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D00776

ID

United Nations Industrial Development Organization

Distr.
LIMITED

ID/WG.47/3
6 November 1969

ORIGINAL: ENGLISH

Expert Group Meeting on Industrial Co-operation
between Developed and Developing Countries
for Exports

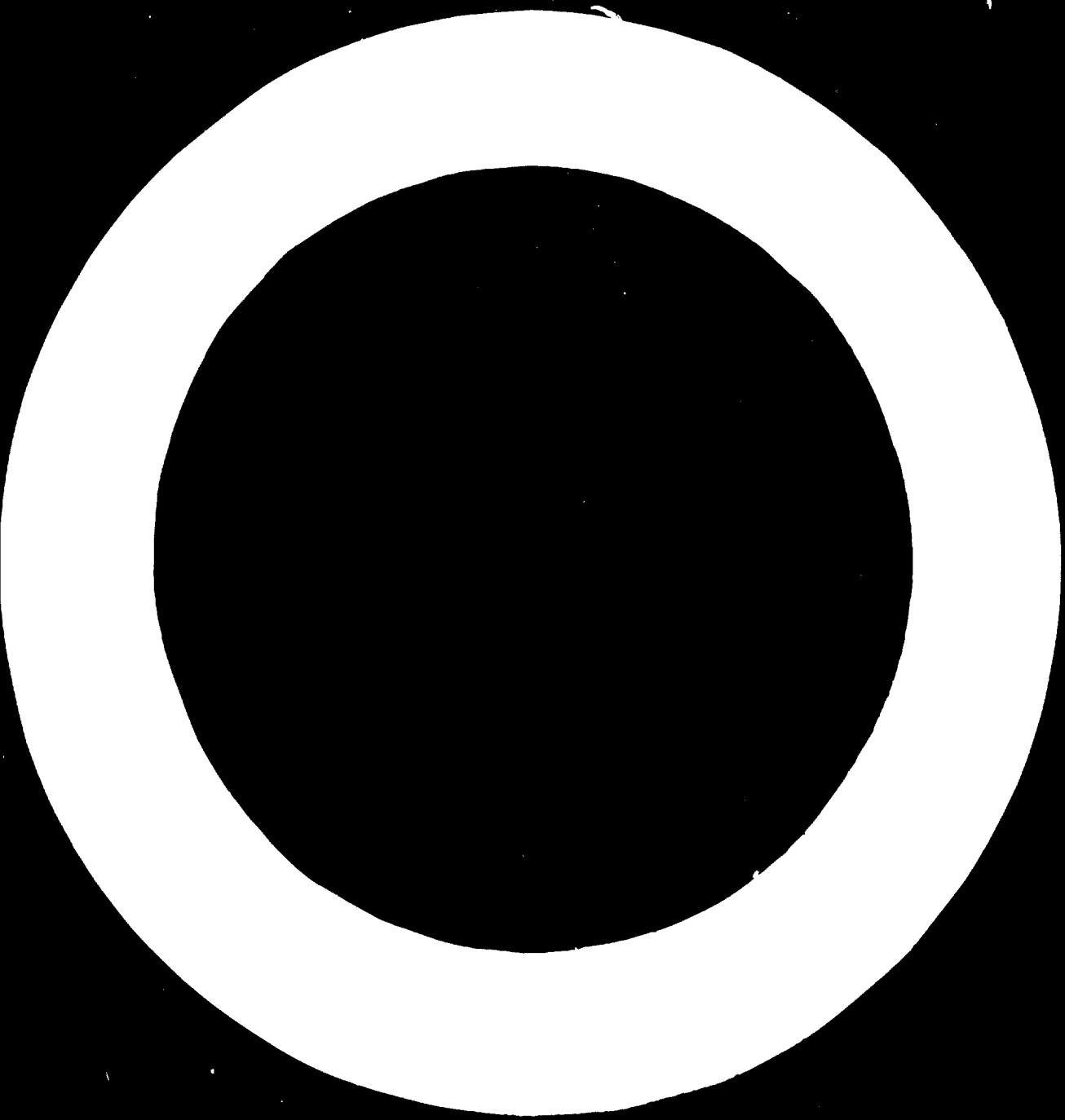
CO-OPERATION BETWEEN FIRMS IN AUSTRIA AND DEVELOPING
COUNTRIES IN PROMOTION OF INDUSTRIAL EXPORTS 1/

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id.69-5743



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Basis and importance of industrial cooperation in Austria

