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between Developed and Developing Countries  
for Exports

THE EXPERIENCE OF POLAND IN INDUSTRIAL  
CO-OPERATION WITH DEVELOPING COUNTRIES <sup>1/</sup>

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## INTRODUCTION

While simple industrial co-production (co-production in the "narrower sense") between industrial plants of a single country has become already a normal and universal phenomenon operating in typical forms, international industrial co-production, as a new, complicated system of relations between various organizations in two or more industrial fields still continues to be rather a problem than a concrete reality. The complex structure and elasticity of the scope of industrial co-production are made more difficult not only by the practical solutions of the problem itself, but also by the reflection of these solutions. The multitude of aspects of industrial co-production complicates attempts at a complex analysis or evaluation of what has been already done in this field, and makes it necessary to question the correctness of numerous proposed solutions.

This pertains to such questions as:

- proper balancing of the size of contributions and advantages of the individual partners;
- the manner in which the economic analysis will take account of many unknown, uncertain and immeasurable elements (e.g. provision of the possibility, dimensions and effects of factors beyond the control of the partners, which can make it impossible for them to carry out their obligations);
- the possibility of divergencies between short-run and long-run plans, etc., etc.

In this situation, every attempt at generalization, every undocumented thesis, becomes controversial and refutable. For the same reasons the very manner of approach to the general question differs considerably and gives rise to controversial considerations.

Taking into consideration the above circumstances, it was the intention of the author of this paper to present first of all in a dynamic manner the material base and the degree of preparedness of the Polish economy for participation in international industrial co-production.

The scope, dimensions and results of the co-production activities to date are presented in a descriptive form and illustrated by examples. A more detailed, numerical characterization of the achievements seemed neither necessary nor possible.

General conclusions which may be applicable in principle to all countries and partners and typical phenomena and cases are contained in the paper. The views and suggestions formulated in this paper represent the personal views of the author and must not be treated as the official stand of the Polish economic authorities.

I. GENERAL CONSIDERATIONS

1. Industrial co-production is not only a form of organization of the process of production and distribution of goods. It is essentially and primarily a method of intensification and better utilization of production potential within the framework of the national and the world economy as a whole. It constitutes a natural development stage in the drive for and use of all production possibilities. The growing competition leads ultimately to the concentration of production. A natural consequence of the latter is specialization, resulting in turn in the necessity of co-operation.
2. Concentration, specialization and co-operation being the symptoms of a higher level of international division of labour, bring about on, at least, two and should bring about favourable effects for both the producers and the consumers of goods. Producers obtain possibilities of better use of the already existing production capacities, speeding of production processes and lowering of prime costs. On the other hand, customers obtain the required products of better quality and at lower prices. An obvious example is a typical example. It is easy to conceive the enormous costs involved, if each and every plant produced all the components by itself. It is all the more evident in shipbuilding. Nowadays, almost all production plants use up during the process of production not only raw materials, but also ancillary materials and intermediate goods which are final products of other plants. If these materials are purchased on the market, then it is an example of natural, unorganized co-operation. If however, they are ordered with the producer on the basis of agreements and patterns then we are witness to industrial co-production in the "narrower sense" of this notion. More and more customers, striving for security against instability of the market, are shifting to direct orders with producers. In such a way, the first and basic co-operation links are established.
3. As the production process is getting complicated, due to the ever more complex structure of the final product, the restriction of the scope of production to certain elements of the final product, may prove to be sound and favourable. It primarily concerns the deliveries of complete industrial plants and assembly shops producing similar machines and installations but specializing in the production of certain component sets only. Then we observe the industrial

co-production in the "broader sense" i.e. including mutual relations and deliveries. In other such a co-operation does not result in the lowering of costs of production, or costs increase, but makes possible exports or imports of the components of final goods which it would otherwise be impossible to sell or to purchase.

4. Industrial co-production does not only involve co-operation in production, but also in other fields of industrial activity. The larger the sphere of co-operation and the greater the interest of all the partners in it, the more favourable it is.

5. The favourable implementation of the greatest number of co-operation agreements is the joint organization and management of industrial plants. However, the results and effects expected will be obtained only provided certain conditions are met, particularly: the proper choice of the subjects and objects of co-operation, a suitable location of the given plant and the assistance of the local authorities. The more careful the project preparation is, the earlier it is to realize the plant and the better are the results.

6. Poland is interested in industrial co-production and co-operation with practically all countries. She is also willing to participate in production partnerships considered to be an efficient tool for the practical solution of various problems of international industrial co-production. She has, however, no interest in the export of capital or in the profits derived from the labour force in other countries. The existing Polish experience in the organization of production partnerships reveals the existence of various difficulties, but it shows in many cases how to overcome these obstacles.

7. The joint organization and management of production plants is of special importance in the investment activities of the developing countries. It makes possible for these countries not only to obtain the material means and qualified personnel they are lacking, but also to take advantage of the experience and assistance of those developed countries that are financially and economically interested in the success of the joint ventures. The starting of a new production, enables the reduction of imports of certain products, and further, may lead to exports.



3. Similar results may be obtained in the developing countries by other means, among which the following deserve special attention:

- (a) Granting licences to foreign investors for the construction and management of plants operating in the given country. Licences determine the conditions and duration, and provide also for the possibility of transferring the given plant to the government of the given country subject to conditions mutually agreed upon.
- (b) Establishment of state companies based on principles similar to the above, especially when considerable investment outlays are involved. In this case, the government of a developing country may gradually take over the shares in the companies as the amortization of investment outlays takes place.
- (c) Entrusting the specialized managerial organizations with the management of production plants, on conditions adapted to the special requirements and needs.
- (d) Each of the above solutions has positive and negative aspects. However, they have one favourable factor in common i.e. the fact that the production plant enters the orbit of international co-operation, obtaining thus considerable additional advantages.

