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FOREIGN DIRECT INVESTMENT IN CENTRAL AND EASTERN EUROPEAN COUNTRIES

Recent Developments and Determinants

V.92-55129

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PREFACE

The Regional and Country Studies Branch of UNIDO undertakes economic research in response to requests for analyses and information of immediate relevance to economic and industrial policy-making. Through its research programme, the Branch regularly assists policy-makers in developing countries to monitor pertinent developments at the national and regional level, in particular as concerns industrial strategies and policies, emerging technological trends, actual and prospective changes in trade and investment patterns, as well as relevant corporate strategies.

An issue of growing interest in this context is foreign direct investment (FDI) in terms of changes in geographical distribution, branch composition and major determinants. In general, developing countries have shown increasing recognition of the developmental role of FDI and, through favourable promotional policies, have encouraged foreign investors to set up production facilities on their territories. Most recently, almost all of the Central and Eastern European (CEE) countries which are currently undergoing a phase of transition from a centralized command economy to a market-oriented economy have begun to actively seek increased inflows of FDI within their endeavours both to restructure and to strengthen their industrial base. Updating and extending an earlier UNIDO report of March 1990,[1] the present study focusses on current FDI developments in CEE countries. In particular, it

- reviews recent trends of FDI flows in both quantitative and qualitative terms;
- outlines the current legislation pertaining to FDI;
- discusses strategies, determinants and major problems related to the observed FDI flows;
- assesses achievements of and future prospects for FDI in CEE countries; and
- elaborates on UNIDO's contributions to promoting FDI activities in the countries under review.

The report was prepared by staff of the Regional and Country Studies Branch based on inputs provided by Alexander Baum as UNIDO consultant and by the Economic Commission for Europe through its data base on joint ventures.

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[1] UNIDO, Recent Trends in Foreign Direct Investment Flows to European CMEA Countries, PPD.152, 13 March 1990.

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LIST OF ACRONYMS

CBI	Confederation of British Industry
CEE	Central and Eastern Europe
CIS	Commonwealth of Independent States
CMEA	Council for Mutual Economic Assistance
CSFR	Czech and Slovak Federal Republic
CSK	Czech and Slovak Koruna
ECE	Economic Commission for Europe
ECU	European Currency Unit
EEC	European Economic Community
EFTA	European Free Trade Association
FDI	Foreign Direct Investment
HUF	Hungarian Forint
JETRO	Japan External Trade Organization
OECD	Organization for Economic Co-operation and Development
PLZ	Polish Zloty
RSFSR	Russian Soviet Federative Socialist Republic
SCEET	State Committee for External Economic Ties (Kyrgyzstan)
SPA	State Property Agency (Hungary)
SUR	Soviet Union Rouble
TNC	Transnational Corporation

I. INTRODUCTION: FDI IN A CHANGING ECONOMIC ENVIRONMENT

The present study aims at providing a review of the latest developments regarding the flow of FDI to the Central and Eastern European former CMEA member countries. It focuses on the following countries: the Czech and Slovak Federal Republic (CSFR), Hungary, Poland, Bulgaria, Romania and the republics of the former Soviet Union of which most have joined the Commonwealth of Independent States (CIS). In addition, chapter III, on FDI legislation also includes some information on the three Baltic republics Latvia, Lithuania and Estonia. For reasons of convenience, the entire group of countries is referred to as Central and Eastern European (CEE) countries.

All CEE countries have embarked on a process of transforming their economies from central planning to market allocation. The reform programmes have been implemented with varying degrees of decisiveness and at a different pace. In the restructuring of their economies, all countries concerned have, however, assigned an important role to FDI and expectations loom high with respect to the impact of FDI on economic development. At the same time, governments in these countries are, in many cases, uncertain about the full implication of FDI. This ambiguity is partly reflected in the changing legislation on FDI, and particularly pronounced with respect to regulations governing foreign acquisitions of state-owned enterprises and of land. Notwithstanding such reservations, all countries, with the exception of some members of CIS, have enacted a liberal FDI legislation offering attractive incentives for foreign investors. They have thus joined the stiff global competition for FDI.

The increased emphasis on promoting the inflow of foreign capital as a means to acquire much needed foreign funds, know-how and technology and market access occurs at a time when the determinants of FDI and the structure of international investment flows are subject to significant changes. In particular, the following features are emerging:[1]

- FDI is gradually moving away from the export-oriented production of simple consumer goods and expanding into technologically more sophisticated production lines such as industrial electronics, machine tools and automobiles. Consequently, investment costs tend to be increasing;

- investors tend to favour locations allowing them to serve regional and international export markets and, at the same time, to have access to an attractive domestic market;

- an increasing share of total FDI is directed to the services sector with key areas being banking, insurance and other financial services, wholesale and retail trade, and hotels and other tourism-related facilities;

- Labour cost differentials are gradually losing their key significance as crucial FDI determinants as the share of labour

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[1] For a detailed treatment of these issues cf. UNIDO, Foreign Direct Investment Flows to Developing Countries, Recent Trends, Major Determinants and Policy Implications, PPD.167, 10 July 1990.

costs in total costs is declining in most industries (largely due to micro-electronics-related automation). More generally, lower production costs are being eclipsed by other qualitative investment determinants, such as skill levels, market size, the existence of an efficient industrial support network, the availability of a variety of support services as well as advanced telecommunication and information-processing facilities. Whereas previously a certain physical infrastructure was often sufficient to attract FDI, now a highly developed human and technological infrastructure appears essential;

- medium-sized and even small-sized companies are becoming more active as investors in foreign countries. In many cases, such companies have built up a competitive position in certain product groups in the domestic market but are subsequently forced to follow the tendency of internationalization through investment abroad;

- as more countries are actively trying to attract FDI through generous investment incentives, the international competition for investment locations has grown significantly, thus increasing the bargaining power of potential investors;

- the tendency of international trade toward greater regionalization and intra-OECD country trade seem to further accentuate the dominance of industrially advanced countries as both sources and recipients of FDI.

At a global level, contrary to the fact that FDI flows have grown since the beginning of the 1980s, world-wide available investible funds (from which FDI are derived) are not likely to expand significantly in the near future. Savings rates have decreased in industrialized, developing and CEE countries in recent years. At the same time, high interest rates in the international capital markets indicate a global scarcity of capital and limit many countries' scope for drawing on foreign funds. Moreover, most western economies are presently on the brink of recession, which tends to reduce the investible resources of transnational corporations.

Notwithstanding the high degree of international competition for attracting foreign investment, the CEE countries can be expected to establish themselves on the global FDI map. It is no surprise, therefore, that governments in traditional FDI host countries, developed and developing countries alike, are concerned that present and future FDI flows may be partly diverted from their territories to those countries. In particular, developing countries' fears must be seen against the background of an ongoing concentration of FDI inflows to an ever decreasing number of developing countries with ten newly industrializing and other advanced host economies accounting for almost 70 per cent of all third world inflows in the 1980s.

The emerging pattern of economic restructuring seems to form two groups of countries in Central and Eastern Europe (which coincide with the revealed preferences of foreign investors): the relatively advanced northern group comprising Poland, the CSFR and Hungary, and the less advanced southern group comprising Bulgaria and Romania. Within the CIS, a similar (east-west) difference is apparently developing with the central Asian republics lagging behind the development of the republics in the European part of the CIS.

In chapter II. the present report provides recent statistics on FDI flows to Central and Eastern Europe. A summary of the latest legislation pertaining to FDI in the individual countries is given in chapter III. Whereas chapters II. and III. provide the facts, chapter IV. briefly discusses FDI motives, determinants and obstacles in CEE countries. Following a preliminary assessment of the achievements so far and an outlook on future issues (chapter V.), the study concludes with elaborating UNIDO's contribution to strengthening the developmental impact of FDI in CEE countries (chapter VI.).