Definition of the problem

1. The term industrial cooperation does not have a precise or possible limit. In this paper the main attention shall be put on the possibilities of a small industrialized country to engage itself in forms of industrial cooperation, meeting two basic criteria:
 - a) the cooperation has to be an international one, i.e. between firms of different countries, with special reference to cooperation between Austria and developing countries.
 - b) the cooperation has to be export-oriented. There are two forms possible: in one case the cooperation may have been created because it offers export-opportunities for one of the partners (e.g. deliveries of raw-material to a joint venture etc.); in the other case the venture, created in cooperation, is export-orientated itself. Both cases will be dealt with, the main interest focusing on the second one.
2. There are many different forms of industrial cooperation, fulfilling the criteria named above. So it was necessary to concentrate on some of the more complex and typical forms, such as the creation of joint ventures, licensing-agreements, technical cooperation, specialization arrangements etc. Cases of a mere financial participation at an industrial enterprise, cases of totally owned foreign subsidiaries and the flow of know-how connected with regular export-business

(especially in the capital goods industry) are not contained in this paper.

The method principally adopted in this analysis is that of case-studies of two forms:

- a) case-studies showing the variety of possibilities for industrial cooperation
- b) some specially selected case-studies, showing in great detail the experiences of some important or characteristic examples of cooperation.

Considering the enormous variety of forms of joint-ventures and the very complex problems connected with them, the method applied seems to be the only possible way to get to really relevant information.

The importance of export-oriented industrial cooperation
for Austria

4. Austria is a small country which had to built up her industries again after the destructions of the war. At this time also the most important industrial companies of Austria, which dominate the fields of heavy-industry and chemicals were nationalized. Austria has no great, world-wide operating industrial trusts, (as e.g. they exist in Switzerland or in the Netherlands) and its industrial structure consists mainly of medium-sized or small companies. Austria, which never had colonies, also has no traditonal ties with developing countries. The above aspects strongly limit the possibility and the interest of Austrian firms to engage in industrial cooperation.

Austria has a very well-trained and relatively cheap labour-force but is suffering from a lack of long-term investment capital. These two points both tend to increase the interest in international cooperation agreements, although foreign firms in most cases prefer to set up subsidiaries in Austria or to acquire dominating participations at Austrian firms.

5. Due to the smallness of the internal market Austria's industry is very export-oriented (although less than e.g. in other small industrialized countries as Switzerland and the Netherlands). The most important export industries are machinery, chemicals and textiles. The most export-oriented industries (measured as the ratio of exports to output) are the industries producing glass, iron and steel and electrical goods. According to this structure the industries mostly engaged in international

industrial cooperation are chemicals, machinery and the electrical industry.

Austria's main trading partners are the Federal Republic of Germany (share of exports 1968: 23,4 per cent, share of imports: 41,4 per cent), Italy and Switzerland. In these countries also a substantial interest exists in establishing cooperation with Austria. Austria is a member of the EFTA, which has led to certain reactions (mainly in the form of creating subsidiaries) by some EEC-countries, where as Austrian firms up to now hardly have engaged in cooperation with the aim to circumvent the EEC-tariff-discrimination.

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Legal and institutional foundations for international
cooperation in Austria.

6. Austrian firms are entirely free to enter an international cooperation. Also the transfer of foreign exchange in connection with such transaction is not restricted. The policy of the Austrian government is directed towards a promotion of international cooperation projects. There are now several regulations which offer tax-incentives for industrial cooperation in the form of joint ventures ("Strukturverbesserungsgesetz"). Also a special tax-treatment of the income of royalties has been decided. The main promotion is not done directly by government-agencies but by semi-official organizations.
7. The most important of these is the Austrian chamber of commerce, which runs a world-wide network of Austrian trade-delegates. These trade delegates have the task of promoting Austrian exports but they also play a very important part in arranging industrial cooperation, in sending special informations to the Austrian firms concerned, in doing market-research etc. The trade delegates have their main importance in developing countries as many Austrian firms still are not used to acting these markets.

The Austrian chamber of commerce promotes very much the idea of international industrial cooperation and has published a number of relevant articles, surveys etc. partly together with the Austrian Federation of industrialists. To facilitate the cooperation with developing countries the chamber of commerce has also created a special fund, which grants credits at cheap terms

to firms, intending to enter a joint venture in an developing country.

9. The main instrument of financial export-promotion in Austria is the extension of special export promotion credits and state guarantees. These schemes are administered by a state-owned bank (Österreichische Kontrollbank A.G.) In 1964 the original direct export-promotion was extended also to the promotion of the establishment of partnerships and joint ventures. This is chiefly done by granting guarantees, covering mainly the risks of nationalization and of the transfer of earnings. In a limited number of cases also credits at special terms may be granted by the bank.