9. Generally speaking, the advantages of industrial co-operation are self-evident. However, are also the advantages for developing countries resulting from their joining the international industrial co-operation by setting up partnerships or by other means. But these solutions should be neither under- nor overestimated. It goes without saying that from a historical point of view industrial co-operation constitutes a higher degree of development of social methods of production.

## II. OBSTACLES AND DIFFICULTIES ENCOUNTERED IN THE JOINT ORGANIZATION OF PRODUCTION PLANTS IN THE DEVELOPING COUNTRIES

10. The experience of Poland and of other countries shows that developing countries are much more interested in the joint organization and management of industrial plants than the developed countries. This leads to a proper understanding of the efficiency and advantages of such solutions in the developing countries, but also,

proves the existence of various difficulties discouraging the initiative of the potential partners in developed countries. The reasons of these difficulties and the methods of their being overcome or eliminated should be considered in this context. Broadly speaking, the difficulties mentioned could be divided into two main groups: objective and subjective. The elimination of objective difficulties is time-consuming and requires financial and material outlays. The removal of subjective obstacles could be, as a rule, carried out relatively quickly and without any financial or material outlays.

11. Some of the objective difficulties are for the time being insurmountable, at least at the present level of technical development. Among them the following should be mentioned:

- (a) Lack of indispensable raw materials. In some of the developing countries there are rich deposits of iron ore but no coal at all. The transportation of improved coal or its replacement by electric energy makes the investment unprofitable.
- (b) Insufficient resources of electric energy. Some types of production like e.g. aluminium, requires large amounts of electric energy. The cheapest investment for this purpose would be a hydro-power plant, but the configuration of the area, makes the building impossible. Then, in turn, production requiring considerable and cheap sources of electric energy cannot be started.
- (c) Indispensable raw materials do exist but are located in remote and inaccessible places. Their exploitation is unprofitable or even impossible.

12. The most important obstacles of an objective nature are those connected with infra-structure and particularly with the shortage of roads and water. In the absence of power plants, power generators could be constructed and used by the factory and its staff. The shortage of local manpower could be made up by building housing blocks near the plant. However, the road construction is always, and building of water intakes in many cases, too expensive an investment to be financed by individual investors. In this case, state assistance and foreign credits are indispensable.

13. Relatively, the easiest problems to overcome are objective difficulties resulting from the shortage of qualified staff or the lack of experience. The best remedy in such a case is the participation of foreign partners drawing their experience and ensuring within the process of an agreed co-operation, proper training of the staff and of local specialists.
14. One of the vital objective obstacles to carry out all the projects is, on the one hand, the low level of technology in developing countries in technological progress, and on the other, lack of conditions to make up for the loss and to keep up the world standards in this field. This would involve tremendous expenditure and assistance of too great a number of experts and specialists. The same reasons make industrial co-operation undesirable for the developing countries.
15. While objective obstacles are related to the problems of co-operation, the subjective ones are of two nature: first, the subjective difficulties lie in the organizational and financial spheres of co-operation between local and foreign partners. In particular it is the problem of lack of sufficient local support in facilities and incentives granted to foreign investors by the local authorities in the developing countries.
16. Local partners in the private sector, especially those with a sufficient financial means for the necessary experiments. In practice, they are unwilling to take risks in an activity completely new to them. Suitable for this purpose are state institutions of the investment development corporation type, that were introduced into being and proved their efficiency in many developing countries. Partners from the developed market economy countries i.e. corporations, companies and individual businessmen are, as a rule, reluctant to enter into co-operation with the state institutions. On the other hand, it is with these institutions that the partners from socialist countries are most willing to co-operate. Such being the case, the selection of partners may be carried out in a natural way. Some developing countries, through special governmental organizations enter into and organize joint investment projects with foreign partners. The investment having been commissioned and proved profitable, the company shares are sold to individual citizens of the given developing country.
17. The lack or insufficient level of economic co-operation between the countries of the same geographic region should be considered as a

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the ... countries.

11. ... OF EXPORT PROMOTION AND ...

1. ... should, lead to an increase in  
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... of ... All these elements are mutually related as a  
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... of ... the manufacturing of  
... of higher quality standards. The supply of higher quality  
products at lower prices can be increased ...  
... brings about an  
... of these and other products. The introduction of  
... rather of the improvement of domestic supply  
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of ... It may also be aimed at ...  
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... but the decisive factor  
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... in the given plant.  
For this reason, all investments ... are granted  
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2. The ... covering  
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co-operation in the "narrow sense" gives possibilities of obtaining orders for less complicated components of final products assembled later on, and finished by world producers in the developed countries. Such possibilities could first of all be found in industries producing great quantities of similar goods of highly sophisticated internal structure. The following examples illustrate the sound production of parts and accessories (various elements of engines, tools, measuring instruments etc.), sewing machines (mounts and frames), radio and TV sets (cabinets or plastic boxes, 11 parts, knobs), crude oil, various kinds of ready-made clothing and luxury goods (according to patterns and designs determined by the customers) semi-finished goods of local raw materials (aluminiums of metal ores, cellulose, paper, leather etc.). Aspects for the above type of co-operation are providing for the manpower shortage in the developed countries and the subsequent tendency toward concentration on production of machinery and installations and more sophisticated consumer goods of industrial origin. In certain cases co-operation in the "narrow sense" may be transformed gradually into co-operation in the "broader sense". Thus, for example, producers of boxes and of some other elements of radio sets can import the remaining elements, assemble them in boxes and sell on the home and foreign markets. The implementation of such ventures in co-operation with developing countries would yield positive results in a short time. A relevant example is provided by the production of tractors and motorcycles in India, based on Polish deliveries of components.

