1993	1994	1995	1996*
Together	2,825	5,143	7,207	9,419
- wholly-owned companies	787	1,816	2,696	3,793
- joint ventures	2,038	3,327	4,511	5,626
Share of WOC (%)	28	35	37	40
Share of joint ventures (%)	72	65	63	60

*by June, 30, 1996

Source: Ferencikova,1996: p.31 and Bulletin SU SR, 1996a

Table 5 Share of investment of wholly-owned companies and joint ventures in certain sectors in Slovakia in 1995 (%)

Sector	Share of investment of wholly-owned companies	Share of investment through joint ventures
Manufacturing	11,1	88,9
Wholesale + retailing	79,5	20,5
Finance + insurance	39,4	60,6
Hotels + restaurants	97,1	2,9

Source: Ferencikova, 1996:p.33

Table 4 shows the decline in the domestic share of joint ventures in 1993-1996. The local share of joint ventures reached the highest level at the time of establishing new independent state when investors preferred to share the risk with the domestic partners. With the growth of economic and political stability they tend to establish

wholly-owned companies in greater degree. However, this general rule has some limitations, especially in manufacturing. Manufacturing has only a small amount of green-field investment or investment in wholly-owned companies as foreign companies seek out existing production facilities to enable them to capitalize existing equipment, skill level, market knowledge, etc. At the same time, manufacturing requires much higher volume of investment than for example distribution or tourism and, in this sense, it is riskier. Therefore foreign companies prefer to share capital costs and entrepreneurial risk in manufacturing by establishing joint ventures and using existing capacities, at least at the first stages and years of their activity when they test the environment and market. Many investors saw CEE as a prime site for access to new markets after 1989. Therefore they tried to ensure this access by building upon the local knowledge of existing domestic firms. Furthermore, in many cases their entry into state-owned companies was allowed only under the condition of the creation of joint venture (for example the joint venture Eurotel established by Slovenske telekomunikacie with the share of 60% and Bell Atlantic and U.S.West with the share of 40% for the creation of global system for mobile communication in Slovakia).

However, recently we have noticed a new trend in investor strategy, especially of large multinationals. This trend is the incremental "take-over" of ownership of joint ventures. In several instances in Slovakia during the last two-three years so multinationals have steadily increased their share in joint venture (including the biggest investor in manufacturing -- Volkswagen). A number of reasons exist for it: the multinationals' global strategy, conflicts between Slovak parent and foreign investor over joint venture strategy and over the control of key services such as energy, heating, etc. (joint ventures are usually situated in the former plants of Slovak parent companies), the inability or unwillingness of Slovak parent company to match investment funds required to maintain existing level of share ownership, and the problems in Slovak parent company requiring quick money through the sale of its shares in joint venture.

For example, from a survey of 10 of the large joint ventures in Slovakia, (Outrata et al.,1996) found that in 9 cases foreign firms expanded or intended to expand their share of control (the tenth company did not answer this question). The survey included such multinationals as Volkswagen, Rhone-Poulenc, Samsung, Siemens, Molnlycke etc., that means most of the biggest investors in manufacturing. At the first stage of their entry they sought new markets in CEE and the good geographical position towards huge markets in the former Soviet Union. The decline of standards of living and consumption associated with the first years of transition has meant that their expected market benefits are not as great as at first thought. The major factor in investment has became the existence of a relatively low-wage but skilled labor force (the average monthly wage level of SKK 7200 or US$ 240 was reported in 1996 in Slovakia) and the possibility to decrease production costs and become more competitive on global markets by using this advantage. (Some authors, for example Tancosova, 1996, agrue that Slovakia has wage levels 40%lower than those

in Hungary, 25% lower than those in Poland 10% lower than those in the Czech Republic.) This situation is advantageous for multinationals, but disadvantageous for the recipient's economy from the point of view of its restructuring needs.

3. Whirlpool - case study

The largest direct investor and at the same time the largest American investor in Slovakia was K-Mart, a company specialized in retail distribution with US$ 65 million of investments. In March 1996 the K-Mart Corporation sold its distribution outlets to Tesco, a British company. The largest US investor in Slovakia has become Whirlpool. Its investments has reached the sum of SK 321.6 million (approximately US$ 10.6 million at the end of 1995).

The Whirlpool Tatramat joint venture was established in May 1992. Tatramat was Czechoslovakia's first producer of home appliances and had a monopoly in certain products (for example washing machines) in the domestic market at that time. The motives for the creation of this joint venture were as follows -- for Tatramat it was a way of modernizing production and of securing an important capital investment. For Whirlpool joint venture was a part of Europe's company strategy of cheap production and market access in Eastern and Central Europe. Whirlpool gained 43.8% share in the joint venture for capital transfer of US$ 6 million in 1992. In the next years Whirlpool has increased its share in the company so that in 1993 it had 49.9% of shares and in 1996 72% totaling a further US$ 5 million . The intention of Whirlpool is to buy out the Tatramat part of ownership and to create the wholly owned company. This situation has arisen for two reasons. On one hand, Whirlpool has followed a strategy similar to other big investors of gradual increase of share to ensure total control of the company. On the other hand, the other parent company Tatramat has needed capital because of falling production and market loss for its existing production of water boilers.

The results of the joint stock company Whirlpool Tatramat have been very successful. For example in the year 1995 the company experienced double growth and the total turnover was higher than SK 2 billion (approximately US$ 67 million). In three years the company has become the 42nd largest industrial enterprise in 1995 in Slovakia in terms of turnover, and as a whole the 27th largest industrial enterprise. Production has expanded dramatically and in 1995 the company produced more than 217 thousand washing machines. At that time the company had 385 employees. The total sum of investments reached over SK 600 million in the years 1992-1995 (approximately US$ 20 million). As mentioned, Whirlpool participated with the sum over US$ 10.6 million, and Whirlpool-Tatramat investments reached over US$ 9.3 million.