In the last years Austria has also signed a number of special cooperation agreements with several socialist countries as well as with France. These agreements mostly form a part of a general commercial treaty and provide for a joint commission of government and industry delegates. These commissions discuss projects which have been initiated by the individual firms and decide on possible forms of assistance.

Export-oriented industrial cooperation of Austrian firms with foreign partners in the partner's country.

General problems:

9. There are much fewer cases of this form of cooperation, than of cooperation within Austria. This has various causes:
- a) Austria's exports are geographically very much concentrated: 51,6 per cent of Austria's exports are going to its direct neighbours, as compared to e.g. 36,8 per cent of Swiss exports. These markets can therefore be relatively easily delivered and developed from the home-base. A special incentive for joint-ventures could arise from Austria's position outside the tariff barriers of the main trading-partner of EEC (export-share 29% : 40,8 per cent). However, up to now hardly any reaction in this direction was noticed. Some greater Austrian companies founded subsidiaries in EEC-countries, whilst the majority of Austrian firms is waiting for a definite solution of this problem to be found. Moreover up to now the tariff-discrimination has not proved too dangerous for Austrian exports, so that incentives to circumvent these barriers by entering a joint venture with a company within EEC were rather small.
10. b) As already pointed out, most Austrian firms are comparatively small. Therefore they usually are more interested to expand on their original site to exploit economies of scale, than to diversify by entering into a joint venture.

Moreover Austrian firms usually are relatively short of capital, so that they hesitate to invest abroad. It is therefore typical, that in the case where an Austrian firm enters a joint venture it prefers to have a smaller share of the new company, rather than delivering a capital contribution, as well.

c) Austria has relatively cheap labour-costs. Therefore, no incentive exists in this respect to enter into joint ventures in industrialized market-economy countries.

d) Austrian entrepreneurs have little experience in joint ventures in general and especially in business in non-European countries. It is, therefore, a typical feature that in many cases, where Austrian companies ^{are} engaged in an export-oriented cooperation abroad, the initiative for this came on the part of the foreign partner. But even then Austrian firms often are reluctant, because they fear the numerous risks and prefer direct exports from their home-base.

e) Austria has no traditional ties with markets in developing countries where a joint venture could be a form to secure an investment or a market for the future. Instead it has been observed, that Austrian firms sometimes even discontinue normal export relations to avert any risk as soon as political, monetary etc. difficulties arise. These reactions are mainly caused by the lack of experts for these markets in many small Austrian firms.

11. f) A special management aspect which in many cases has proved to be of great impact on the decision whether to enter into an industrial cooperation agreement or not, should be taken into consideration. There are relatively few experts in Austria able and willing to go abroad. But even if such experts are available within a firm the problem of their salary is always a crucial one. Compared to western industrialized countries Austria's wage-level is relatively low. When entering into a joint venture in such a country the representatives of the Austrian firms in the management have to be paid according to this level. This creates some disturbance in the internal wage structure of the Austrian firm and it also tends to lessen the loyalty of the representatives to their Austrian "parent" company. There are many cases, where Austrian experts prefer to stay further abroad rather than return according to the intentions of their Austrian company. It even happens relatively often, that the Austrian experts then take a job with the foreign partner firm in the joint venture. As these arrangements sometimes exist secretly even at the time when the expert still represents the Austrian part in the joint venture, there have been cases, where such arrangements had rather negative effects for the Austrian parent firm.

In joint ventures with developing countries the same problem can exist in two forms; If there is a majority of the local partners, as it has to be in a number of developing countries, the salaries of the management are often too low to attract

top-men from Austria. So the firms usually send young experts for whom this stay is a welcome step forward in their career (moreover they usually have the "advantage" of being unmarried and can therefore move more easily. These experts can do an excellent job, but of course there arise sometimes problems they are not able to solve. According to the Austrian experience these problems originate more frequently in the commercial management than in the technical side. Apart from this these young experts are only interested in staying for a limited period.

After a maximum of three years they want to return to their "parent" company and to move on in their career. This causes some problems for the continuity of the management of the joint-venture and strengthens very much the role of the "permanent" home management. Sometimes it also creates problems for the Austrian company, especially if it is too small to provide an adequate number of career-opportunities for the returning experts.