20. Some developing countries are in a privileged position since they possess practically all raw materials required in the production of certain products. For example, deposits of sulphur and phosphorites enable the production of phosphatic fertilizers in great demand on the world market. But even when developing countries can afford independent financing of construction and commissioning of expensive plants, industrial co-operation with developed countries may prove to be very advantageous. It will strengthen the resistance of developing countries against organized world competition, that might attempt the elimination of outsiders, through temporary lowering of prices and more lenient credit terms. Industrial co-operation enables also the close following of technical progress and in turn, lowering of production costs and quality improvement.

21. It is easier to start export substitution production than the export and other activities in the area of the activities of foreign capital and investment. The best action to achieve this objective is to begin with the export of components (replacing imports of finished goods) and then to start gradually the production of finished components until imports are completely stopped. Thus, a complete stop of imports of export production, co-operation in the development of it, is indispensable. This may be transformed into a slogan: "the 'buy or lease'". It will occur, that practical experience will have some profitable the production of goods and services in the developed countries, and others in the developed countries. Thus, such countries will manufacture the components, and some countries will assemble and install, and others will assemble and install, and some others will assemble and install. Then when practical experience the export of components is not possible, and technical progress in this field is necessary, and as in the developed countries, to ensure the co-operation of investment and to ensure the export of technical services and delivery of spare parts for machines and installations, and to ensure proper training of qualified personnel and staff.

22. Industrial co-operation, being the factor facilitating and sometimes even determining export and import possibilities, is necessary not only for the developed but for the developing countries as well. Population increase, technical progress and the growth of welfare make the continuous expansion of production in the developed countries a necessity. This, in turn, brings about an open and demand for imports, raw materials and the search for new or greater markets with real or alternative power. Obviously, the developing countries are not in a position to expand and diversify their production without foreign assistance.

The developed countries will first export the machines and installations indispensable for export-oriented industries thus contributing to the expansion of exports of manufactures from developing countries. Such exports are usually accompanied by exports of licences and various services, and followed by exports of spare parts, new licences, new machines and installations for the replacement of previous equipment and plants. The above reasoning is also valid in the case of developed countries contributing to the establishment of

import-substitution industries in the developing countries. The technical and economic requirements of a rational international division of labour inevitably lead to a gradual taking over by the developing countries of the production of a wider range of products and ever more complicated goods produced so far by the developed countries. The developed countries do not lose anything by accelerating this process, quite to the contrary they gain a lot. World demand for industrial and agricultural semi-finished goods will show an upward tendency with the lapse of time, especially in case of such articles as cellulose, polymers, plastics of metal ores, leather, vegetable oils, fruit juices, conestibles etc. Bearing the above in mind, as well as the rapid population growth in the developing countries, considerable development of agricultural production seems to be indispensable. In most of the developing countries agriculture is still backward. Primitive methods of soil cultivation are continued and vast areas lie fallow. To a great extent it is caused by the shortage of roads, agricultural implements, warehouses, fertilizers, vocational training and by the poverty of peasants who cannot even afford the purchase of necessary tools. It is a well known fact that acceleration of agricultural development requires tremendous financial outlays and takes a long time. That is why the developing countries should already devote their attention to the best methods of resolving the encountered problems. Besides taking full advantage of the possibilities to develop production and exports, it is essential to prepare the necessary technical base for road building, irrigation systems, the production of local artificial fertilizers and agricultural tools. Industrial co-operation is necessary, advantageous and feasible in this field, too.

23. All the developing countries are faced with great and pressing economic needs, but their means and possibilities are as a rule seriously limited. In such a situation, the problem of priorities in development is of capital importance. In other words, it is the problem of choice between export-oriented and import-substituting production, between production of investment or of consumption goods, between granting priorities to agriculture or to industry, and finally between current or long-term needs. There is no definite and unequivocal answer to the above problems. The situation of each and every country is different and in every situation various solutions

are possible. However, it is universally accepted that the economic development cannot run in a chaotic and uncontrolled way. It should be planned and organized, the efficiency of implemented plants and development projects dependent, to a great extent, if not to a decisive, extent on co-operation relations with other countries and foreign partners. Conclusions concerning the choice of co-operation partners follow indirectly from the above reasoning. First conclusions are the partners from the countries that have already achieved a high level of development in economic planning and in industrial co-operation, that could ensure the reliable implementation of the long-term co-operation agreements on their national markets for the products of developing countries. However, the above conditions do not exclude the possibility of taking advantage from economic, industrial and technical co-operation with other countries and partners.

#### IV. ECONOMIC CO-OPERATION WITH DEVELOPING PARTNER COUNTRIES

24. The main objective obstacle hampering the construction of new production plants in the developing countries is the lack of an economic base of supplies. The investment in infrastructure is very costly and its amortization very slow. It can be financed only by the state (from its own budget or from foreign credits). On the other hand, all types of production investment are as a rule profitable and can be started with a small share of local capital (e.g. trade or government cooperation). UNEP seems to be in a position to suggest an increase in international means of credits for the development of infrastructure within the framework of a complex, thorough conceptual study of overall economic development of some countries and their regions.