The joint venture produces washing machines and at the same time it sells the whole product line of Whirlpool in Slovakia. In 1995 the company won a leading position on the Slovak market of so-called white household appliances and a third of the Slovak market. In the years 1996-1997 the company has planned investments of nearly US$ 25 million for the new production of the front loading machines (the so-called project Delta).This project represents on European market a fully new front loading machine with new elements of washing and drying. The preparation of this production consists in the adjustment of new production areas and the installment of technology. Whirlpool -Tatramat introduces this product as the third in Europe after the plants in Schondorf, Germany and Napoli, Italy. In the year of 1995 the commercial part of company won the prestige prize Whirlpool Europe for the satisfaction of business partners with the services, products, flexibility, quality of delivery etc. -- the complex of criteria given by Whirlpool central. These criteria were evaluated by the market research company GFK in twenty European countries.

In terms of corporate division of labor, Whirlpool-Tatramat is located as one of a series of assembly plants in Europe. Whirlpool's European expansion started in 1986 with the acquisition of three European producers. Nowadays Whirlpool's products are produced in several European countries: in Italy (Napoli - front loading washing machines, Siena - freezers, Trento - refrigerators, freezers, Cassinetta - refrigerators, stoves, ovens), Germany (Neunkirchen - dish-washers, Schondorf - front loading washing machines, dryers, Calw - refrigerators, freezers), France (Amiens - washing machines and dryers), Sweden (Norkopping - microwaves) and Slovakia (Poprad , the joint venture Whirpool-Tatramat - top loading washing machines). In Whirlpool there is a centralized management reflecting in centralized development of products, purchase and marketing. Corporate strategy is developed from Whirlpool Europe headquarters in Italy. In Slovakia local Tatramat products have been phased out of production and replaced by Whirlpool products developed in Western Europe and USA.

Whirlpool-Tatramat has an important place in the eastward expansion and it is found to be a key bridgehead into both Eastern and Central Europe and Africa. Access to the former Czechoslovak market and securing of a good starting, even monopoly position were primary motives for Whirlpool's entry to the joint venture. As a part of the joint venture agreement Whirlpool secured a guarantee from the former federal government that it would have a complete monopoly on the import of domestic appliances into the Czech and Slovak Republics for two years and that no tax would be charged on sales of these products over the same period. As a result Whirlpool has a market share in Slovakia about 90%. In the time of negotiation Whirlpool also insisted on the right to terminate operations in Czechoslovakia in the case of division of Czechoslovakia into two independent states. It was persuaded that it would not happen. The joint ventures began to operate in 1992 and in a few months Czechoslovakia divided into the Czech and the Slovak Republic, but the activities of Whirlpool were not threatened.

So, there is no doubt that the creating of the joint venture was a successful step from the point of view of Whirlpool. The next question is: How important is Whirlpool -Tatramat for the domestic transitional economy and which positive and negative effects have been noticed?

Transfer of technology and know-how

The transfer of technology has been partial. The great deal of machinery has been retained (for example pressing equipment, cutters) and integrated into the re-worked assembly system. The existing technology was working well and capable of being re-positioned and adapted to the new system. The organization of production has been transformed by the introduction of conveyor assembly that replaced static production units. Also a new paint unit has been introduced to increase efficiency. It was sufficient for the productivity increase because of low labor costs and so full-scale technological modernization was not necessary. On the other hand, further new production lines are being introduced. Whirlpool-Tatramat is engaged solely in assembly which means the original development was phased out of the activity of the company. Some employees take part in partial development programs. The Whirlpool-Tatramat has become the testing place for the new products and the testing place for all Whirlpool's factories producing washing machines in Europe. Transfer of Whirlpool company culture, management and incentive structure has been more problematic than technology transfer. Refusal to agree with Whirlpool management systems, culture and conditions together with other factors caused dramatic employment decline.

Employment

In the year 1992, 750 employees were transferred from the parent company Tatramat to the joint venture, but by late 1996 only 348 remained. Productivity has increased dramatically: from 130 units of output per employee in 1992 to 660 units in 1996. In the year 1992 Tatramat had approximately 2800 employees. In four years about 2200 employees lost their jobs. This problematic situation on the labor market is reflected in the wage levels. They as a whole are not high in comparison to the other joint ventures. Production workers earn approximately the average wage of industrial workers in Slovakia. Great emphasis is however placed upon the system of gainsharing in which wages depend on company profit and upon the system of worker recognition based on individual productivity, flexibility etc. One reason for the productivity increase results from just these factors. According to the general director of Whirlpool - Tatramat, (*International Business Cooperation* 1996b) the enterprise produces more than 250 thousand units in a year, but in certain conditions it is able to produce 750 thousand - 1 million products. Therefore in the future he plans the growth of employment of workers, but not the administrative staff. He noted that they are all Slovaks (especially young and flexible) in the managing posts with the exception of one manager.

Position on home market and export

According to managers, 9 of 10 top loading washing machines sold on domestic market were produced in Poprad, and 6 of 10 front loading machines were imported from Whirlpool's others plants in Europe. The company also imports other products from Whirlpool's typical product line. It has introduced a new brand Ignis destined for the lower income segment. While access to the former Czechoslovak market was a primary motive for Whirlpool's entry into joint venture, over 80% of production is exported. In the year 1994 the company started to export to the other Eastern and Central European countries and also to Argentina and Western Europe. It is obvious that Whirlpool-Tatramat will play an important role in Western European markets -- the production costs in Slovakia in comparison to the producers in France, Germany and Italy are lower. For example only the average wage of worker in Tatramat-Whirlpool is only about SK 8000 (US$ 267) per month.