It is an interesting feature that similar aspects sometimes arise also for foreign firms entering into a joint venture with an Austrian firm in Austria. The foreign management of the joint-venture then of course has to adapt to the Austrian wage level. The problems arising are either solved by sending younger experts, preferably Austrians, who previously had emigrated to work with the foreign firm, as it happens relatively often, especially with technicians. Another way of solving this problem is that of paying one's representatives a second salary in addition to the remuneration he gets in the joint-venture. Although this is mostly done secretly several cases are known. As a special

form of this the original salary in his foreign "parent-company" may go on for the representative as well as the contributions to the company's special pension fund etc. These aspects are of very great importance, as they tend very much to strengthen the loyalty to the foreign "parent"-firm, which may be, of course, to the disadvantage of the joint-venture. This system also is widely practised by foreign firms entering into a joint-venture with developing countries. It is known also to Austrian firms but it is not very common in their relations with joint-ventures in developing countries, because the smaller firms usually do not want to bear the costs of^a double pay for an expert. Moreover company pension funds and other remunerations which are a strong incentive for loyalty are not of the same importance in Austria than in many other countries.

If the Austrian company has the majority in a joint venture in a developing-country the salaries of the Austrian management usually are inadequate to the standards of foreign experts in developing countries. As these standards are much higher than in Austria, a similar problem exists as in the case of joint ventures in western industrialized countries: top experts often do not want to return to Austria but are hired either by foreign subsidiaries in the developing country or by international organizations.

12. g) The special risks involved by the political and monetary situation are a difficulty pertaining mainly to developing countries. Austrian firms are not very risk loving in general and in many cases they cannot be so because of their relatively small capitalization. (Concerning political risks a form of internal "insurance" exists now, which has been already described.) The monetary risks consist of an unforeseen acceleration of inflation and of devaluations which for the Austrian part practically annihilate the profits earned in a joint venture. Of even greater concern for Austrian firms considering to enter a joint venture is to safeguard the eventual outflow of money. In many of the arrangements leading to joint ventures there exists a clause, where the government promises to permit the transfer of profits in convertible currency after certain goals have been achieved. However, there are cases, where such promises had no effect, so that the Austrian share of the profits of the joint-company could not be converted into foreign exchange. In the case of a very successful joint venture between an Austrian firm and Turkish partners, producing electrical engineering components, this problem was partly solved in a specific way in order to use its assets in Turkish currency the Austrian firm organized vacation -arrangements in Turkey very cheap terms and thus got back part of the money invested. In many other cases this way of course is not possible so that either losses are sustained by the Austrian partner or some ways are sought to circumvent the exchange regulations.

13. As was shown above the economic and organizational structure of the Austrian industry is not very favourable for intensive industrial cooperation abroad. In recent times some changes in attitude towards foreign industrial cooperation can be observed. This is due to several reasons. One of them is the fact (export-business is becoming the goal for many Austrian firms) but it also reflects the psychological changes due to a constant information and training campaign by Austrian official services (especially by the Austrian trade-delegates).

There are mainly two motivations which are of importance for the decision of Austrian firms to enter into a joint venture.

14. a) Marketing-motivations. These can be of relevance in very different forms: It is hoped, that industrial cooperation may give easier access to a market, than could be obtained otherwise. This may be so because of a better marketing on a difficult market (this is especially an important motivation for giving licences to firms in industrialized market-economy countries, especially the USA). The difficulties the firms want to surmount may be also of legal nature, taxes, tariffs, import-licensing systems and monetary problems. This mainly is the case in relations with socialist and developing countries and may (especially in developing countries) lead not only to licensing agreements but also to the formation of joint ventures etc. The willingness of developing countries to grant a de facto monopoly to the newly established joint venture has always been a special attraction.

All the above cases are primarily not export-oriented. In many cases they are from the beginning planned to serve for import substitution (of this type of industrial cooperation examples will only be mentioned). In other examples of industrial cooperation this was not the case from the beginning, but heavy internal demand and sometimes also higher internal prices have favoured a growing concentration on the home-market. Export business then is done only when it is needed for full utilization of capacities and no own export-marketing is developed, while the joint venture uses the services of its Austrian "parent" firm.