25. Financing of production investments available to a greater extent, taken even by the partners from the developed countries, provided the governments of developing countries introduce adequate incentives. It would seem worthwhile if UNEP could draw the attention of the governments concerned to the advisability of introducing such facilities.

26. Exports of industrial products, produced by the developing countries will be faced with keen competition on the world market by the levels of economies. The most practical solution of the above problem is the establishment of "common markets" of



neighbouring developing countries, thus enabling in every country the growth and lower costs of specialized production. For our own needs, the production protection of joint customs tariffs. Such tendencies could be supported by UNIDO, and it could also be of considerable assistance in the solution of some problems arising in this field.

27. The practical implementation of all three suggestions enumerated above calls for a programme of economic development in every country and requires the co-ordination of plans among the countries forming the actual or potential "common market." In this respect the assistance and co-operation of UNIDO would be most useful.

28. Industrial specialization and co-operation should be included in the planning of economic development. In certain cases solutions in the form of state partnerships could be useful. They would enable the inclusion of co-operation obligations in the total planned targets of the given developing country and of the developed country i.e. its partner. The proper UNIDO action, explaining the operational principle of such a mechanism as well as the resulting mutual advantages, would be of considerable assistance.

29. Failures in the implementation of many projects on joint organization and management of production companies, is due to the lack of partners for potential investors. In this respect, UNIDO could play a useful role, similar to its assistance in bringing together potential partners. In this case it would be worthwhile to prepare a special questionnaire addressed to the competent organizations in the developing and in the developed countries. On the basis of such a questionnaire a jointly supplemented files of projects and possibilities could be prepared. Should the necessity arise, a meeting of the parties concerned could be convened. POLONEX S.A., the Polish company specialized in joint organization and management of industrial partnerships abroad, is ready to co-operate with UNIDO in the implementation of all projects conducive to the acceleration of economic growth of the developing countries, through industrial co-operation based on equality and respect of mutual interests.

ANNEX A

1. GENERAL PRINCIPLES OF PARTICIPATION OF POLISH PARTNERS IN  
JOINT VENTURES ABROAD

(a) Feasibility Studies.

1. The first and fundamental condition of the participation of Polish partners in joint partnerships of an industrial character is the profitability of the intended undertaking resulting from a properly prepared feasibility study.
2. A properly prepared feasibility study should give a concrete, unequivocal and properly documented answer to at least the following questions:
  - (i) Maximum and minimum possibilities of the sale of the planned output on the local market and for exports over the next fifteen years;
  - (ii) Local and foreign sources of supplies of raw materials, auxiliary materials and possibly semi-finished products;
  - (iii) The most advantageous variants of the location of the production plant with account being taken of its position with relation to the sources of supply and sale and the infrastructure of the given regions;
  - (iv) The possibility of finding manpower and experts: the degree of their vocational training and the needs and scope of training, rates of pay and the system of wages, as well as the overall labour productivity and the attainable levels of productivity;
  - (v) Description of the planned techniques and technology of production, with emphasis on the advantages and disadvantages of the solutions proposed, as well as to their superiority to other possible solutions;
  - (vi) Opinion concerning the indispensability and suitability of the proposed divisions, machines, machines and installations and other equipment;
  - (vii) Examination of the method for ensuring the possibility of an expansion of the plant and of increasing its output and assortment of products;
  - (viii) Calculation of the concrete and overall costs of the investment (i.e. construction work, building materials, machines and installations, costs of supplies, assembly, construction, etc.).

- (ix) Calculation of the costs of the production of the various products (including maintenance and of the entire plant, including general costs, amortization, etc.);
- (x) Calculation of the size of turnover, overall and in the various contracts;
- (xi) Calculation of the amount of the working capital;
- (xii) Profit and loss account;
- (xiii) Economic indicators, particularly -
  - period of return of capital invested;
  - profitability of own capital;
  - overall profitability of capital invested;
- (xiv) Indispensable conditions which must be fulfilled to achieve the expected effects;
- (xv) Possible reservations (for example, with regard to the correctness of the choice of the production programme, the production of machine parts, differences of views between members of the team preparing the report, etc.);
- (xvi) Final remarks, at least one of them - concerning the purposefulness of undertaking the construction of the proposed investment.

Feasibility studies permit also the checking of the purposefulness, correctness and effects of the additional planned co-production ties with the main task and aim of the planned investment. The investment outlays planned in the reports for the purchase of machinery and installations, construction and assembly work, for transport, insurance and other services should be documented by binding and relevant offers of suppliers and bidders of the investment.

2. The offers submitted and the feasibility studies prepared should be verified. The experience of the POLCOMEX shows the necessity of a particularly thorough checking of the following data:

- (a) The availability of adequate electric power and water supplies from alien sources;

- (b) Real labour productivity of the local labour force;
- (c) Proper selection of the capacity of machines and installations for the various production processes and the levelling up of the production capacity of the various departments;
- (d) The existence of the necessary investments and the lack of independent investment;
- (e) Superiority of qualitative technological possibilities;
- (f) The method of the execution of construction or assembly work (for example, by a general contractor with the delivery of "turn-key" plant or by local constructors), which entails a number of very serious consequences affecting the quality, the speed and the cost of the construction of the investment.