Table 6 Sales distribution of Whirlpool-Tatramat in the years 1992-1995 (%)

	1992	1993	1994	1995
Former Czechoslovakia	100	-	-	-
Czech Republic	-	54.2	27.1	19.0
Slovak Republic	-	45.8	25.1	16.3
Hungary	-	-	15.0	8.3
Poland	-	-	5.6	4.1
Russia	-	-	0.6	0.1
France	-	-	2.8	11.9
Italy	-	-	3.3	5.7
Spain	-	-	3.9	5.0
Argentina	-	-	16.7	29.5
Total (%)	100	100	100	100
Total (number of wash.mach.)	6,828	36,207	93,303	214,567

Source: Adapted from Ferencikova, Smith, 1997

Creation of network of domestic suppliers

In order to reduce inventory, storage, and transaction and transportation costs, Whirlpool-Tatramat has steadily increased local inputs. While local share of total inputs of the company was 3% in the first years, it reached almost 40% by the end of 1995. With the creation of a local supplier's network the company has intended to increase production flexibility, to reduce costs and also to avoid import problems and import duty. Whirlpool-Tatramat has four important suppliers from the former Czechoslovakia: three from Slovakia (Plastika, Nitra; Zavody SNP, Ziar nad

Hronom; VSZ, Kosice) and one from the Czech Republic (Plastimat; Liberec). Two new plants established by a Czech and Slovak suppliers should arise close to Whirlpool-Tatramat. The Czech company Plastimat is re-locating a part of its production entirely dedicated to Whirlpool to a site adjacent to the joint venture. The Slovak company Plastika Nitra has started to build a new production plant for package material in Poprad. In April 1997 the construction should be finished. The plant should supply not only Whirlpool-Tatramat, but also the other Whirlpool plants in Europe. Plastika has been investing SK 60 million, plus a SK 40 million loan (together US$ 3,3 million) in this project (Trend,1996a). Consequently, some of the jobs lost during Tatramat restructuring may be replaced by new jobs in these local supply firms. The rate of unemployment is very high in Poprad (nearly 18% in comparison to the average unemployment rate of about 12% in Slovakia).

Table 7 Location of suppliers to Whirlpool-Tatramat (% of total value of inputs)

	1993	1994	Jan. 1995	Dec.1995
France	100	50	11	9
Slovakia	-	3	20	37
Other (incl. Czech Republic)	-	47	69	54

Source: Ferencikova, Smith (1997)

Conclusion

There is no doubt that the entry of Whirlpool has been a successful step in penetration of the newly opened markets of Eastern and Central Europe, especially on the Czech and Slovak markets. Whirlpool has ensured its position in relation to its competitors. Existing equipment, tradition in the production of washing machines, well-trained labor force, protection of domestic markets secured in the agreement, low costs - these are advantages of its entry. It has brought a new technology, increase in labor productivity, management and marketing know-how. The Slovak side has also obtained a wider supply on the domestic market (the positive marketing effect), but the increased imports can burden trade balance. On the other hand the exports from Whirlpool-Tatramat have contributed to the positive side of trade balance. The Slovak side may profit from multiplicative effect of foreign direct investments (new supply plants), but on the other hand their own domestic producer of washing machines has been swallowed by a big TNC and the expectations of Slovak parent company were not met. The local production was replaced by Whirlpool models and local research and development has been limited. However, it is questionable if the original plant producing washing machines could have survived in the new market conditions in the 90's. As shown, the question of employment is also problematic: the creation of joint venture lead to the decline in employment, but to the increase of productivity. New jobs will arise in new plants by Whirlpool-Tatramat but their extent will not reach the original number of

Tatramat's employees. The answer on the question: Qui prodest? is therefore difficult and not unambiguous.

4. Volkswagen - case study

Built in 1975, BAZ (Bratislavske automobilove zavody - Bratislava's car factory) had never been fully in use. Therefore, after the so-called velvet revolution in the year 1990, the government decided to allow the entry of foreign capital into this factory to fulfill its original aim -- car production. After winning a contest with General Motors for a 80% stake in BAZ, the German company started its operations in Bratislava. Volkswagen became the biggest foreign investor in the industrial sector in Slovakia and the second main investor after US-retail company K-Mart. Volkswagen's motives for entry were: excellent position of Bratislava situated on the old intersection of trade routes in Europe (by the Danube, a few miles from Austrian, Hungarian and now Czech borders, near to the capitals Vienna and Budapest); existing plant destined for car production; skilled labor force; opening new markets in Central and Eastern Europe and the effort to obtain a key position in this area in relation to the main competitors. Shortly before establishing BAZ-Volkswagen in Bratislava - in the Slovak part of Czechoslovakia - Volkswagen also entered the car factory Skoda in Plzen - in the Czech part of Czechoslovakia.

As a matter of fact, Central Europe became an interesting place for the automotive industry very quickly (especially because of low costs and growing markets). Volkswagen has dominated in the Czech and Slovak Republic. In the neighborhood in Hungary - the country with no tradition in car production - four big companies, namely General Motors, Ford, Volkswagen-Audi, Suzuki, began their operations (see Sadler , Swain ,1994). In the other neighboring country, Poland, Fiat, Daewoo, and Opel have placed huge investments (see *Business Eastern Europe* , 1997). The Slovak expectations for the joint venture were as follows: beginning of car production in the plant originally planned just for it; capital and technology transfer; involving of Slovak parent company in the network of suppliers for the joint venture and the Volkswagen group.

Established initially as the joint venture Volkswagen-BAZ in the 1991, the plant is now owned fully by Volkswagen after a buy-out in 1994 of BAZ's 20% share. The original capital and ownership structure of the joint venture in 1991 was as follows: Volkswagen - 80% - DM 48 million (about US$ 32 million), BAZ 20% - DM 12 million (about US$ 8 million). The new structure in 1994 was: Volkswagen - 100% - DM 108,2 million (about US$ 72 million). As in other cases the establishment of full foreign ownership occurred after the Slovak parent company welcomed a short term injection of cash to stay afloat in difficult circumstances (but in the other cases it had happened partly as a result of the appropriation of part of the most productive sections of these companies by the joint venture - see for example Whirlpool-Tatramat case study or case study Samsung-Calex). The German parent company

increased investments and the Slovak side was not able to follow it and to maintain ownership structure because of its own undercapitalisation.