II. RECENT TRENDS IN FDI FLOWS TO CENTRAL AND EASTERN EUROPEAN COUNTRIES - THE EMPIRICAL EVIDENCE[2]

A. Overall Trends

In response to their opening up in recent years, there has been a strong growth of FDI flows to CEE countries, most notably to Hungary, CSFR and Poland. The number and statutory capital of joint ventures has soared up since 1987, although the actual inflow of foreign capital has remained rather modest. Starting from a very low base, growth of FDI appears very impressive yet is often to be attributed to individual large-scale projects. Statistics on actual inflows of FDI are inaccurate for most countries concerned and recent figures are often not available.

FDI has become a significant item in the balance of payment position of Hungary and the CSFR. Net inflows into the CSFR accelerated from US$ 188 million in 1990 to US$ 401 million during the first eight months of 1991. However, the inward transfer of US$ 350 million in connection with the Skoda-Volkswagen joint venture accounted for the bulk of this increase. The inflow into Hungary amounted to US$ 680 million until the end of August 1991, after US$ 300 million in 1990. The other CEE countries received much smaller amounts. Bulgaria reported a sharp increase in net inflows from US$ 4 million in 1990 to US$ 24 million during the first six months of 1991. Poland received US$ 88 million and Romania even reported a net outflow of US$ 18 million in 1990.

The overall number of foreign investment projects registered in Poland, Hungary, CSFR, Bulgaria, Romania and the former USSR increased from 3,287 on 1.1.1990 to 14,638 on 1.1.1991 and to 33,972 on 1.1.1992. The total value of the foreign component of the aggregated statutory capital grew to an estimated US$ 9,630 million (as of 1.10.1991) over the same period, up from US$ 4,765 million and US$ 2,500 million, respectively. However, only a fraction of these investment projects have gone into operation so far. The considerable time lag between registration and start of operation (up to three years) partly explains the difference between registered and operational joint ventures.

Table 1: Joint ventures in CEE countries

	1.1.1990	1.1.1991	1.1.1992
Total number	3,287	14,726	33,972
Statutory capital (foreign component in million US$)	2,500	4,765	9,630[a]

Source: ECE Data Base
a 1.10.1991

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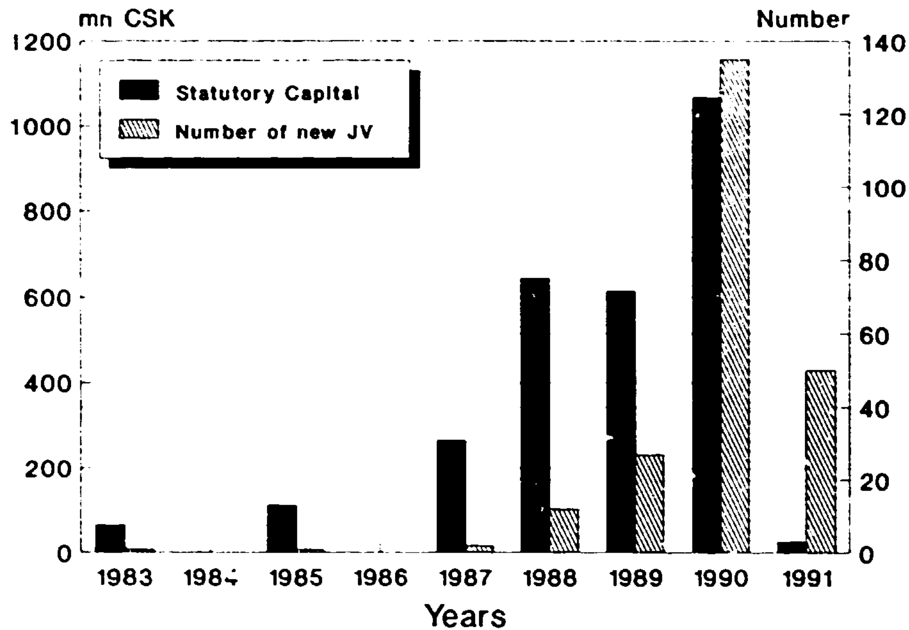
[2] The statistical survey is based to a large extent on the ECE data base on joint ventures and special reference is not repeated in the text. It is to be noted that acquisitions are not included in the figures provided by ECE. Data are compiled by ECE from various national sources, so that comparability is not ensured. See ECE, Statistical Survey of Recent Trends in Foreign Direct Investment in East European Countries, November 1991.



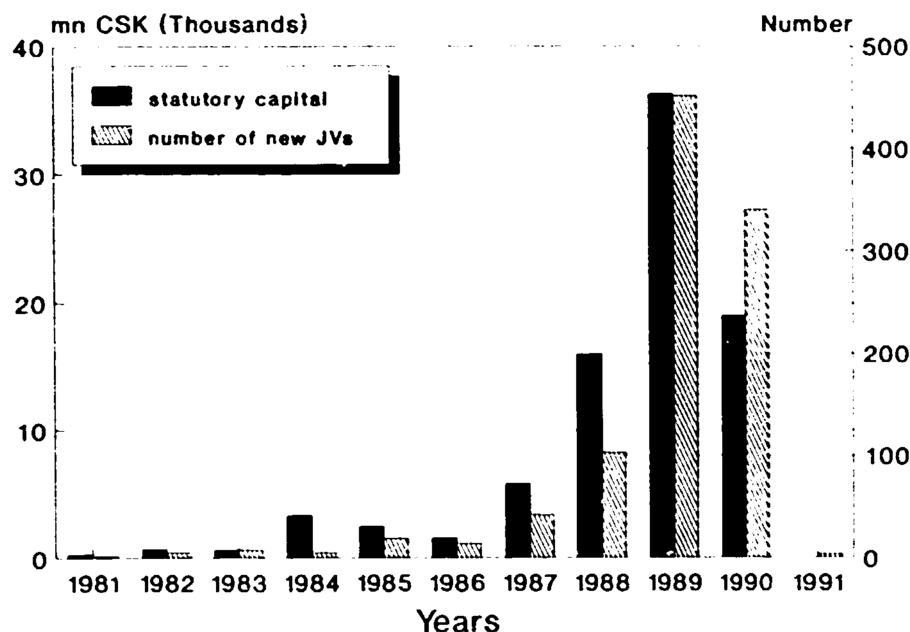
Source: ECE data base

The countries most advanced on their transition path, Hungary, the CSFR and Poland, have attracted the bulk of foreign investment in the region. The Soviet Union until its break-up in December 1991 was also a major target for foreign investors, although the inflow of foreign capital slowed down during 1991. Bulgaria and Romania are lagging somewhat behind in terms of total value of FDI, partly due to their slower transition process and later promulgation of a liberal foreign investment legislation.

In terms of joint ventures registered, in the **Czech and Slovak Federal Republic** the total number of companies affiliated with foreign capital increased from 60 at the beginning of 1990 to 1,600 in January 1991. By October 1991 an estimated total number of 4,000 joint ventures and wholly owned foreign subsidiaries with a foreign component in capitalization of US$ 500 million had been established. By the end of March 1991, 275 joint ventures had gone into operation, most of them were established during 1990.

An ECE survey of 228 of these 275 operational joint ventures reveals that, between the end of 1988 and March 1991, the cumulative capitalization increased 2.5-fold, while the sum of foreign capital invested grew from US$ 84 million to US$ 131.4 million (Annex Table 1). The average capitalization of the operational joint ventures and wholly foreign-owned subsidiaries has shown a declining trend. The average statutory capital (at current prices) was CSK 67.9 million for enterprises founded before 1989, CSK 22.8 million for those established in 1989, and only CSK 5.9 million for those established in 1990 and the first quarter of 1991. At the same time, the average foreign contribution to the statutory capital decreased from US$ 5.3 million for

ventures established in 1988 and before, to US$ [illegible] million for those established in 1989, and less than US$ 0.[illegible] million in 1990 and the first quarter of 1991.