On the results of the expert study, based not only on the decision whether the investment is to be built at all, but also how it is to be built.

(a) Partners

3. Partners on the full scale. All Polish foreign trade enterprises may join production partnerships. Up to now, however, the greatest initiative in this field has been shown by the greatest number of affects has been achieved by PNT "S. 1." Nevertheless, other foreign trade enterprises also intend to participate in similar partnerships in their own special lines of work.

4. Foreign partners. The following are some foreign partners of Polish firms:

- (i) Foreign financial institutions, state owned enterprises in which the state is a shareholder, and various types of cooperative organizations, and
- (ii) Foreign enterprises or private individuals possessing the necessary know-how.

Polish partners favor joint partnerships in which there are no local partners. The participation of partners from third countries is of the same kind as the partnership whereby they can offer to the partnership in the construction of the industrial plant, its exploitation and in the field of co-production.

5. The nature of decisions of partners. One of the most important conditions under which Polish partners participate in foreign partnerships is to ensure their influence on major decisions over their share in the partnership is considerable, but when they

to not have the necessary majority. The solution of this problem lies in the principle that in such cases decisions should be made not by a normal but by a qualified majority, so that neither the Polish side nor other local and foreign partners can have the decisive voice.

6. The withdrawal of partners. In the opinion of the Polish party this should be limited, first of all in order to avoid a speculative and unproductive character of the partnership's activity. The partnership should remain existing at least until it pays off all credits and other financial obligations. Polish partners are prepared to withdraw at once or soon as the partnership pays off all its obligations and becomes fully profitable. But apart from that, Polish partners are inclined to continue their co-operation with the partnership on previous or new principles in all possible fields of industrial co-production.

#### (c) Contributions

7. Types of contributions. One of the fundamental conditions under which Polish partners join industrial partnerships abroad is the limitation of their share exclusively to contributions of a material nature and of Polish origin. The Polish party can make its contribution in the form of: machines, installations, equipment, building materials, and auxiliary materials, technical documentation, licences, patents, inventions, know-how, services, expert assistance, etc., but only in kind and only of Polish origin. On the other hand, it cannot make financial contributions. The remainder of the parts of machines and installations may be purchased from other countries, provided that their imports are financed from the contributions of the other partners. There is also no obstacle to an arrangement under which the supplier of these goods becomes a partner and his deliveries are counted as a part of his material contribution to the partnership.

8. Procedure of making the contributions. Since the contribution of the Polish party can be made solely in kind and only in the form of Polish products and services, the payments for them being made to Polish exporters by Polish partners in foreign partnerships there is no need to transfer their financial equivalent to the bank of the country in which the partnership is situated. Anyway, these funds could not be used for other purposes and the banking manipulations would cause unnecessary additional banking costs. This is why Polish partners pay

their contributions to the Bank Handlowy in Warsaw which issues appropriate certificates on this basis. The latter constitute a proof of the execution of their financial obligations concerning the capital declared for the establishment of the partnership.

(d) Financing

9. Method of financing preparatory work. Preparatory work requires considerable financial outlay, these costs should be borne in a solidary manner. If the partnership is established, the costs borne should be counted as part of the contributions of the partners who had borne them. If the partnership fails to be established the costs should be covered by each partner from his own funds. The feasibility study should be prepared on the basis of a special agreement between the promoters of the future partnership. The agreement should define the method of the preparation of the report, the time, place and period of its preparation, the share of the representatives of the individual partners, the general cost of its preparation and how it is to be met.

10. Sources of the financing of the activity of the partnership. If the capital fund is insufficient for covering the full costs of the planned investment, additional sources of financing may be found in:

- (i) loans granted to the partnership by the partners, foreign banks, government institutions and autonomous or other institutions, or by the Polish Bank Handlowy;
- (ii) credits granted by suppliers and contractors;
- (iii) advances by foreign customers in anticipation of future services and deliveries of the production plant of the partnership.

Thus all normal financial sources are possible, not excluding credits granted by Polish suppliers and customers.

11. Increase in the capital fund of the partnership. The need to increase the capital fund of a partnership may arise from a planned expansion of its own plant or a plan to purchase or other industrial plants. It may be also caused by the necessity of meeting losses. In every case Polish partners can make their contribution in this respect exclusively in the form of Polish products and services. Similarly as in the case of the establishment of the partnership they can obtain previously the consent of their superior

authorities. The expansion of a plant or its merger with other industrial plants requires the preparation of a feasibility study as in the case of the establishment of a partnership for the construction of a new plant. The point here is not only to investigate the profitability of the co-ordinated work of the activity of the partnership but also to carry out an analysis of the needs and possibilities of the expansion and modification of the co-production arrangement. Depending on the size and the importance of the problem, the scope and procedures of such studies may be suitably simplified. At a later period losses may be covered, of course, from the reserve funds previously established and accumulated by the partnership.

12. Renovation and modernization of the partnership's plants. They may and should be financed from the amortization funds and a certain part of the reserve funds. Within the framework permitted by the local legislation, the rate of amortization is one of the most important elements of the financial policy of the partners. It may differ considerably depending on the circumstances, the character of the undertaking and the principles and aims of the partners. Modernization should be introduced first of all within the framework and in connection with renovation as the need arises due to technical progress and the activity of the accretition. It depends also on the progress in the vocational training of the personnel of the plant and the amount of funds accumulated for this purpose.