As for the production program, the corporate planners originally envisaged Bratislava solely as a gearbox producer for plants in Germany. This plan was later changed, for reason of the plant' s performance, worker's skill, market demand and the need for Volkswagen to reduce production costs of special editions of VW Golf (such as all-wheel-drive Golf Syncro). The car assembly in Bratislava began already in December 1991 with the models Volkswagen Passat Variant and later Limousine. It has gone on with the models Golf Syncro, Limusine and Variant including the top model Golf VR6 Syncro. The decision to focus VW Bratislava's production on the specific, very labor intensive Syncro was based on the need to reduce costs in the production of short run models to increase price competitiveness on world markets. This right decision reflected on the market: in the words of J. Uhrik, the commercial managing director, the number of cars sold daily in this category (formerly 20 -25) has jumped to 100 cars (*International Business Cooperation* , 1996a).

Volkswagen Bratislava has also begun gearbox assembly in order to lower costs of its main German gearbox plant in Kassel. As estimated, for example, costs per gearbox have been cut by up to DM 5 especially as a result of low labor costs (average worker's wage in Bratislava is estimated to be one-tenth of that in Germany). These costs together with worker's high quality performance seem to be the prime reason for Volkswagen's entry into the joint venture and also of its success in this region. Volkswagen Bratislava also produces components and transmissions for the whole VW group (for example Germany, Spain, Mexico, South Africa). The figures proving the successful Volkswagen business in Slovakia are shown in the next table.

Table 8 Assembly of cars, assembly and production of gearboxes and components in Volkswagen Bratislava

Year	Cars	Gearboxes	Components
1992	2,230		
1993	3,000		
1994	6,043	44,000	
1995	19,688	186,400	1,767,000
1996	30,147	259,600	5,770,000

Source: Volkswagen (1996) and Trend (1997)

After the successful year of 1996 with the production volume of SKK 18 bil. (US$ 600 mil.) and the investment of US$ 33 mil., the management propose to produce about 29,000 cars, more than 260,000 gearboxes and 6,8 mil. components in 1997. They also plan to increase employment by 800 employees this year {Trend (1997), 7, p.3b}. In 1995, Volkswagen was the 8th largest Slovak company in terms of turnover and the 4th largest Slovak exporter.

Transfer of technology and know-how

"Most equipment in the plant is improvised from previous BAZ equipment, sometimes 20 years old. The commercial managing director, Jozef Uhrik, says investment in Bratislava is low by VW standards. Small improvements have been financed from local cashflow; a request for a new paint shop is being considered by HQ in Wolfsburg." (Smrstik,1995). Volkswagen spent around DM 216 million (about US$ 144 million) in machines and equipment in the years 1992 - 1996. This has transformed the organization of production, labor relations, management structure and the forms of network integration - which have shifted to a reliance on external (German) sourced inputs. In Bratislava flexible production processes are used widely as the main product Golf Syncro is very sensitive to niche markets. The car assembly plant does not use robots for assembly because the costs of labor are low enough to achieve efficiency. Assembly is highly labor intensive. There is limited use of fixed machinery on the shop floor. To improve productivity, team-working has been implemented.

Employment

Employment has increased steadily from 100 in 1991 to 2,000 in 1996. The average worker's wage has also increased: from about SK 5000 (US$ 167) to SK 10,500 (US$ 350) in a month which is about 25% more than the average salary in Slovakia. Volkswagen has invested in the training of the workers which is reflected in high-quality production. In March 1995, VW Bratislava received quality standard ISO 9002 and, in terms of quality, Bratislava's plant belongs to the best twenty plants of the Volkswagen group in the world. That means that the competitive advantage of the Slovak investment environment (skilled labor force) has been confirmed. On the other hand, labor turnover is high partly as a result of labor intensity of production and partly because of the long distance commuting that many workers undertake. As a result, an apprenticeship system has been implemented to train their own workers. The average age for workers is 27, for a manager 37 years. Training has been mostly off-site in Germany. This reduced the need for expatriates in management who numbered only ten in 1996 (six top-managers of seven, and four of nineteen middle-level-managers are Germans).

Creation of network of domestic suppliers

The local sub-contracting effects of Volkswagen are limited. 85% of components are supplied directly from VW Germany. This supply system involves a daily delivery by a special train. In the first years of the joint venture, moving components between the plant and five VW sites in northern Germany was difficult. The

solution was a daily train link direct to Braunschweig, Germany introduced in 1995 as a result of border problems and the delay of parts delivery. This 800-km trip via the Czech Republic takes 24 hours and saves DM 4 - 5 million a year. Components are delivered free of import duty as long as the product is exported for sale. (The other advantage that the joint venture received was a two year tax break). In order to decrease production costs Volkswagen wants to source more components locally. A joint venture making electrical systems, in partnership with Siemens (Germany), has been established near to Bratislava in Nitra. It should employ 1,200 people and supply parts to VW Bratislava, as well as to other plants in the VW group. VW Bratislava has initiated quality testing in several Slovak companies - 15 of them have met Volkswagen's quality requirements as the first step to become suppliers of VW, but the cooperation goes on slowly. The different situation is in general, non-sophisticated materials for production - 80% of them for SK 750 million (US$ 25 million) were in the words of Mr. Uhrik, bought from Slovak companies. Some smaller companies employing about 500 people provide also services for VW Bratislava.

Domestic market and export

Volkswagen is the second leading brand in Slovakia, but its market share is low because of the low purchasing power of Slovak consumers. It means that the most of production of Volkswagen Bratislava (about 90%) is sold abroad - in Germany, Switzerland, Spain, France, Sweden etc. The leading brand in Slovakia is Skoda-Volkswagen, produced in the Czech Republic. Volkswagen Bratislava does not include commercial activietes and sells its products on Slovak market through a commercial company.