Most foreign investment projects are in fact relatively small, indicating a generally cautious approach adopted by foreign enterprises. Of the companies covered by the survey, 26% have an average capitalization of only CSK 0.1 million (US$ 4,000 at the official exchange rate in January 1991) and 49% of less than CSK 0.5 million (US$ 18,000). Only 7 ventures have an average capitalization of more than CSK 100 million. In more than 70% of all operational enterprises the foreign contribution to capitalization does not exceed US$ 0.1 million.

In the ECE sample, in 54% of the ventures the foreign partner holds more than 50% of the shares, and in almost 20% their shares exceed 90%. Wholly owned foreign subsidiaries tend to have a much lower average capitalization with approx. one quarter of the average statutory capital of joint ventures.

In **Hungary**, the number of registered joint ventures and wholly foreign owned subsidiaries grew from 5,693 at the end of 1990 to 7,360 by the beginning of April 1991 and to an estimated 10,600 by 1 October 1991. Their capitalization at the end of the first quarter of 1991 amounted to US$ 1.39 billion (official exchange rate in March 1991). It was reported that one quarter of all new business ventures established during 1990 had a foreign participation. Accumulated foreign investments represented, however, only 3.5 to 4% of the fixed capital of Hungarian company sector which is still far from the government's 25% medium term target.

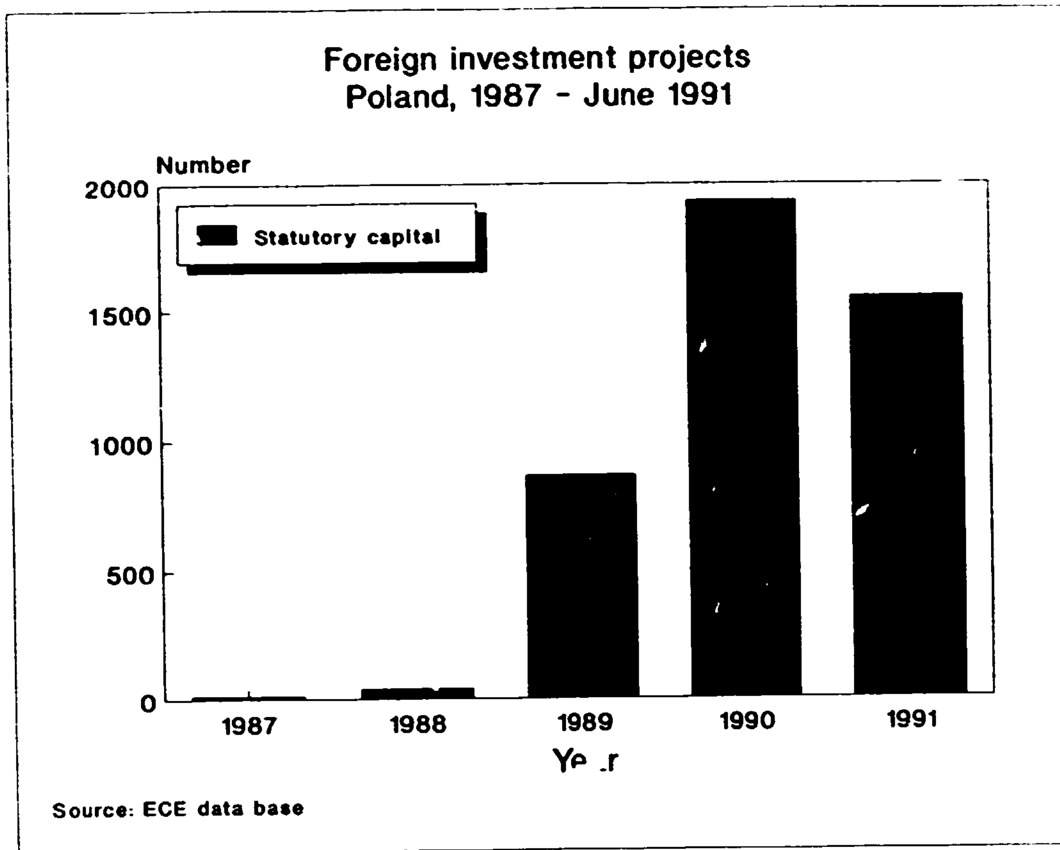
The ECE sample survey of 1,006 enterprises with foreign affiliation covers most ventures which were operational at the beginning of 1991. Most enterprises went into operation since 1989 (796). The cumulative capitalization of operational enterprises increased five-fold between the end of 1987 and the beginning of 1991. The sum of foreign investment grew from US$ 244.3 million to US$ 847.8 million over the same period (current official yearly average exchange rates, Annex Table 4).

The sample survey reveals the same basic trends in the casee of Hungary as in the CSFR. The average statutory capital of operational enterprises decreased from HUF 216.1 mil. for ventures established before 1987 to HUF 155.0 million founded in 1988, HUF 80.3 million in 1989 and HUF 55.8 mil in 1990. At the same time, the average foreign contribution to the statutory capital decreased from US$ 2.9 million for enterprises founded in 1986 and before to US$ 0.6 million for those established in 1989 and 1990. The majority of projects are relatively small with 76% of the total sample enterprises having a capitalization of less than HUF 50 mil (US$ 0.7 mil). 70% of the ventures have a foreign share in the statutory capital of less than US$ 200,000 (at current exchange rates). The average foreign share, however, remained relatively stable at around 48%. In 8% of the firms the foreign share is above 90%. As in the CSFR, wholly foreign-owned enterprises tend to have a lower capitalization amounting to 23% of the average value of investment project with foreign contribution.

Foreign investment has also significantly increased in **Poland** particularly after the enactment of the new Foreign Investment Law of December 1988. Only 13 and 40 projects were authorized in 1987 and 1988, respectively. In 1989, registration jumped to 867, and growth further accelerated in 1990 and 1991 with 1,932 and 1,551 (first six months) approvals, respectively. In total, 4,350 foreign investment projects had been authorized by 15 June 1991 with a total foreign capital contribution of US$ 580 million since the beginning of 1989. 59% of the enterprises registered by the end of 1990 had started operation. US$ 200 million had been invested by the foreign partners of which, according to the Polish Foreign Investment Agency, US$ 81 million were in cash and US$ 117 million in kind. The aggregate statutory capital increased from PLZ 2.95 billion at the end of 1987 to PLZ 5.169 billion by 1 January 1991. Over the same period, the cumulative foreign capital contribution increased from US$ 4.4 million to US$ 373.8 million (current exchange rates).

The average statutory capital per venture has increased from PLZ 231.6 million in 1988 to PLZ 2,587 million (in cumulative terms) by 1 January 1991 probably due to the high inflation during 1990. The trends in average foreign contribution seem to confirm the corresponding trends observed in the CSFR and Hungary. It declined from US$ 0.34 million in 1987 to US$ 0.13 million for the total number of enterprises registered by the beginning of 1991. However, the average foreign share in statutory capital of these ventures increased from 40% in 1987 to 69% by the beginning of 1991 (in cumulative terms).