(c) General principles observed by Poland in the management of mixed partnerships abroad

13. General and technical management. In mixed partnerships in which the share of Polish participation is about 30% of the capital fund the Polish side proposes the appointment of the general manager until the repayment of all credits and other financial obligations of the partnership. This pertains particularly to cases when the majority of the machines and installations of the industrial plant of the partnership has been delivered by Polish producers, when it is planned to organize industrial co-production with Polish partners during the period of the exploitation, when the local partners do not have at their disposal their own personnel experienced in the given field or when the amount of Poland's financial contribution is relatively high. The entrusting of the general management to the representatives of the Polish partners is to permit a

proper co-ordination of the whole executive apparatus of the enterprise for a correct and punctual achievement of the tasks defined by the partners. These duties can be carried out best by a person who is familiar not only with a given technique and technology of production, but also with the possibilities and principles of co-operation with the main investors in the partnership and partners and who can suitably adapt the co-operation of all the executive units of the partnership's plant to the implementation of these tasks. For the same reasons it is even more desirable to appoint a representative of the Polish partner to the technical management. This applies to the post of technical manager and his chief associates (for example, chief engineer, chief mechanic, constructor, technologist, chief of technical control etc.) These posts should be held by the representatives of the Polish party until they may be entrusted to local specialists after they receive proper training and their suitability is tested. The possibility for the Polish partner to take over the general and technical management in the first and most difficult period of the construction, commissioning and operation of exploitation is of considerable aid for the local partners, all the more so as few partners from the developed countries want and can fulfil similar conditions. Speaking generally, the management of the partnership's plants should be organized on principles laid down in the partnership agreements and in the organizational structure of the undertaking, as well as in accordance with the local building rules and customs.

(c) Training of local personnel and specialists

14. The vocational training of the personnel of an enterprise should be one of the most important co-operation duties of a partner from a developed country. An initial preparatory training should be organized by the general supplier of plants in his own country. A minimum training period should last six months and end just prior to the commencement of the trial runs of the plant. On-the-spot workshop training by specialists selected by the general supplier to executive technical posts should belong to their normal everyday duties. Apart from that, it is indicated that as soon as possible after the conclusion of the partnership years and talented local citizens should be sent to higher technical schools abroad, so that they could replace as soon as possible specialists from the developed country. Certain facilities may be obtained here in the



form of scholarships granted by developed countries represented in a given partnership for candidates for engineers, technicians, economists, etc. The personnel, factory and school contacts obtained in this way are certain to be useful in the solution of practical problems of industrial co-operation between the new plant of the partnership and its partners from the developed countries. This line is followed also by Poland and POLCOMEX. The vocational training of technical personnel from the developing countries organized in Polish industrial plants has shown that a large majority of the trainees quickly mastered production methods and reached normal average productivity norms in a given field.

(g) Administration

15. The internal administration of the partnership's plant should be fully in the hand of local employees. This pertains in particular to such questions as: personnel affairs, all records, running of warehouses, accountancy, intendent's office, all administrative posts, correspondence and typing, etc. The manning of these posts belongs to the tasks of the local partner. After getting an insight into the qualifications, skill, traits of character, type of attitude towards work and results of the individual employees it will be possible to select the most suitable candidates and to train them for taking over as soon as possible posts held by foreign experts.

(h) Supplies and sales

16. A correct selection of assortments and volume of output and technically and technologically proper output of products of a suitable quality with the preservation of the planned prime costs are not enough for the achievement of the planned profitability of an industrial plant. For commercial considerations play a not less important role than technical considerations. Moreover, in the field of industrial co-production in which we are particularly interested, the establishment of suitable ties and the implementation of industrial co-operation agreements are done above all in the sphere of supplies and sales. Under conditions of growing competition and multiplying restrictions modern trade in general and international trade in particular have become a very difficult and complicated sphere of activity. Articles which are not subject to stock market transactions may be bought and sold at greatly varying prices and under greatly varying conditions. Taking all these reasons into account, POLCOMEX is familiar with the current level of the prices of main

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articles and the quality of goods produced by the main producers. In this way it may contribute to the selection of more favourable purchases. Moreover, POLCOMEX acts as an agent in imports to Poland, it may help in the conclusion of long-term import agreements for products produced by the plants of the partnership to which it belongs. Apart from this, when acting on the spot, it can supervise proper preparation and prompt delivery of the products ordered by the partnership. The export and import of goods for the needs of the partnership's plants include, of course, semi-finished products which are needed for further production in those plants or may be produced in them for the needs of foreign buyers. Irrespective of organizing and trial co-operation, POLCOMEX strives also for a maximum exploitation of the possibilities of co-operation on the local market both through the execution of the orders of local customers and through placing orders for production work and processes which can be done better and cheaper in local industrial and agricultural establishments. POLCOMEX takes into account the possibility of initiating the creation of such establishments by local businessmen. In its assistance, especially in the execution of co-production agreements placed by the partnership's plants, POLCOMEX sees a particularly large and fertile field for co-operation. It also endeavours in the organization of home sales of products produced by the partnership's plants. This new production method, in a rule, like the export which is in the needs of local markets. It is the most effective way to increase over the sales of the same articles produced in the same plants. It is in favour of the conclusion of agreements to deal with such or other local plants for the same products in the plants of the partnership. POLCOMEX is of the opinion that the partnership should concentrate on problems of production and material co-operation.

2. All co-operation agreements, by their very nature of a temporary character, they require systematic correction and modification of conditions. POLCOMEX is prepared to carry out the organization of new and the modification of existing co-operation arrangements, particularly with Polish partners, and to carry out, in the name of the partnership, operating on the basis of the agreements.