Conclusion

Like the other examples of foreign direct investment in Slovakia, there are some positive and some negative effects of VW. We can evaluate the transfer of technology, know-how, and employment as positive effects. On the other hand, the original expectation of parent company (to become a supplier for joint venture) was not met and it was pushed out of the joint venture. The local sub-contracting effects are still limited and marketing effect (better and competitive supply on domestic market) is low because of low purchasing power. However, Volkswagen's plant in Bratislava is an example of successful foreign investment for German company and also a proof of high-quality production that can be reached in Slovakia. From this point of view Volkswagen's business in Slovakia contributes to the positive image of this country.

5. BC Torsion - case study

BC Torsion was the first Slovak-French joint venture established in industrial production in 1991. It is interesting that it was founded just at the time when the other bigger joint venture BAZ-Volkswagen came into existence. The participants of

BC Torsion were: the Slovak state-owned company PSB Brezova and the French private family company DIRICKX. At that time the company PSB Brezova produced especially fence wire and springs. Its sales reached SKK 450 million (US$ 15 million), annual investments SKK 30 million (US$ 1 million) and it employed 1,650 employees. It exported 20% of its production to almost all European markets (especially to Germany, France, the Netherlands) and to Asia. Its partner, the French-based company DIRICKX produced fence wire and shingles. It reached sales of US$ 35 million with 250 employees and its annual investments were US$ 5 million. 95% of its production was placed on the domestic French market.

The motives of the participants were different -- we can mark them as a typical "fit". The Slovak side was looking for a partner with modern technology, know-how, distribution network, and contacts on Western markets and access to capital resources. The French company was looking for a new market, lower costs, experienced partner with skilled labor force in a country with a good location in relation to newly-opened huge Eastern markets, and also for new products to complete its assortment on the French market and to increase its competitiveness. After negotiation, PSB contributed to the joint venture by giving land, buildings and machines for six-angle-fence wire, DIRICKX offered plastification production technology, technical assistance necessary for production launching, marketing education and training programs, and other help in management decision-making. Their shares in the joint ventures were: DIRICKX - 51%, PSB - 40% and Slovak Insurance Company - 9% (cash deposit). In 1992 the capital of joint venture increased by SKK 20 million (US$ 670,000) and the ownership's structure has changed: DIRICKX -51%, PSB - 28%, Slovak Insurance Company - 21%.

To some extent, the change in the ownership structure was caused by essential changes in the Slovak parent company PSB. The description of these changes can illustrate some problems of transition from centrally-planned economy to a market one. In the year 1990 this state-owned company was divisionalized into dependent entities. Their production on foreign markets was sold by joint stock company GB Trading Bratislava (98% share of British company Metalforce). In the year 1992 PSB was transformed into joint stock company with 100% state participation. In this form PSB went into the voucher privatization. The management of PSB obtained 40% of PSB through GB Trading on the basis of the approved privatization project. GB Trading took the credit for this buy-out from Slovak Insurance Company, but it was not able to repay it. In this way Slovak Insurance Company received 40% in 1995 and nowadays it has the 49%-share in PSB.

In the meantime the transformation of PSB into independent business units was going on: nowadays PSB with its 50 employees is an administrator and a service provider to six daughter companies located in the space of the former "big" PSB. One of the daughter companies produces fence wire. Although it is a different type from the fence wire produced by BC Torsion, they compete on domestic market as producers of substitute products. All these changes have led to a passive attitude of

the Slovak parent company to the joint venture. In the past it even stopped participating in the joint venture organs. Also the participation of the financial institution - Slovak Insurance Company is formal and its investment is a kind of portfolio investment.

For the time being, the joint venture BC Torsion has proved to be a successful one. It is even mentioned as a positive example of foreign investment in Slovakia in the last OECD country report (see OECD, 1996: p. 137). By this report the 1992 sales reached SKK 93 million (US$ 3 million) and 60% of the output was exported. In 1995, sales reached SKK 124.5 million (about US$ 4 million), out of which 75% was exported to France (14% of the French market) and the Czech Republic. Profit before tax was SKK 7 million (US$ 234,000) in 1995. BC Torsion is expanding its activities by self financing (more than SKK 14 million in 1995) and with a relative small number of employees (100).

BC Torsion is considered to be a positive example of French-Slovak business. Its activity is important for the Slovak side (more from the macroeconomic point of view than from the point of view of Slovak parent company for reasons mentioned above) and also for the French parent company. DIRICKX has obtained new and cheaper products to improve its position on French market and on the basis of Slovak experience (BC Torsion was its first presence abroad) it has expanded also on Poland's and Slovenia's markets where it founded commercial joint ventures. It prepares the entry to the Hungarian market and the Czech market has been entered by a daughter company of BC Torsion. Its strategic aim by establishing BC Torsion was to become number one in the production of fence wire in Central and Eastern Europe. Now it is going step by step towards this aim.

Transfer of technology and know-how

The joint venture obtained a part of the technology from PSB - some machines were very old, some were produced in the year 1983. DIRICKX contributed to the joint venture by the part of the plastification production technology (the joint venture took a credit from French bank BNP France for the other part because the conditions of this bank were better than the conditions of domestic banks). At that time this technology equipment was the best of its kind in Europe. DIRICKX had a similar, but older technology. Therefore it offered technical assistance necessary for production launching. In 1992, the other top technology for production of welded fence wire was bought for SKK 40 million (US$ 1.3 million). This equipment was made by a local Slovak company (the first one was imported from Italy) -- it means that the foreign investment brought a multiplier effect. The parent company organized and covered costs of training programs for Slovak managers (especially in management, marketing, accounting, statistics, finance) and workers in France. Now the know-how transfer is finished. The company is run by Slovak management and only new employees take part in training in DIRICKX for a short period. When problems arise, French managers come for short periods - usually one week - to participate in solving them.