A different form of marketing motivations is mainly relevant for companies doing business in heavy industry and chemistry. Here the Austrian partner is not interested in the product of the joint-venture as such, but in the chance either to deliver the equipment (examples for this motivation can be found especially in the iron-and-steel industry) or to get a new permanent customer for its raw materials (such cases exist mainly in the chemical industry). To achieve these goals it may be necessary to enter into a joint venture, thus having some form of security concerning the long-term repayment and/or concerning the observance of long-term supply contracts. This often is combined with the necessity to give know-how to the newly established company, which one is willing to do only if one has a controlling influence. These forms of industrial cooperation need not be constructed as permanent ones, but they can have the economic effect of a long-run credit plus know-how arrangement, so that eventually the joint venture

turns into a company totally owned by the country where it is working.

This form of industrial cooperation can be much more export-oriented than the first ones. As the Austrian partner has a very strong interest in achieving the greatest possible capacity of the new plant and has not to be afraid of any competition for his own products, he himself also will try to promote the export business of the joint venture.

Long-term marketing motivations, which lead to the decision to occupy a market simply to prevent a business rival doing the same are also of significance. This motivation is supported by the readiness of developing countries to close their markets for imports as soon as a home production exists. This motivation, however, is of no great relevance for export-oriented joint-ventures. Moreover in Austria it is generally of less importance than it would be in other countries, where greater companies exist, which are prepared even to incur losses in the context of a long-run world-wide market strategy. Nevertheless it plays also a part in the decisions of smaller companies which have a leading position in a very specialized field of production.

15. While the first (marketing) motivation generally applies to international industrial cooperation the following group of motivations is of greater importance in Austria than in other countries: in Austria there is a relatively large number

of firms which are technically very advanced but which are too small, have too little capital and too little marketing experience to be able to fully exploit their export chances. For such companies inter-national cooperation offers the opportunity to use their technical know-how in a much more extensive way than could be done otherwise. In the relations with developed countries this usually is done by way of giving licenses to foreign firms. In relations with developing countries, however, this is of little interest to the country concerned for a variety of reasons:

It is, for instance, impossible in many cases to use a foreign licence directly in a developing country as usually further research and development has to be done concerning the adaption to the specific conditions of the country. Moreover the developing countries often want the foreign firm to share at least part of the risks of the new production so as to make sure of its feeling responsible. Because of these considerations in relations with developing countries industrial cooperation based on transfer of technical know-how mainly takes the form of a joint-venture instead of a licensing agreement. This also reflects the intentions of the Austrian part, as both the technical and the commercial control of the observance of agreements can be exerted easier in the frame work of a joint venture. As was already mentioned in this form of joint ventures no or only a small capital contribution is given by the Austrian side. Instead the Austrian share of the joint-venture is paid off by the future royalties. After a certain level of participation has been reached the royalties are expected to be paid in transferable currency. For the domestic partner of the joint-

venture this means that he has to carry mainly the capital-costs. On the other hand, under these arrangements provided a more independent development of the new concern. This would be the case if cooperation with a foreign industrial concern. This is of special importance regarding the joint venture's permission to export. As the Austrian company has usually not to fear any self-competition, it is much more generous in granting these permissions than would be a company working on a great international scale.

It is this form of cooperation which is developing rather fast now. There is a great demand for such arrangements in developing countries chiefly by government-backed industrial organizations but also, where they exist, by financially able private or cooperative development corporations. In East Africa for instance, through the medium of the Austrian trade delegate there are almost twenty projects, where negotiations for joint ventures of the type described above are now pending. Of course East Africa is a rather special case, as there are very solvent private development corporations.

16. A special form of cooperation arrangements, born from the same motivation of using one's know-how without needing additional capital has emerged in some recent examples: in these cases the Austrian participation is not only based on a know-how arrangement, but the Austrian company also delivers second-hand machinery for the first factory equipment. This machinery sometimes had already been written off in the Austrian company. The contribution to the assets of the newly formed joint company (or of the foreign licensee) not only strengthens the position

of the Austrian firm in relation to its partners, it is also a means of using patent law of the Austrian company and thus offers interesting aspects for legal tax saving. The same for the partner's own transactions can be of advantage if they enable him to get an already raised money promptly and without direct payment of a loan price. Of course, one has to make sure that the borrowed money is really usable at his new location: this has to be especially investigated in arrangements with tropical countries. A second problem is to find a realistic rate of use, because otherwise the matter of convertible currency would begin too early. If these requirements are positively met the transfer of second hand technology may become of increasing importance because of the technological changes going on now in Austria as well as in countries at an equal technological level. Due to the evolution of the wage-level and the rapid automation many machines become economically obsolete although they are technically still competitive. In countries with another ratio of capital to labour costs (as it is e.g. in the developing countries) these more labour intensive techniques may still be competitive. There are still few examples for such a way of cooperation (two of these will be described later) but there is an increasing interest in it on the part of Austrian companies.