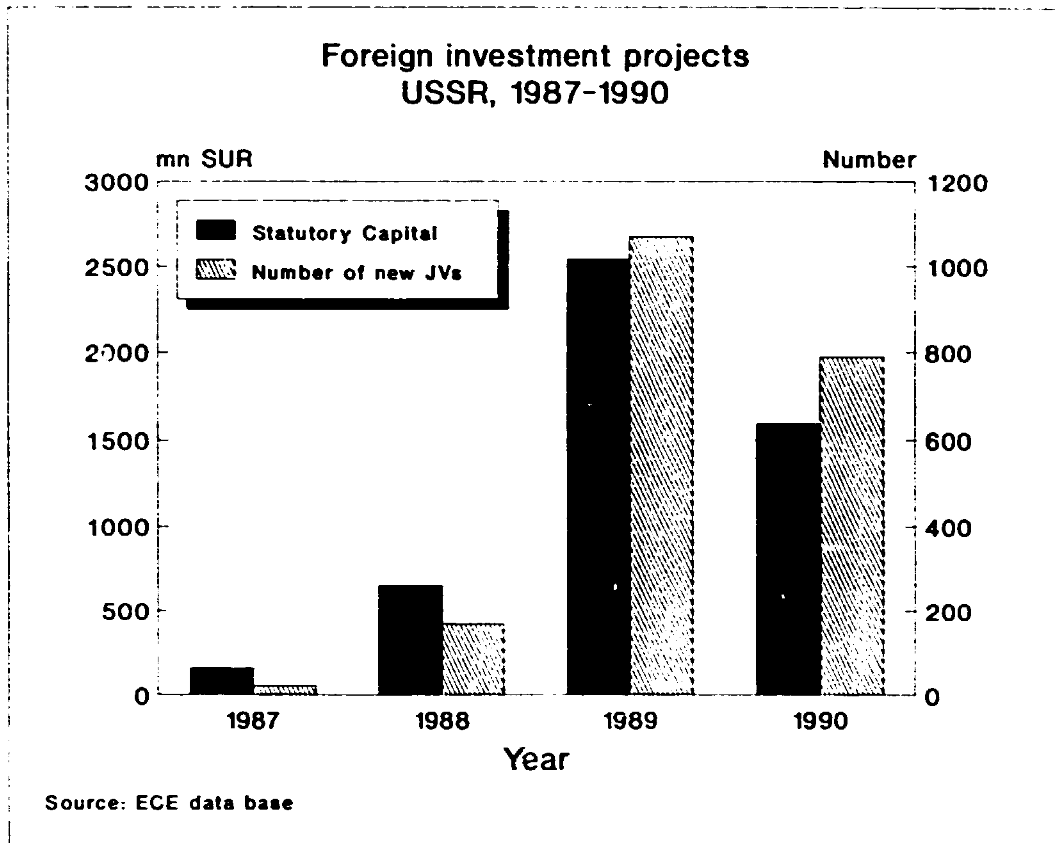
FDI in **Bulgaria** has accelerated during 1990 when the total number of joint ventures grew five-fold to 140 by the beginning of 1991. By 1 October 1991, an estimated number of 800 joint ventures were registered with cumulative foreign investments of US$ 300 million.



FDI in **Romania** has significantly increased after the enactment of the Government Decree No. 96 in March 1990 providing attractive incentives and the promulgation of the new Foreign Investment Law in March 1991. After several years without any new foreign joint ventures, the total number of registrations soared up to 1,501 during 1990 and to 2,651 during the first half of 1991. The foreign partners contributed US$ 128.7 million in 1990 and US$ 61.9 million during the first half of 1991, which implies a significant decrease in foreign contribution per venture.

Even more than in the other CEE countries, small ventures dominate the picture. More than 90% of the total number of projects have a foreign contribution of less than US$ 50,000. Less than 0.6% have a foreign share of more than US$ 1 million The overwhelming majority (79%) of enterprises with foreign participation have been created by natural (as opposed to legal) persons, contributing, however, only 32% to the foreign capital invested.

In the former **Soviet Union**, registration of joint ventures began on 1 January 1987. The number of enterprises with foreign contribution has since dramatically increased, partly in response to new regulations adopted in December 1988 authorizing co-operatives to participate in joint ventures and allowing foreign partners to hold majority shares. By 1 January 1991, 2,905 joint ventures were registered with a total capitalization of SUR 6 billion. It is estimated that 3,900 enterprises had been registered by 1 October 1991. After the initial buoyant increase in registered joint ventures in 1989, the rate of growth slackened during 1990 (Annex Table 9). This can, at least partially, be attributed to the rapidly deteriorating economic environment in the former Soviet Union.



A sample survey undertaken by ECE of 2,050 joint ventures registered by 1 January 1991 reveals some of the major trends: the majority of ventures are relatively small and their size tends to decrease. The average size of statutory capital decreased from SUR [illegible] million in 1987 to SUR 2.0 million in 1990. The average foreign contribution dropped from US$ 3.9 million in 1987 to US$ 1.6 million in 1989. In 1990, the average amount further decreased to US$ 1.2 million (current official exchange rate). As in the other former CMEA countries, small ventures predominate. 52% of the enterprises had a statutory capital of SUR 0.5 million or less (US$ 0.3 million at the official exchange rate). 90% registered less than SUR 5 million (US$ 3.0 million). As far as the foreign capital contribution is concerned, the general picture is confirmed. Over 60% have a foreign contribution of less than US$ 0.5 million; only 6% contribute more than US$ 5 million. The foreign share did not show a definite trend despite the fact that rules on foreign ownership were relaxed in December 1988. The average share as of 1 January 1991 was 40.6%.

Since co-operatives were allowed to enter into joint ventures, they have rapidly gained importance. In 29% of the joint ventures concluded in 1989 co-operatives were involved. Recently, also newly established private companies have participated in joint ventures in increasing numbers. The average capitalization of these ventures is less than one half of the average of all joint ventures.

According to the official statistics, the total number of operational foreign investment projects in the former Soviet Union increased from 307 at the beginning of 1989 to 1,188 by the end of March 1991. These would represent

35% of all foreign investment projects registered at that time. However, since ventures are considered as operational when they have a single employee on the payroll the share appears to overstate actual developments. The overall contribution of joint ventures to the national product seems to rapidly gain importance although from an extremely low base. In 1989, joint venture output was reported to be equivalent to 0.09% of GNP; it increased to 0.48% in 1990.

Foreign joint ventures also have become more strongly involved in foreign trade. Their share in total exports and imports increased from 0.18% and 0.58%, respectively, in 1989 to 0.47% and 1.3%, respectively, in 1990. Exports from joint ventures were primarily destined to Japan (26%), the USA (4%) and west European countries (48%) while exports to the former CMEA member countries were relatively minor (about 10%). Between 1989 and the first quarter of 1991 joint ventures had a negative trade balance with all developed market economies except Japan. Foreign investments have significantly induced imports from the CEE countries, particularly from Hungary and Poland.