Employment

The joint venture belongs to medium-sized companies. Employment has increased only from 81 employees in 1991 to 98 in 1996. When we consider where the joint venture is situated (in a location with a high unemployment rate where the main employer PSB had decreased the number of employees radically), we can consider also this number as important. The average wage in BC Torsion is higher than the Slovak and also the local average. The wage in BC Torsion doubled in five years of the existence of BC Torsion and reached SKK 10,650 (US$ 355) monthly in 1996. It was about SKK 3000 (US$ 100) higher than the local average. BC Torsion has no trouble to hire workers, partially because of wages, partially because of social policy following the French model of "family" company. This contrasts, for example, with the situation in Volkswagen. Volkswagen has problems hiring and keeping workers, although their wages are as high as in BC Torsion. One reason is seen in the location of Volkswagen in the capital (Bratislava, as the capital, offers enough jobs because of concentration of industries there), the other could be in the attitude of managers (BC Torsion is fully run by domestic managers) and therefore in a deeper "cultural gap" and also in a size of company (Volkswagen is 20 times bigger in number of employees as BC Torsion).

Position on home market and export

Top technology introduced to the joint venture has created the monopoly of this company in plastificated and welded fence wire on the domestic market. BC Torsion is also the only Slovak producer of six-angle-fence wire. The company has more domestic competitors in the segment of four-angle-fence wire. However, its domestic sales were only one quarter of its total sales in 1995. The joint venture has gradually strengthened its export orientation (table 9). In 1995 the main export market of BC Torsion were the Czech Republic and France, followed in smaller extent by the Netherlands, Hungary, Poland, Island, Croatia, Ukraine, Austria, Germany, Spain and Slovenia. As in the Whirlpool case, Slovakia has become the bridge to the other Eastern countries. The influence of the company on the balance of trade of Slovakia is visible from the table 10.

Table 9 Structure of sales of BC Torsion in the years 1991 - 1995 (%)

Country	1991	1992	1993	1994	1995
Slovakia	55	53	23	21	25
Czech Republic	-	-	27	23	27
France (Dirickx)	45	34	36	32	25
Export (other countries)	-	13	14	24	23
Total sales in SKK mil.	34.12	98.43	96.00	107.53	113.43

Source: Susinova, Ferencikova (1996)

Table 10 Trade balance of BC Torsion in 1995

Export	SKK	56,305,924
Import	SKK	44,552,877
Balance	SKK	11,753,047

Source: Susinova, Ferencikova (1996)

Creation of the network of domestic suppliers

The needs of BC Torsión in materials are follows: basic wire and plastification powder. 50% of wire is bought from a local company Drotovne Hlohovec and 50% is imported from DIRICKX Trading that buys this material in Ukraine for the whole DIRICKX group. The plastification powder is imported from Italy where BC Torsion in cooperation with DIRICKX negotiated good delivery conditions. BC Torsion also bought a new technology for welded fence wire from a Slovak producer. The growth of the share of domestic suppliers usually follows the growth of the company -- BC Torsion doesn't belong to the big and fast expanding companies and therefore we don't expect important results in this field.

Conclusion

In comparison to the Whirlpool and Volkswagen cases, there was no effort to buy out the Slovak share in the joint venture by the French parent company. The French parent company has used this joint venture as a mode of testing new-opened markets. On the basis of positive experience it has began to create a more complete network in these countries. The Slovak parent company has gone through difficult process of privatization and transition (as the other parent companies BAZ and Tatramat in Volkswagen and Whirlpool cases) which resulted in "breaking" of the original ideas and projects that it had entered the joint venture with.

The joint venture has reached very good results on both domestic and foreign markets. We can discuss the prices for which it sells its production to the parent company in France, but on the other hand, it is probable that alone without DIRICKX's distribution network it would not be able to sell such a quantity on this market. Among the positive features of this joint venture belong the top technology in its field, the transfer of know-how, the creation of jobs, and the marketing effect that consists in bringing new products on Slovak markets. A "country public relation" effect is also important (as in Volkswagen and Whirlpool cases) -- Slovakia as "a new born" country, because of shortage of investment resources, needs to show to potential foreign investors that it is possible to run a successful business in it.

6. The Samsung-Calex and other cases

The joint venture between a Slovak producer of refrigerators -- Calex and a Korean multinational company -- Samsung appears as a problematic case (see OECD, 1996:p.138 or *Business Central Europe* (1996a) Trend (1996b). In 1991 the Samsung and the Calex companies established a joint venture to produce refrigerators. Calex was regarded in Slovakia as a relatively successful company. It had a monopoly in refrigerators and freezers on the domestic market, a good position on foreign markets in the previous COMECON countries and its production had been expanding. Calex also was a very important employer in the region of Zlate Moravce with 4,000 employees. (In the time of socialist-planned economy large enterprises had been established to supply huge COMECON markets -- they usually employed the most people of one region and often all members of the families. It was the case with Calex, but also Tatramat and PSB. Because of this unusual concentration of job opportunities and the following consequences of decline in employment in such plants, the question of employment is of great importance in Slovakia.)

The joint venture was supposed to bring new investments and technology transfer. A part of the expectation was to secure a stable position of the Slovak parent company as its supplier and also important employer in the region. Calex - the Slovak parent company bought a new technology for the production of CFCs-free components which were supossed to be used in the production of the joint venture. With the purchase of this new technology for credit and with the change of exchange rates Calex's costs increased and the compressors produced by Calex became uncompetitive. The Samsung-Calex joint venture stopped buying these components from the Calex company and began to buy them from Samsung network.. In the meantime, the Calex company lost share in its traditional markets, and Samsung-Calex was accused of taking advantage of Calex's distribution network to sell its refrigerators. The Calex company was forced to downsize its activity, decrease employment and has accumulated debts (under state guarantee). It was reported in the media that Calex was being destroyed by the competition from its own joint venture. According to some views, Samsung used the joint venture as a tool to liquidate its competitor.