Besides these main motivations there are, of course, a number of others of minor importance.

One is e.g. the desire of owners or managers of Austrian companies to get a pretext for the taxing authority to be able to declare

their travels abroad as expenses in connection with a joint company or a foreign subsidiary, and as to whether, for instance to the satisfaction of a joint venture producing non-alcoholic beverages in a very pleasant area of East Africa.

Cases of industrial cooperation with foreign partners in the
partner's country

Case Studies of industrial cooperation

17. There are only few examples of joint ventures with partners from industrialized countries. In these cases a former fully owned subsidiary or licensing contracts were preferred.

The reasons for this are given in the following.

There is also a number of joint ventures of Austrian firms, which have very different backgrounds. A special form of a joint venture is a shipping company, providing the know-how and also part of the staff, and an Austrian steel-roller. The reason for this joint venture is to secure the shipments of iron ore of stable prices.

In socialist countries chances for joint ventures are very limited.

Recently a certain interest could be noticed on the part of Yugoslavia, which already has led to some projects. An agreement has already been signed between a great Austrian producer of carpets and Yugoslav company to form a joint venture. This new company will produce carpets according to Austrian know-how and will export a large part of its output to Western Europe (Italy) and to America. The Austrian company also makes a contribution to the capital of the new venture. In this case the main motivation of the Austrian partner was the availability of well trained workers at substantially lower wage rates than it would have been in Austria.

18. The field of greatest interest for our investigation are joint ventures in developing countries. The main groups of motivations on the part of Austrian companies have already been discussed (paragraphs nos. 33-35). In practice it is, of course, always a combination of motivations which leads to the decision to enter a joint venture.

(Case studies of our industrial Austrian joint venture was included in the survey.)

19. There are several cases of joint ventures similar to the one described above, e.g. in East Africa, South America etc. Sometimes, as for instance in the case of a joint venture of an Austrian lacquer producer in Turkey, the local partner is a development bank which later on intends to transfer its share to local private enterprises.

A case where the marketing-motivations described in paragraph 14 were of particular importance is the project to found a factory producing sacks of plastics material in the Sudan. The arrangements for this project are already finished and the construction of the plant has begun. It is established as a joint venture between a Sudanese firm, holding 55 per cent of the shares and two Austrian firms. One Austrian firm is a major producer of plastic processing machinery, being already engaged in a number of similar joint ventures. (This firm itself is a joint venture in Austria between an Austrian firm and an American group. In this case the joint venture was motivated by the capital needs of the very rapidly growing Austrian company, which produces in a variety of technologically advanced fields. As the Austrian firm did not want a foreign participation in its principal establishment the department for the production of plastic processing machinery was disembodied. This department then was constituted as a new company, where the Austrian firm holds a majority share.) The other Austrian firm in the Sudanese joint-venture is Austria's greatest chemical plant.

20. The main incentive for both Austrian partners was the chance to deliver the machinery, resp. the raw materials for the new company. The order for machinery is placed with the Austrian company and

financed by a state-guaranteed export promotion credit, by the "Österreichische Kontrollbank". The chemical plant has signed a long-term contract with the new company to supply the plastics raw materials.

The new plant is designed for a processing capacity of 5000 tons of plastic material per year.

The financing of the new plant is done according to the shares of the joint venture. The Austrian partners also had to give a security according to their shares for the credits taken by the new company. The Sudanese government has promised in return the free outflow of profits in convertible currency.

There is now parity between Austrian and Sudanese members in the management of the joint venture. The Austrian experts are mainly responsible for the technical management and finances (the latter division has, of course, the important effect of executing a direct control). After the end of the construction period a Sudanese majority in the management is foreseen.

In order to ensure a constant flow of technical knowledge a know-how arrangement was also signed. The joint venture itself is only a processing plant and does no research.

The marketing-concept of the joint-venture is mainly orientated to substitute the imports of jute sacks. The import value of jute and of sacks made out of it are rather substantial so that a large market can be expected, as the sacks made out of plastics materials are both technically superior and cheaper. The marketing is done by the joint venture, which has no restrictions also to engage in exports. But it is expected that this will happen only in the second stage, after the capacities of the new plant will have been enlarged.