(i) Investments

18. Investment activity includes the construction and commissioning of new industrial plants, renovation of worn-out machinery and installations, modernization of technical and technological processes and expansion of the plant through the construction of new additional production and auxiliary departments. In striving for the achievement of the best possible effects also in this domain, POLCOMEX as a partner in industrial joint ventures abroad is guided by the following principles.

19. The beginning of the construction of a plant depends on the preparation, checking and approval of a feasibility study covering also the main problems pertaining to the planned expansion of the new plant. These problems include in particular the determination of the assortment and quantity of products whose production is planned for the next stage, the ensuring of the indispensable additional space, and the possibility of increasing the supplies of water, electric power, steam, etc.

20. The designing and the construction of a plant are a complicated undertaking which requires the co-operation of various contractors. Identical effects may be achieved in various ways. The investor, the new partnership, has no practical possibilities for organizing and co-ordinating the whole of the investor's work. This is why POLCOMEX participates solely in projects which are built by a single general contractor according to the formula of "turn-key" delivery. Such a solution offers also a number of additional advantages, such as for example:

- it guarantees the achievement of the technical and economic indicators provided for the feasibility study for the entire plant and not only for the single machines and installations;
- it ensures prompt and cheap delivery of spare parts and machines and installations to replace those which have been worn out (amortized);
- it ensures technical service and expert assistance in the field of repairs of the means of production supplied;
- it ensures the flow of information on technical know-how along with proposals concerning suitable modernization of the production installations supplied;
- it permits the training of personnel in plants already built by the general contractor on the basis of analogous techniques and technology.

It may appear in many cases that construction work done by local firms is cheaper than that done by foreign ones. The general contractor may be committed in such cases to engage local firms as sub-contractors with a simultaneous proportional reduction of the cost of the entire investment. The signing of a contract for the construction of the entire investment on the "turn-key" principle does not free the investor from settling on his part a number of problems and from making current decisions connected with the construction. The duties of the investor in this domain include for example: he must supply the general contractor with a number of data and information items according to a list contained in the contract, he must ensure the supply of electric power and water, prepare and engage the personnel for the period from the beginning of the commissioning, he must place orders for raw materials and ancillary materials for the trial and normal production. It is also indispensable to watch systematically the progress of the construction of the investment according to its schedule, cost estimates and provisions of the various clauses of the contract, all the more so as the control of the quality and scope of the execution of a number of building works is completely impossible after the completion of the investment. For all these reasons it is indispensable to appoint the management of the construction of the new investment immediately after the formation of the partnership and the signing of the contract with the general contractor. This management should be in the hands of the future general manager of the plant to enable him to ensure proper preparation for the exploitation stage.

(j) Accessory activity

21. Experience shows the implementation of investment to create possibilities of savings, but on the other hand unexpected requirements emerge, creating thus the need of additional financing. The additional outlays, as a rule exceed savings. Similar is the case in the first stage of exploitation. That is why the first period (2-3 years) of activity of the new plant is considered also to be extremely difficult on account of finances. Therefore, POLCONEX aims at maximization of income taking advantage of all additional possibilities opened up by the accessory activities of the new enterprise. Additional income from accessory activity are mainly obtained by:

- export of products carried out by the same enterprise for the new plant. This also facilitates the sales of products not produced by the plant.
- raising the capacity of further expansion for imports of collateral articles, purchased by the customers of the plant.
- export of collateral products on own account or on the basis of agent's commission.

However, in order to carry out this activity it is indispensable to obtain sufficiently extensive licensing rights in order to run the joint venture set up by the participants. In some cases, obtaining of such licences is a prerequisite for JOINT VENTURE to cover the joint venture abroad.

(4) Analysis of other possibilities of industrial co-operation

21. Possibilities of increased contacts in industrial co-operation. Partnership as a form of collective expansion of production always creates for those who create possibilities of taking advantage of industrial co-operation, especially when partners have their own contacts with agencies and organizations that could act as suppliers, customers and contractors of services. Notwithstanding the fact that the organization of a new production plant in the form of a partnership helps in overcoming considerable difficulties and opens up possibilities of taking advantage of extensive contacts in industrial co-operation, it is not always the best or even possible solution for the partners and the authorities in the developing countries.

22. The following reasons should be considered as obstacles:

- (a) complete lack of material and financial means;
- (b) scepticism about the realizability and success of the planned venture, and as a result, reluctance towards risk-taking, and anxiety about losses, especially when material and financial means are spent;
- (c) sufficient amount of material and financial means for the implementation of the planned ventures. These ventures are considered not only proper but also very profitable; this explains the ensuing reluctance to share profits. This case is often coupled with the lack of experience and experts.

And the question arises, whether in that way it is possible to attain the planned target, i.e. to organize the construction, commissioning and profitable operation of the plant taking advantage of the existing conditions and not at all but allowing for the respective conditions (a) (b), (c) and (d).

21. Construction of a plant is a multi-stage and a long period. There are periods of construction, commissioning, then the operation of the plant. The construction of a plant is a long and complex process of producing for the first time a machine or a piece of the apparatus, after a certain period of development of the design, which all the machines will be in the same manner, the same will, according to the concept, be the same for the construction of the technology of the plant, which is the same for all the plants.