In 1995, there was a sharp dispute between Calex and the Calex-Samsung joint venture concerning the nomination of the management board. In spite of a moderate majority in the joint venture, the Slovak side was not able to nominate its candidates into the key positions because of certain parts of the joint venture agreement in favor of Samsung. Besides that, other problems arose with power supply payments. Later in that year, Calex was included in the list of so-called "strategic firms" by the 1995 Privatization Law. In 1996, it was removed from this list. In the meantime, Samsung announced that it wanted to take over the Calex company. It has started to negotiate with the Slovak government, but with a large

amount of debt and the important economic place of Calex in the view of domestic politicians and economists difficulties remain.

The other known "joint venture case" is the OMV-Benzinol joint venture. (See Trend (1996c). It was created in 1991 by a Slovak distributor of fuel, the state-owned company Benzinol and an Austrian refinery OMV. OMV was the first foreign company that entered Slovak fuel market. We can regard its entry into this joint venture as a way of testing a new market and an attempt to enter the privatization process in Slovakia. The joint venture established 6 gasoline stations in Slovakia. Its Austrian parent company runs 19, and its Slovak parent company 201 gasoline stations. In the privatization process, the Slovak refinery Slovnaft gained 51% share of Benzinol in 1995 and the other shares are controlled by the state. The distribution network of Slovnaft and Benzinol has reached 301 gasoline stations, which means 70% market share in Slovakia. The intention of the Austrian company OMV was to participate in the privatization process in Slovakia, especially in the privatization of the Slovak refinery Slovnaft. After the management buy-out of Slovnaft and Slovnaft's entry into Benzinol there is no reason to cooperate in the joint venture neither for Benzinol nor for OMV. The companies have become competitors and decided to terminate joint operations. This case is not so dramatic as, for example, the Samsung-Calex case because of the relatively small size of the joint venture, the field of activity (distribution, not manufacturing), and less dramatic consequences and circumstances.

The complicated privatization and transformation process in the parent companies together with the problems in their joint ventures plus the division of Czechoslovakia sometimes lead to very curious situations. For example in 1996 the Czech media reported that the Czech company CZ Strakonice bought their own shares in the fear of foreign investors. (See Trend,1996d). This case started in 1992 when the Czech company CZ Strakonice and the Italian company Cagiva established the joint venture that should have saved the motorcycle production in Strakonice. The estimated loss of this company in 1992 - 1995 reached CZK 801 million (about US$ 27 million) and the joint venture owed many debts, including the Czech parent company. The Czech parent company was privatized by the voucher method at the time of existence of Czechoslovakia. The voucher method lead in this company to the splitting of shares in such extent that the subject with 10% shares could control it. CZ Strakonice started to buy its own shares through its daughter companies (it was not forbidden until the middle of the 1996 when the new act in this field was passed) because of fear of foreign investor Cagiva. Cagiva wanted to buy a 10% share in CZ Strakonice for about CZK 50 million from the Slovak investment fund PSIPS that gained this share through the voucher privatization. At that time, the joint venture CZ-Cagiva owed the sum of CZK 150 million (about US$ 5 million) to the Czech parent company CZ Strakonice. The managers of CZ Strakonice were afraid of the taking over of control by the Italian company and the following non-payment of the debt. The problems between the parent company and the joint venture lead in this case even to the "physical" division of the companies --

the parent company built a fence between them. The suppliers and the employees were not allowed to cross the land of the parent company. This step was widely reported because it was very unusual and it meant the increase of problems between the companies. (Most of the manufacturing joint ventures both in the Czech and the Slovak Republic are located in the former buildings of the parent company inside of the parent plants.)

7. Conclusions

There is no doubt that the investment needs of the Slovak economy are high and domestic resources are not able to meet these requirements. Slovakia has established agreements of reciprocal promotion and protection of investments with its trading partners, and agreements for avoidance of double taxation. At the present time, direct restrictions are not imposed on the transfer of funds to Slovakia for the purpose of FDI or on the remittance abroad. Together with the prepared access to the OECD and its "codes of liberalization" the Slovak authorities intend to liberalize capital account transactions over the next few years. The authorities are following principles of favoring capital inflows rather than outflows, long-term flows rather than short-term, and direct investment rather than portfolio investment. The government declares officially the promotion of so-called "strategic investors" into the Slovak economy. On the other hand, the government tries to create strong "domestic entrepreneurs" by selling them domestic enterprises in the privatization process and allows only limited entry of foreign capital into privatization. As mentioned in the first part, this tendency is a contemporary obstacle, but a future advantage for foreign investors -- it only postpones the capital entry of foreign companies.

The Slovak authorities try to attract big strategic investors. They expect modernization of technology, an increase of labor productivity, the implementation of new corporate and management structures and cultures, an increase in exports, employment, the involvement of domestic suppliers, etc. from them. Indeed, some studies made by Slovak Academy of Sciences, Bratislava, University of Economics, Bratislava or the other institutions confirm these positive effects in individual firms. (For example, see Balazova, Valent, 1995, Ferencikova,1995, 1996, Sestakova, 1994, Sakova, 1995, Outrata et al. 1996). On the other hand, the cases presented in this paper show that FDI, while having important transformative impacts on individual companies, has had rather limited external effects on the host economy within which joint ventures have been established. The employment impacts of FDI have been relatively limited, and in some cases the decline of employment has occurred as a result of the establishment of joint venture. The "highest-skilled" labor force has been not used -- there is no research and development in any joint venture we studied -- they are always situated in foreign parent company. It is too early to say consequently that economies in transition will play the subordinate role in the global economy being more and more devided into cores and peripheries, but this

danger is obvious just from these cases. On the other hand, we cannot forget that joint ventures or wholly-owned companies are only a part of transitional economies.

The limited role of joint ventures in establishing a deeper network of domestic supply linkages has been seen from the case studies. The Slovak producers have not seen many opportunities for increased production (often because of quality) arising from FDI. Direct competitors of joint ventures (including Slovak parent companies) have even often been priced out of the market by more efficient production or by imports from global network of foreign investors. In spite of the growing imports, the companies with FDI are mostly export-oriented. It means their activity should contribute to the surplus in trade balance under the condition that they don't import the majority of materials or components and that they involve domestic suppliers into their production in a broader extent.