21. A special example for an export-inducing transfer of second-hand technology (compare paragraph 16) is the cooperation of an Austrian and a Pakistan company. The Austrian company is an old established firm processing jute and other tropical fibres. This company was not longer able to produce special labour intensive products at competitive prices and also began to change from processing jute to the processing of plastics materials. The company found a Pakistan partner, willing to buy the relevant machinery. Only a little part of the purchase price was directly transferred. With the other part the Austrian company acquired a minority share in the Pakistan firm. Also a delivery agreement was signed to enable the Austrian company to provide further the whole range of products to its customers. It was arranged that the transfer of profits should be done in the context of this delivery agreement.
- This form of cooperation was not entirely successful. There had been certain difficulties with the adaption of the machinery at the factory in Pakistan, which were partly of technical nature and partly were caused by a too short job instruction training of the Pakistan workers for these machines. Also the speed and extent of the substitution of jute by other materials had been underestimated, so that exports to Austria did not reach the level previously expected. Other disturbing influences were caused by unforeseen political and economical events.

Case-studies of licensing agreements, agreements of technical cooperation etc.

22. The most important case here is the licenses given by the nationalized steel plant VÖEST for its LD process. However as the position of VÖEST is based on a rather unique situation of technological leadership this special case seems not to be very interesting as a general example. Beside this case there is of course a great number of licensing agreements, mainly with firms in industrialized countries. The general problems of such licensing agreements, which often are of a reciprocal nature, has been already discussed in paragraphs.13 and.34.
- In many cases, especially in relations with socialist countries, licensing and technical cooperation agreements are part of an extensive contract concerning the installation of a whole factory. This is considered as a form of export-business and will not be discussed in this paper.
23. At present a form of partly export-oriented cooperation based on licenses is developing. There is an interesting example. It refers to the cooperation between an Austrian producer of sweets and Hungarian production cooperative. The Austrian firm has long traditional ties with the Hungarian market, where its brand-name still is well-known. It also has had a subsidiary there which then was nationalized. The initiative for the new cooperation now came from Hungarian experts having worked in this subsidiary, so that a very close contact could be established. As a result a licensing agreement was reached, which enables the Hungarian plant to produce

sweets according to the know-how and the prescriptions of the Austrian partner. These products will be sold in the original wrapping and the original brand name, which is of great importance in this kind of business. What makes the cooperation more complex than a simple arrangement concerning licenses, brand-names and industrial right is the fact, that it is also connected with transfer of "second-hand technology".

The reserve-machinery of a plant, which had been bought by the Austrian firm only some years ago, will be transported to Hungary, so that production there can begin within a short time. The putting into operation will also be arranged by the technicians of the Austrian firm. The Hungarian company also intends to export the sweets not only to other Socialist countries but also to the Near East and to African countries. These markets have not been catered for by the Austrian company up to now. It was one of the incentives for the Austrian partner to enter this joint-venture, that he thus could use the Hungarian export marketing for his products. The turnover expected for the first year amounts, to only approx. ¹⁶ mill.dollars, but a quick/expansion foreseen as more and more items of the total production-range of the Austrian firm will be taken over for production in Hungary. There are already negotiations pending with other socialist countries to reach similar forms of cooperation.

Other forms of cooperation

24. There are various other forms of industrial cooperation with industrialized countries. The aim of such a cooperation may be for instance joint research and development. An example for such a cooperation is a joint research corporation, founded by textile firms of the Austrian province of Vorarlberg together with firms from the adjoining Swiss provinces. The aim of this corporation is mainly to test new raw materials and new technical processes and to inform the member firms of new technological developments. The latter aim is also pursued by a number of technical documentation centers, which have been established in Europe in the last years. There are some Austrian firms (mainly from the chemical and the iron- and steel industry) who are members of such international centers. Other forms of export oriented industrial cooperation are the various multilateral agreements between leading firms, which regulate the conditions and the extent of the export-business. Austrian firms are members of some of these arrangements (e.g. the one concerning fertilizers), which have of course the economic effect of international cartels.
25. Among other cases of industrial cooperation with developing countries, described so far, one form is of special interest because in some cases it later on led to a much closer cooperation, e.g. in the form of a joint venture: in the course of great construction or machinery projects done by Austrian firms in developing countries it often is economically favourable to order some components from local producers or to give some special orders for production according to plans provided by the Austrian company. Such relations usually are

in the form of normal subcontracting. If there are market prospects, however, that promise a permanent engagement of Austrian firms, it has turned out advisable in several cases to seek a closer cooperation with firms well versed on their domestic market. Such a development could be observed e.g. in the Iran. Here Austrian firms that engaged in export-business with this country (or in one important case in construction orders) for a long time, then founded a joint-venture with firms, with which they already had experience in cooperation.