22. In a certain period of time, the development of a plant is related to the development of the plant, which is the same for

- however the specific details of the production design will be mainly related
- the plant will be built up according to the design
- usually the construction of the plant will be done in a certain order of the plant, which will be the same for all the plants
- a certain period of time will be needed for the construction of the plant, which will be the same for all the plants

It may, however, be seen that the construction of a plant is such as the plant, which is built up according to the design, the production of the plant is the same for all the plants. After a certain period of time, the construction of the plant is over for the development of the plant, which is the same for all the plants. It might be in a certain period of time, the construction of the plant is over for the development of the plant, which is the same for all the plants. It might be in a certain period of time, the construction of the plant is over for the development of the plant, which is the same for all the plants.

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26. State partnerships. The developing countries seem to be in a better position to derive advantages in the abovementioned cases, when the agreements are not concluded between physical persons or corporate bodies, but between the governments concerned.

27. In such case the obligations of the government of the developed country should, as a rule, encompass the following:

- (a) Construction, commissioning and management of the given plant with a definite amount and range of production on the government's own account and at its own cost.
- (b) Transfer of the plant to the government of the developing country in two years since the date when total profits and amortization of the plant cover the value of the invested capital. Profits from the last two years would be considered as a certain compensation for the devaluation of capital value and the lack of interest.
- (c) Obtaining economies of local raw materials and the carrying out of indispensable repairs of buildings, machinery and installations.
- (d) Training of the local staff and management guarantee of reasonable wage rates, adherence to the rules of labour safety.
- (e) Transfer of business contacts with suppliers, customers and co-producing factories alongside with the handover of the plant.
- (f) Granting, under conditions stipulated in advance, of new licences, patents, know-how and similar achievements of technical progress.
- (g) Simultaneous transfer of complete technical and technological documentation and blueprints.
- (h) Delegating for current control from the very beginning and during the whole period of operation of the plant in the country, of a plenipotentiary nominated by the government of the developing country.
- (i) Supply of consumer articles meeting local investment costs/local raw materials, materials and labour/and covering credits and working capital.

28. It seems however, that the stipulation of such obligations is possible only provided the developing country, on its part, grants proper incentives, facilities and guarantees. Various

solutions are possible depending on the actual situation of both parties and on the negotiating abilities of their representatives. The role of the government in such a case would obviously be limited to stipulating the general terms and principles as well as the subject matter of the agreement. The latter may, and should be implemented by the designated companies and organizations. This opens up vast possibilities especially for co-operative, self-governing and other organizations.

29. Management. In case of evident unprofitability of the new production in the developing countries, availability of sufficient financial means at the disposal of local partners, but lack of proper experience, management is the best solution. Management is understood here as the running of the enterprise by another specialized organization. The scope of activity and remuneration are determined in advance in the bilateral agreement. The scope of organizing capacity, the ensuing responsibility, the amount of remuneration involved, as well as the methods of its calculation may vary. The crux of the matter lies in the fact that management is coupled with responsibility, the party to the agreement being a corporate body organization, institution, or specialized enterprise, and not physical persons.

30. The scope of management may cover the following functions:

- supply of the enterprise.
- sales of finished goods produced by the plant.
- supply and sales.
- technical management.
- complete management of the enterprise.
- taking over of the investment and full management of the enterprises.
- execution of the investment and full management of the enterprise.
- planning of the investment, execution and full management of the enterprise.

31. Management itself encompasses the following activities:

- (a) Appointment of experts to the envisaged posts;
- (b) Ensuring proper and reliable execution of duties by all the employees in the given branch;
- (c) securing the implementation of all the planned tasks in due time, e.g.,

- ensuring on-time delivery of all materials and primary products, of the determined type and kind, at prices not higher than the average;
- ensuring the marketing of all finished goods on time and under definite terms (cash or credit);
- securing the attainment of planned quantities of a range of products of definite quality, below the average prime and overall costs of production etc.

32. Besides, the scope of managerial activity may include:

- (a) - introduction of know-how;
- (b) - training of staff and local specialists;
- (c) - preparatory work on, and the carrying out of modernization and expansion of the enterprise.

33. The scope of responsibility of the organization rendering managerial services is essentially limited to the following variants:

- (a) responsibility for the proper choice and selection of personnel for its proper and adequate work (in every case);
- (b) responsibility for the above, and for observing the technical and economic terms (amount, quality, production costs, repairs schedule etc.)

The payment for managerial services and the methods of its calculation depend on the scope of management activities and the responsibilities involved. In case of limited responsibility, as in the first variant above, the payment is either in a lump sum or in the form of a fixed percentage of the total amount of wages and salaries paid to foreign experts sent over by the organization rendering managerial services. In the case of limited responsibility (the second variant) the amount of payment may be determined as a percentage of turnover and/or income.

34. In some cases the organization rendering managerial services may agree to guarantee the profitability of enterprises under its management. It assumes the responsibility of covering the possible losses from its own funds. In the above case, the remuneration must be accordingly higher.

35. As an institution and a form of activity, the transfer of management know-how is not yet common, although the demand in this field is, or at least should be considerable. This results from various objective reasons lying beyond the scope of our paper.

It goes without saying, however, that the rendering of management services in a broader sense, with extended responsibilities, may be expected to yield good results only if the organization rendering the managerial services is in a position to ensure co-operation with proper partners with whom it has established permanent organizational, financial, personal or other relations.

39. Therefore, managerial organization is advantageous for the owner of the enterprise, since it secures not only the management of the enterprise and eventually the achievement of planned profits, but also involves the enterprise in the network of industrial co-operation arrangements, that could be continued after the expiration of the management agreement.





**14.3.74**