Finally the case studies presented in this paper point to the fact that the essence of joint ventures has been often dissolved in Slovakia -- when a multinational is a parent company it has used joint venture as a mechanism for the wielding of global corporate power over relatively weak domestic producers and for their gradual take- over. The different attitude has been seen in BC Torsion case study where the foreign parent company is a medium-sized enterprise having no intention to buy out the Slovak share in the joint venture. The promotion of foreign medium-sized investors should be an alternative way along with the promotion of so-called big strategic investors into the Slovak economy.

Slovakia's "FDI experience" is not long. At the present time there is not enough clear evidence that FDI plays an important role in the restructuring of the Slovak economy. As mentioned above, Slovakia is even the only country from the Visegrad group in which the good economic performance has not been coupled with significant increases in FDI inflows. Incontestably, the FDI has many positive effects, but at this stage they look to be "islands of investments" separated from the domestic economy in which previous "socialist" dependencies (upon plan, COMECON markets, etc.) are being replaced by new forms of global dependency.

Sources

Balaz,P., Ferencikova,S.,Filip,J.,Krejci,I., Michnik,L. and Sibl,D. (1995) *Medzinarodne podnikanie* Bratislava: Sprint

Balazova, J., Valent, S. (1995) "Vplyv zahranicneho kapitalu na restrukturalizaciu podnikovej sfery" *Trend* ,5, (48): p. 7A

Bulletin SU SR (1996a), Bratislava,3

Bulletin SU SR (1996b), Bratislava, 6

Business Central Europe (1996a) "Cool reception: Samsung's Slovak disaster", July/August

Business Central Europe (1996b) "Foreign Investment Survey - Thinking global" April, p.39 - 40

Business Eastern Europe "Eastern Europe's 40 biggest deals of 1996" January 13, 1997: p.3

Done,K. (1996) "Foreign investment in East Europe doubles" *The Financial Times*, March, 25

Dunning, J. (1993) "The prospects for foreign direct investment in Eastern Europe in Artisen, P. et al. *Foreign Investment in Central and Eastern Europe* London: Macmillan

Ferencikova, S. (1995) "Vstup zahranicneho kapitalu do slovenskej ekonomiky (na priklade vybranych joint ventures)" *Ekonomicky casopis* 43 (2): p.140-153

Ferencikova,S. (1996a) "Priame zahranicne investicie - teoria a prax v Slovenskej republike" *Ekonomicke rozhlady* 25 (1): p.17-35

Ferencikova, S. (1996b) "Efekty a posobenie priamych zahranicnych investicii (na priklade Slovenskej republiky)" *Ekonomicky casopis* 44 (6):p. 450 - 466

Ferencikova, S., Michnik,L. and Sestak,J. *Priame zahranicne investicie - vnutorne a vonkajsie suvislosti* Bratislava: Sprint

Ferencikova, S., Smith, A. (1997) "Inward Investment and Regional Transformation in Eastern Europe: Case Studies from the Manufacturing Sector in Slovakia" University of Sussex

Grabher,G. (1997) "Adaptation at the cost of adaptability? Restructuring in the Eastern German regional economy". In Grabher, G. and Stark, D. (eds.) *Restructuring Networks in Postsocialism: Legacies, Linkages and Localities* Oxford: OUP

International Business Cooperation (1996a) Investovat viac do ludi nez do zeleza,7, 2-3: p.16-17

International Business Cooperation (1996b) "Najlepsi v bielom programe" 7, 2-3: p.19

OECD (1996) *OECD Economic Surveys: The Slovak Republic* Paris: OECD

Outrata,R., Figura.I., Balazova,J., Valent,S. and Ferencikova, S. (1996) *Ucinnost zahranicneho kapitalu v ekonomike Slovenskej republiky* Bratislava: Ekonomicky ustav SAV

Regional Study Supported by the EU Commission by the Directorate General XXIII and the VW Bratislava (1996) Koln

Sadler, D., Swain, A. (1994) "State and market in Eastern Europe: regional development and workplace implication of foreign direct investment in the automobile industry in Hungary" *Transaction of the Institute of British Geographers* 19:387-403

Sakova, B. (1995) "Motivacia ci demotivacia zahranicnych investorov u nas?" *Ekonomicke rozhlady* , 24, (4)

Sestak,J.: (1997) "Vyvoj a tendencie priameho investovania v SR" in *Priame zahranicne investicie: vnutorne a vonkajsie suvislosti* Bratislava: Sprint

Sestakova, M. (1994) "Joint venture: teoreticke pristupy a realita" *Ekonomicky casopis* 42, (2): p. 103 - 114

Smrstik,C. (1995) *Business Eastern Europe* " Slovakia: An exception proves the rule", November 27: p.3

Susinova, P., Ferencikova, S. (1996) *Fenomen joint venture v slovenskej ekonomike* Bratislava: Ekonomicka univerzita

Tancosova, J. (1996) *Joint ventures: teoreticky nacrt a prakticke skusenosti* . Bratislava: Ekonomicka univerzita

Trend (1996a) "Plastika rozsiruje spolupracu s koncernom Whirpool" , 11 December, p.4B

Trend (1996b) "Samsung Electronics ma zaujem o odkupenie Calexu", 29 May, p. 7a

Trend (1996c) "Spolocny podnik OMV-Benzinol je pred zanikom", 2 October, p.1B

Trend (1996d) 2 October, p.29A

Trend (1997) Volkswagen Bratislava rozsiruje vyrobu a zamestnanost ,7, 2 February: p.3B

UNCTAD (1995) *World Investment Report 1995: Transnational Corporations and Competitiveness* New York: United Nations)

UNCTAD (1996) *World Investment Report 1996: Investment, Trade and International Policy Arrangements* New York: United Nations

Volkswagen (1996) "Informacie o vysledkoch spolocnosti pri prilezitosti 5. vyrocia jej zalozenia" Bratislava: PR Department