In the Iran there is a specially favourable climate for such a development because it is one of the few developing countries with which there are rather close traditional links. There are especially a number of Iranian technicians etc. who got their university education in Austria and can be hired as Austrian management representatives in joint ventures.

There are also some assembling and service installations with local partners (e.g. of an Austrian automobile factory in Thailand) but these forms of cooperations are in most cases important only in the context of the export marketing of the Austrian firm.

Summary and Recommendations

26. In this paper forms of international industrial cooperation in Austria were analysed as an example for the experiences of a small industrial state with medium level of technology, a strong share of nationalized industry and no traditional ties with developing countries. In this analysis the following points appeared as being crucial:

- a) Before starting an industrial cooperation detailed information should be available concerning the structure, the financial status and the intentions of the partner firm. In many cases failures of cooperation arrangements were caused by difficulties arising suddenly with one of the partners. The closer the planned form of cooperation is to be the more attention ought to be given to the regulations concerning the ending of the cooperation and the settlement of disputes.
- b) In connection with the considerations made above the crucial position of the basic contracts has to be emphasized. To prevent loopholes, which later on may endanger the whole effect of the cooperation, it is advisable for a firm which has the intention to engage in an industrial cooperation to form a special team for the negotiations. This team should consist of representatives of the technical, commercial- and the financial management, of lawyers and also of some of the persons, who later on will have to execute the cooperation agreements. This team should remain complete and unchanged for the whole duration of the

negotiations, so as to reach a full range of views within the company and to be able to react promptly and efficiently to any technical or commercial question arising.

- c) An industrial cooperation will only be successful, if it offers chances for further evolution. These chances have to be secured in two fields: sales-management and technical development.

For closer forms of industrial cooperation it is essential that each partner has an influence on the sales-management. This may be effected e.g. by an own marketing of the joint-venture or by a marketing done as sales-agents by each of the "parent-companies".

The marketing aspect is of such eminent importance, because only by knowing the market and its evolution one is able to decide on new developments and long-term projects. Moreover no real control concerning profits is possible if one has no influence and no control on the marketing side.

As it is more and more difficult - even impossible - to get access to really interesting modern techniques by way of mere licensing agreements if one is not able to offer some know-how in exchange for one's own technical development is becoming increasingly important.

- d) Concerning the management problems of industrial cooperation it is of importance to secure a certain continuity of those responsible for the execution of the cooperation. Clear competences have to ensure that a successful cooperation is also possible at a lower level of management of the partner firms.

Several examples have shown that in the case of a joint venture it is advisable to mix the management within each department, instead of concentrating the responsibility of one "parent" firm only on the technical or only on the commercial side.

- e) The Austrian experiences have shown that chances for industrial cooperation aiming at the creation of export-oriented joint ventures are still in the beginning. In cooperation between industrialized countries there always arise the problems of self-competition and of the partition of the export-markets. On the other hand in cooperation with developing countries internal demand in most cases is so strong, that industrial cooperation usually only leads to import-substitution (which, of course, is in fact very close to export-orientation). The best chances for export-oriented cooperation exist where there are special raw-material or marketing constellations, which can be exploited with the help of the know-how of a foreign partner.
- f) The readiness of developing countries to close the market for competing products as soon as a production of their own in the form of a joint venture has been established has proved to be a strong incentive to foreign investors. This policy is economically reasonable, because it enables the newly created company to expand up to a size where economies of scale can be exploited and thus productivity can be increased. On the other hand, however, such a policy always contains the danger of monopolistic abuses. It seems, therefore, to be advisable to exert a certain control on the pricing-policy of companies,

which have a government-guaranteed monopolistic position. This control could confine itself to a comparison between home- and world-market prices. From a certain stage on it could also be of advantage to substitute the licensing-system by a regular customs tariff, so as to get the firms slowly used to world-market competition.

- g) Closely connected with the points discussed above are the measures the governments of developing countries could take to increase the export-share of joint ventures, for the success of all such measures (as e.g. stating a certain percentage of production ^{which} has to be exported) depends upon the international competitive ability of the firms. The problem of earnings of foreign currency is of growing importance as more and more foreign investors are anxious about the possibilities of the transfer of their earnings. These investors probably would be willing to grant liberal export rights and to substantially help with their own sales organization, if they could take part in the foreign exchange earnings. Further ^{also} investigations should be done concerning the possibilities to reach a more flexible system of multilateral clearing agreements and other financial arrangements, that would enable the developing countries to offer stronger financial incentives for international industrial cooperation.





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