B. Countries of Origin

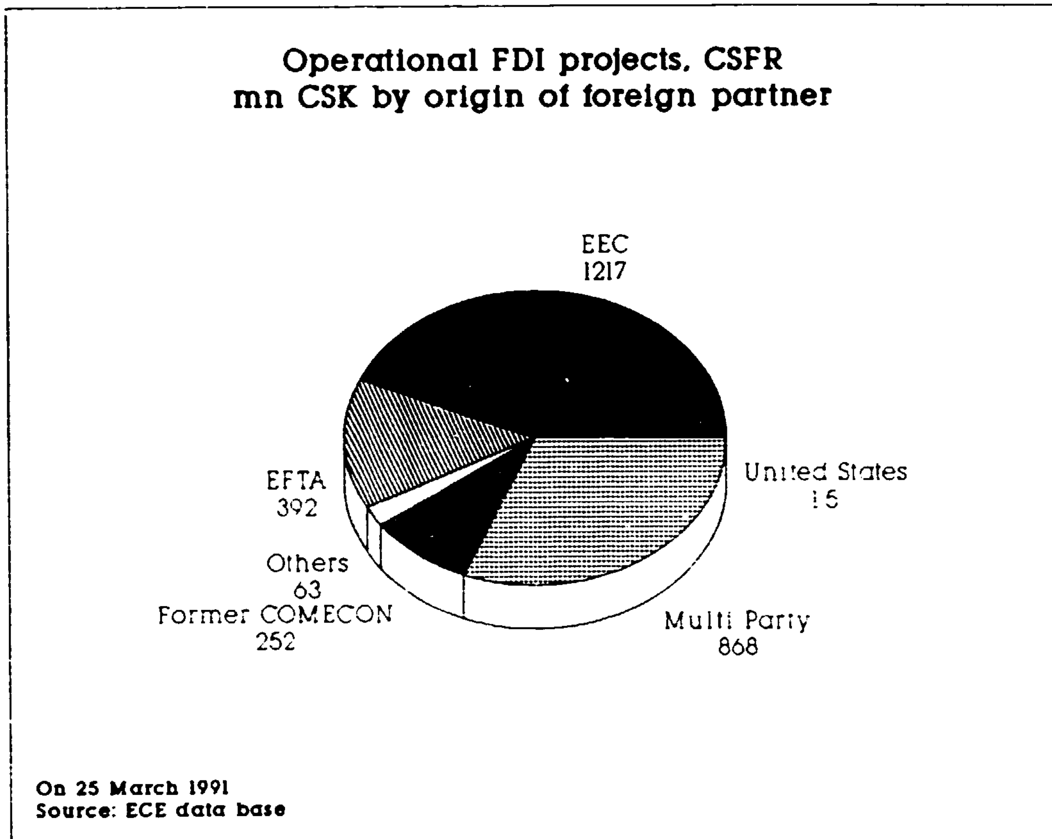
In general, west European investors have shown to be most active as joint venture partners in CEE countries. Specifically, in terms of numbers, 80-85% of the joint ventures concluded in the CSFR, Hungary and Poland, 60% in the former Soviet Union and 57% in Romania have partners from western Europe. 40% of these partners in East-West joint ventures are from the EEC and 25% from EFTA countries. In value terms, the consolidated share of western European investors is most significant in Poland (80%). The corresponding shares are 68% in Romania, 63% in Hungary, 59% in the former USSR and 55% in the CSFR. EEC countries are most strongly represented in Poland (53%) and Romania (54%), while the EFTA countries account for sizable shares in Hungary (32%), Poland (26%) and CSFR (14%).

The individual countries most active in CEE countries are Germany, Austria, Italy, France, United Kingdom, Sweden, Switzerland, the Netherlands and, in the case of the former Soviet Union, also Finland. The USA is less strongly represented and involved in only 7% of the joint ventures with foreign participation.

There is a conspicuous absence of Japan as foreign investor in the region, especially in view of the fact that world-wide the country accounts for the largest outflow of FDI. Less than 1% of both the number and foreign capital invested in joint ventures originate from Japanese companies. According to information from foreign investment offices and JETRO (Japan External Trade Organization) there were 36 direct investments in Bulgaria, CSFR, Hungary, Poland and Romania as of September 1991. With 16 projects, Hungary is the main target country for Japanese investments. Most of these ventures are in services such as sales and after-sales service for Japanese industrial products. The few projects in manufacturing (6) were concentrated in Hungary (5).

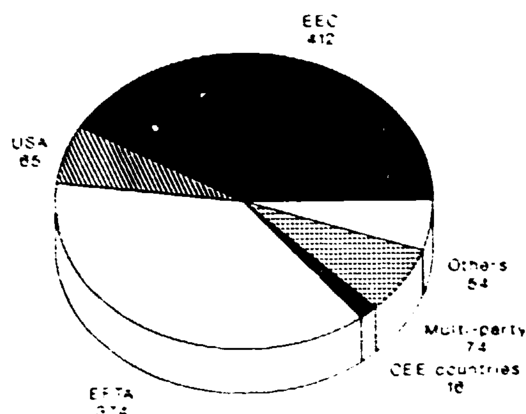
In the **Czech and Slovak Federal Republic** the predominance of west European investors is overwhelming. Of the joint ventures surveyed by ECE, 85.5% of the foreign partners are from western Europe, thereof 39.5% from the EEC and 44.7% from the EFTA countries. With a combined share of 55%, their weight in statutory capital of operational joint ventures is smaller.

Companies from EEC countries invest, on the average, higher amounts than partners from EFTA countries. Foreign partners from the EEC account for 40.5% of the total foreign capital while companies from the EFTA account for only 14%. Based on their geographical proximity and historical ties with the CSFR, Austria and Germany together account for 60% of the investment projects and 19% of capital committed. Like Japanese investors, US firms are virtually invisible in the CSFR (Annex Table 2).



The general picture looks similar for **Hungary**. 79% of the operational joint ventures surveyed have partners from western Europe of which 41% are from EEC countries and 37% from EFTA countries. In 6.5% of the Hungarian joint ventures, US firms are involved. In terms of foreign capital committed, western Europe's weight is less pronounced with 63% of the foreign component of total statutory capital. Most recently, however, the combined share in capital from west European investors has soared up: from 57.5% for companies established before 1990 to 86% for those founded more recently. This is primarily due to a shift to investments from the EFTA countries which more than doubled their share in capital contribution from 25% to 63%. As compared to EEC and US firms, investors from the EFTA region tend to invest higher amounts in fewer projects. Of all investor countries, Germany and Austria combined account for more than 50% of the total number of ventures. This share is significantly lower for the share in total capital committed, particularly for Germany (9%). It may be noted that some of the major investments are from the Republic of Korea which committed US$ 55.2 million (6.5% of the total, Annex Table 5).

Foreign investment projects in Hungary
Origin of foreign partner, 1 Jan 1991



Source: ECE data base

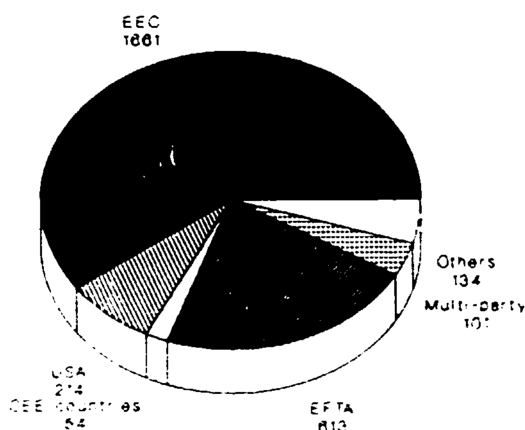
Foreign investment in **Poland** is also highly concentrated in origin. In 82% of the foreign investment projects authorized by 1 January 1991, partners are from western Europe. Of these, 59% come from the EEC and 22% from EFTA countries. 7.6% have partners from the USA. The shares are similar in terms of capital committed. Western Europe accounts for 80.5% of the total amount, of which EEC member countries contribute 54% and EFTA countries 26%. Germany is the largest investor with 35% of the authorized projects, followed by Sweden, the USA, Austria and the UK (Annex Table 8).

According to the Romanian Development Agency, 57% of the total number of foreign investment projects with 68% of the total capitalization have partners from western Europe. Of these ventures, 60% of the partners are from the EEC, just under [illegible] from the EFTA and the remaining 10% from other countries of western Europe. In terms of capitalization, EEC countries account for 53% and EFTA countries for 9% of the investments in **Romania**. The weight of developing countries as joint venture partners is relatively high, particularly in terms of numbers (more than 25%). Their share in total capitalization is smaller (14%) but still high when compared to other CEE countries. US investors are partners in 6% of the joint ventures with 9% of the total capitalization.

In the **former Soviet Union**, west European partners in joint ventures surveyed by ECE account for 60% of the total number with a share in capitalization of 59%. EEC countries (34%) are more strongly represented than EFTA countries whose share is 23%. Enterprises from the USA participate in 12% of the joint ventures, while Japanese investors play a marginal role with a

1.6% share in the total number of projects with foreign contribution. The shares in the total capitalization closely correspond to the distribution by numbers. For new joint ventures established during 1990, the EFTA share shrank from 26% to 18% in terms of numbers while enterprises from the US became more active and expanded their presence from 10% to 15% of the total number. It is also worth noting that companies from other CEE countries increased their engagement and accounted for almost 9% of the total number of joint ventures concluded in 1990. This picture changes markedly when the total capitalization is taken as yardstick. The EEC share dropped from 37% to 28% while the EFTA share almost doubled during 1990 from under 18% to 31% exceeding the weight of the EEC. Also contrary to the trend in numbers, the share of other CEE countries in the total capitalization dropped from 10% to 6%. However, it has to be recalled that due to the low level of foreign investment a few large-scale projects can have a very significant impact on the overall evidence and can easily change trends (Annex Table 10).

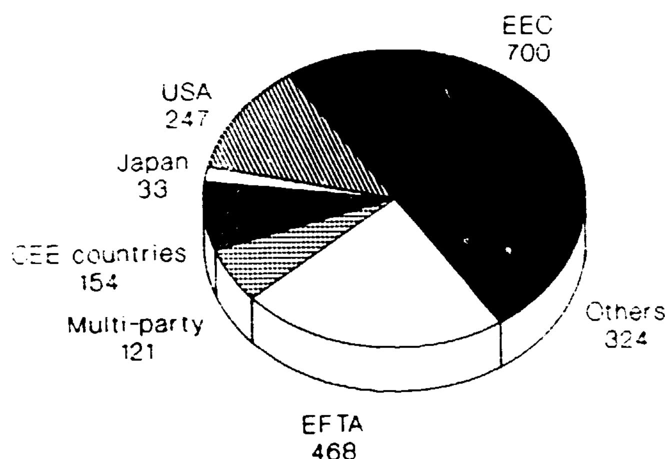
Foreign investment projects in Poland
Origin of foreign partner, 1 Jan 1991



Source: ECE data base

In terms of established joint ventures with foreign participation, the five most important investor countries, Germany, USA, Finland, Italy and Austria, account for a combined share of 47%. The ranking changes slightly when foreign capital contribution is considered: US and Finnish firms are the most important countries of origin with a share of approximately 11% each, followed by Germany, Italy and Austria.

Foreign investment projects, USSR
Origin of foreign partner, 1 Jan 1991



Source: ECE data base

C. Distribution of Joint Ventures by Sector and Industry

The ECE data base provides information on sectoral and sub-sectoral distribution of FDI for the former Soviet Union, Hungary and the CSFR. For joint ventures operational at the beginning of 1991, manufacturing is the most important sector in all three countries in terms of capitalization accounting for 65% in the CSFR, 61% in the former USSR, and 59% in Hungary. The sector's weight by numbers is less pronounced: 32%, 50% and 40%. In other sectors, particularly in business services such as management of real estate, rental and leasing of machinery, and computer-related services, investments tend to be smaller per venture and, therefore, their significance relatively higher when measured in numbers. Trade operations, including foreign trade, account for 20% and 22% of the total number of foreign investment projects in CSFR and Hungary, respectively. The combined share of business services and trade operations in total numbers of ventures with foreign contribution reaches 42% in Hungary and the CSFR and 24% in the Soviet Union. It was also reported that almost 99% of the joint ventures and wholly foreign-owned subsidiaries in Romania indicate trade as one of the principle lines of their activities. In the former Soviet Union, investment in trade activities have remained insignificant (3% in terms of numbers) until recently because of considerable restrictions imposed on such ventures.

The other sectors of the economy attract relatively few investments. Construction on average accounts for about 5% in the three countries reviewed. Transport and communications attract 3% of the joint ventures in the former

USSR and about 6% each in Hungary and the CSFR. FDI in agriculture and forestry, fishing and mining have remained insignificant. The highest share in agriculture is reached in the CSFR with 5.5% of the joint enterprises (and 4% in terms of foreign capital). 4% of joint ventures in the CSFR are in mining, while in the Soviet Union and in Hungary their number is negligible. Hotels and restaurant business is an important sector for FDI only in the former Soviet Union (both numerically and capital-wise with about 7% and 8% respectively). In Hungary, during 1990 and the beginning of 1991, a shift in numbers occurred from manufacturing and construction to trade and business services. However, in terms of capitalization, the concentration in manufacturing was enforced. In the former Soviet Union, a comparison of the joint ventures established before 1990 and during 1990 shows a shift to manufacturing whose share in the total number increased from 48% to 53%, while the share in foreign capital contribution grew from 59.5% to 65%.

The ECE sample survey for the **Czech and Slovak Federal Republic** reveals the engineering industry as the most significant manufacturing sub-sector. The combined weight of the engineering industry including non-electrical engineering industry, office equipment and computers, electrical equipment, communication equipment, precision instruments and transport equipment is 50% in terms of numbers, 57% in terms of total capitalization and 67% in terms of the foreign component. Of the various engineering branches, non-electrical machinery is the most important one. It accounts for 29% of the companies and capitalization and for over [illegible] of the inflow of foreign capital. 9.5% of the joint ventures operate in chemicals, rubber and plastics, accounting for 25% of the statutory capital in manufacturing and 22% of the foreign capital component. Other significant sectors are food and textile products and wood and wooden products (Annex Table 3). The largest enterprises are found in chemicals, office equipment and communication equipment.

The sectoral breakdown of operational joint ventures looks similar for **Hungary**. The combined share of the engineering industry including transport equipment accounts for 33% of the enterprises, 35% of total capitalization and [illegible] of foreign contribution. Non-electrical machinery is the most important branch with [illegible] of the ventures in terms of numbers while the share in capitalization is much lower (5%). Electrical engineering, in contrast, attracts [illegible] of the ventures but accounts for 14% of the capitalization. The second largest group of enterprises is found in consumer goods (food, textile, wearing apparel and leather industries). 19% of the joint ventures are in these branches, they account for 16% of the statutory capital and 18% of the foreign capital. Also chemicals, rubber and plastics industries are important branches with 13% of the enterprises and 10% in total and foreign statutory capital. Other branches play a relatively marginal role in FDI flows to Hungary. Within manufacturing, the largest enterprises are found in paper and paper products, transport equipment and electrical equipment (Annex Tables 6 and 7).

Also in the former **Soviet Union** the above pattern roughly holds. 38% of the manufacturing joint ventures with 37% of total capitalization and 39% of the foreign capital are active in the various engineering branches. The most important branches are non-electrical machinery and office equipment with 11% each of the enterprises and electrical equipment with only 2% of the ventures but 10% of the total capitalization in manufacturing and 11% of the foreign capital. Other important sub-sectors are chemicals, rubber and plastics, consumer goods (food, textiles and wearing apparels and leather) as well as wood, paper and publishing. The largest enterprises with foreign

involvement can be found in coke and petroleum products, electrical machinery and basic metals and metal products industries (Annex Tables 11 and 12).

D. Geographical Location of Joint Ventures

The ECE survey of operational joint ventures provides some information on the location of projects. The main characteristic is the marked concentration of joint ventures in the capitals of the east European countries. In total, 55% of the ventures in the Czech and Slovak Federal Republicare located in the capitais of the two republics, 26% in Prague and 29% in Bratislava. They account for 42% and 37% of the total capitalization and for 66% and 18.5% of the foreign capital contribution. Of the foreign joint ventures in Hungary, 70%, both in terms of numbers and capitalization, are located in Budapest. In Poland, the concentration of joint ventures in Warsaw is, with 32%, less pronounced. These projects account for 29% of the total capitalization and 30% of the foreign capital contribution.

The geographical distribution of joint ventures in the former Soviet Union gives a similar picture. 48% of all projects registered by 1 January 1991 were located in Moscow, this share increases to over 50% when ventures in the vicinity of Moscow are included. St.Petersburg and the surrounding region is, with 9.5% of all ventures in the former Soviet Union, the second area that attracts many foreign investors. Altogether, the Russian Federation[3] accounted for 75% of the total number of joint ventures with 79% of the total capitalization. Of the other republics, the Ukraine (7%), Estonia (5%), Georgia (3%), Latvia (2%), Byelorussia (2%), Uzbekistan (over 1%) and Moldova (1%) attracted appreciable shares of the total number of joint ventures in the former Soviet Union (Annex Table 13).

The conspicuous regional concentration of joint ventures in the capitals suggests that the relatively better infrastructure and the proximity to the administrative centre of the country are important considerations for foreign investors. For consumer goods industries, the proximity to the relevant markets may also be crucial for the locational decision.

E. Summary

Summing up the quantitative survey on FDI flows to CEE countries, the following findings can be pinpointed:

(1) A steady and recently accelerating increase of FDI projects in terms of numbers has been accompanied by a decline of the average statutory capital of these undertakings in general, and a decline of the average foreign contribution to the statutory capital in particular in most of the countries under review. Most projects are thus relative small. Moreover, wholly foreign-owned enterprises tend to show a clearly lower capitalization than the average of all joint ventures with a foreign contribution.

(2) As regards the origin of FDI flows to CEE countries, West European investors both from the EEC and EFTA areas take the lead with

[3] Russian Soviet Federative Socialist Republic (RSFSR), in the text referred to as Russian Federation.

between well over half and 80% of all investment inflows, both in terms of project numbers and of the total value of the foreign share. The USA is represented in around 7% of all joint ventures, whereas Japan, except in Hungary, is virtually absent from the list of investors.

(3) In terms of capitalization, manufacturing has emerged as the single most important sector of foreign investment accounting for between 59-65% of the total in the former Soviet Union, Hungary and the CSFR. Engineering appears to have attracted the biggest share among the various manufacturing sub-sectors.

(4) FDI in CEE countries up until now shows a considerable concentration in the capitals.

III. LEGISLATION PERTAINING TO FDI IN CENTRAL AND EASTERN EUROPEAN COUNTRIES

A. General Aspects

While business ventures by transnational corporations (TNCs) in CEE countries have only recently assumed sizeable amounts, FDI inflows into these countries had already been recorded before the political and economic reforms of recent years. Laws allowing foreign investments in these countries have a rather long history dating back e.g. to 1972 in Hungary and Romania, 1976 in Poland and 1980 in Bulgaria. However, these laws generally granted foreign enterprises market access only through joint ventures with a state trading organization or a domestic enterprise, and in most cases they confined the foreign firm to minority ownership and set limits on profit remittances. Typically, and as a result of such restrictions, foreign enterprises used joint ventures as trading operations rather than for full-scale manufacturing activities. With limited investment opportunities, the number of joint ventures and the amounts of capital invested remained insignificant.

In the wake of the political and economic transition in the CEE countries, the role of FDI has been reconsidered. All countries reviewed in detail have opened up and have tried to create more attractive conditions for FDI in their economies. Bulgaria, the Czech and Slovak Federal Republic, Poland, Hungary and Romania have significantly amended their existing laws and regulations or promulgated new legislation. The former Soviet Union had also launched reforms of the joint venture laws, but the break up into the many independent states of the CIS has created uncertainties concerning the legislation in the new states. Laws on FDI now are very liberal in all CEE countries. Although laws and regulations in the countries concerned differ in various aspects, there are a number of common elements aiming largely at separating public administration from actual economic management. Screening procedures have been simplified and the scope and eligibility for partnerships expanded. The autonomy of enterprises in appointing top management and setting wages and prices has been further increased. Principles concerning the repatriation of profits, foreign majority shareholdings, the nationality of directors, and taxation have been substantially modified and a number of important legal guarantees against expropriations and divestment have been provided to foreign firms.

Below, the most important features of the current foreign investment legislation in the various countries are summarized. For a potential investor the following legal aspects are most relevant:

- the approval of the FDI application;
- taxation and fiscal incentives;
- ownership questions and rights of establishment;
- repatriation of profits and the transfer of capital; and
- investment guarantees.

B. The Czech and Slovak Federal Republic

With the enforcement of the Commercial Code on 1 January 1992 FDI in the Czech and Slovak Federal Republic was put on an entirely new and progressively liberalized basis. For the first time the Commercial Code has established a comprehensive system of legal norms, thereby, <u>inter alia</u>, creating equal conditions for entrepreneurial activities of both national and foreign

entities. With regard to FDI the code wich repealed a whole series of legal regulations replaced the "Law on Enterprises with Foreign Property Participation" of January 1989 including two amendments made to it in 1990. Regulations concerning the acquisition of public enterprises by foreigners are provided in the act on conditions and terms governing the transfer of state-owned property to other persons (Large-Scale Privatization Act) promulgated in 1991.

While the April 1990 amendment of the foreign investment law had simplified the previously cumbersome application procedure - e.g. by dropping the requirement for a feasibility study, by making the Ministry of Finance the sole responsible authority for issuing approvals, and by demanding the Ministry's consent for a very limited number of activities only - under the Commercial Code now the authorization to do business commences on the day of registration with the Company Register. Whereas enterprises with foreign participation were excluded from defence and security-related industries before, there is no such restriction under the new code.

Government approval must, however, be obtained for joint ventures with state enterprises. A decision must be taken within 60 days after submission of the application. For joint ventures in the field of banking, the authority of the Czech and Slovak State Bank continues to be required.

The various legal forms a foreign engagement can take extent to both commercial companies and co-operatives with the former comprising joint stock companies, limited liability companies, unlimited (general) partnerships and limited partnerships. There are no restrictions with respect to the shares a foreign company can hold; the establishment of wholly foreign-owned companies is allowed.

With the introduction of the convertibility on currency accounts at the beginning of 1991 all restrictions on repatriation of profits or capital were removed. Repatriation of capital gains is also permitted.

The government provides certain tax privileges to companies with foreign participation. Companies with more than 30% foreign participation are eligible for a two-year tax holiday which may be extended for companies active in certain fields considered as strategically important. Companies are usually not allowed to pay dividends during this tax holiday period. Joint ventures with more than 30% foreign contribution also qualify for accelerated rates of depreciation for tax purposes.

Since the recent reforms, any legal entity including joint ventures with foreign participation and wholly foreign-owned companies can, in principle, acquire land. However, foreign individuals are usually excluded to buy land and confine to business lease. It is uncertain whether the transfer of land use rights for state land put to the permanent use of entities other than state organizations is applicable to foreign business companies.

In conformity with the 1990 FDI law the Commerical Code guarantees, in case of expropriation, recompense corresponding to the actual value of the property.

Foreigners are not permitted to participate in privatization of small entities mostly comprising small shops, restaurants, hotels etc. in the first round of auction or negotiation. For the two years following the auction the

enterprise may only be transferred to Czech and Slovak citizens. However, foreigners are allowed to participate in the privatization of large-scale enterprises under the "Large Privatization Act". Government approval from either the relevant Federal Ministry, or the Czech or Slovak Ministries of National Property Administration and Privatization is to be obtained depending on whether the enterprise is federal or republic-based and controlled.

C. Hungary

Hungary was the first country in the former CMEA to liberalize its FDI regime in 1972 allowing foreign control of up to 49% of joint ventures. Restrictions were, however, far reaching and actual investments remained low. The Code of Economic Associations and a new Foreign Investment Act were drafted in 1988 and entered into force on 1 January 1989. The former code allows individual citizens to form business ventures with local or foreign companies including in the form of limited and unlimited liability companies. Selected provisions of the code were amended by an act that came into force on 1 January 1991. Hungary's foreign investment law now belongs to the most liberal ones in Europe.

While the 1988 Foreign Investment Act required permission of the Ministries of Trade and Finance for joint ventures with foreign majority ownership, since 1 January 1991 no consent of the Hungarian government is required any more. There are no restrictions with respect to the shares foreigners can hold; wholly foreign-owned subsidiaries are allowed. There are no sectors or industries from which foreign investments are excluded and no other limitations on activities of joint ventures with foreign contributions. In the same way, there are no restrictions on profit repatriation or on the transfer of capital investments.

The Foreign Investment Act introduced a single unified tax system ensuring equal treatment of domestic and foreign companies. Thus, all joint ventures became subject to an Entrepreneur's Profit Tax, which was set at 40% from 1 January 1991. At the same time, two types of incentives came into effect:

- Joint ventures with at least 30% foreign participation and initial total capital invested of more than 50 million forints (approx. US$ 8 million) are eligible to a 60% allowance of the tax payable in the first five years and a 40% tax concession for the sixth to tenth years. However, only companies which derive more than half of their sales and receipts from manufacturing or the building and operation of a hotel are entitled to such fiscal incentives;

- The tax reduction is increased to 100% in the first five years and to 60% thereafter until the tenth year for firms active in certain fields considered as specially important for the economy, such as electronics, machine tools etc.;

- If a foreign partner reinvests parts or all of his dividends in the joint venture or another company in Hungary, he is eligible for a tax allowance equal to this amount.

Some of the fiscal incentives offered before these latest amendments were withdrawn.

The Investment Code guarantees the unconditional right (of the company as opposed to the foreign party itself) of acquisition of real property necessary for the operation of the company with foreign participation.

The law provides full protection for all foreign investments. The investors are indemnified by the Hungarian State against losses resulting from nationalization and expropriation of their property, or any similar eventuality. The value of the claim would be the actual value of the investment payable in the currency in which the investment was made.

Before 1 March 1990 when the first adequate legal framework for privatization went into force by setting up the State Property Agency (SPA) no government approval was required for a foreign investor even to buy a majority stake in a Hungarian enterprise. Since March 1990 the approval of SPA is required. Self-managed state enterprises decide on their own privatization, but the agreement on the terms and conditions of the sale has to be submitted to SPA which can veto the proposal. In the case of state-controlled enterprises the line- ministry decides on the privatization but SPA sets the terms on which the privatization takes place, the price of the shares, and the extent of foreign participation. The foreign investor can also submit a proposal directly to the SPA without obtaining consent from the enterprise. A response must be given within 30 days. With an amendment to the Agency Act in 1990 SPA has been placed under direct government control, so that the privatization of state-owned enterprises has become an operative governmental function.

D. Poland

A comprehensive basic legal framework designed to attract FDI was enacted on 23 December 1988 and amended on 28 December 1989. This Foreign Investment Law, however, failed to meet the high expectations as it did not create the conditions necessary to attract large-scale foreign investment projects. Therefore, a new Foreign Investment Law was drafted and went into force on 14 June 1991. With the new law most of the previously required permits for setting up industries were abolished. Only ventures involved in the following activities need prior approval from the Minister of Ownership Transformation (taken over from the dissolved Foreign Investment Agency):

- the operation of sea- and airports;

- dealing with real estate or acting as intermediary in real estate operations;

- defence industry which is not covered by licensing requirements; or

- where the Polish partner, in the case of a joint venture, is a state-owned or municipal enterprise, which is contributing, as part of the founding capital of the company, an enterprise such as a plant or branch; or

- where a foreign company enters into an agreement or series of agreements to acquire or obtain a right of use for more than six months, the property of a state legal entity in the form of real estate, a single enterprise or its organized part capable of

carrying out specific business purposes or an agreement that has the effect of an acquisition of ownership of such property.

Permits can, however, be refused when the activities of the company are perceived to threaten the economic interest of the state or security and defence of state or protection of state secrets. There is no right of appeal against the decision.

Other companies with foreign participation are only required to register in the Polish Commercial Register to start up business. Ventures engaged in foreign trade receive automatic permission through the registration. Other restrictions of previous laws concerning minimum capital investment requirements and minimum foreign equity shares were abolished.

The new Foreign Investment Law has also brought improvements with respect to repatriation of profits and withdrawal of capital. Restrictions on remittances of profits under the previous law and before the internal convertibility of the zloty at the beginning of 1991 were lifted. Now, repatriation of the full amount of profit after income tax and transfer abroad of proceeds from sales of shares, the liquidation of the company or the amounts obtained from compensation for expropriation are allowed without restrictions.

With the new law tax exemptions for foreign investors were considerably reduced and no longer automatically given for the first three years. The corporate income tax applies to all firms and is set, effective from 1 January 1990, at 40% of net profit. Tax exemptions are only awarded under specific conditions:

- if the capital contribution of the foreign investor is in excess of two million ECUs;

- if the venture is active in regions suffering from high unemployment, in new technology industries, and in export promoting business (at least 20% of overall sales volume); and

- if investment occurs prior to 31 December 1993.

The law does not specify the period of validity of the exemptions, but it limits exemptions to the value of shares or stock acquired by the foreign buyer on the date of purchase. Tax exemptions can, however, be refused even to those enterprises eligible on the grounds of "important economic reasons".

Under the previous law, a foreign company could only acquire land not owned by the state. State land could be leased for a duration of 40 to 99 years with the possibility of renewal. The new law has repealed this provision, but has not replaced it with a new legislation. It only stipulates that a foreign investor acquiring or leasing real estate owned by the state requires the permit of the Ministry of Ownership Transformation.

The foreign investment law provides legal safeguard against expropriation. Compensation is guaranteed up to the amount corresponding to the foreign company's participation in the assets of the joint ventures. The principles and procedures for compensation are, however, not stipulated. Bilateral investment protection agreements, which have already been concluded with a number of western countries, have to fill this gap.

The new Foreign Investment Law changed the permit requirements for the acquisition of state corporate assets. Generally, there are no more legal restrictions on direct (and portfolio) investors to acquire up to 80% of the shares of privatized state enterprises and limited liability companies. 20% of the shares of privatized enterprises remain reserved for the employees. A permit by the Ministry of Ownership Transformation is required for enterprises active in the field stipulated in Article 4.1 of the new law (see above page 6). In addition, the management and labour force of the company to be privatized must be consulted and their approval obtained. In certain cases where their consent is not forthcoming the Prime Minister can order the transformation.

E. Bulgaria

Decree No. 56 on Economic Activity enacted on 9 January 1989 provided a first legal framework for FDI. Some amendments were added in December 1990. The law was incomplete, however, and did not provide a sufficient basis for attracting FDI. A more comprehensive Law on Foreign Investment was approved on 17 May 1991. Early 1992 saw the promulgation of another "Law on the Economic Activity of Foreign Persons and the Protection of Foreign Investments" which according to the government is characterized by a further liberalization including a more precise wording.[4] In particular, the amply critized minimum foreign capital requirement of US$ 50,000 or an equivalent amount in another convertible currency to establish business presence in the country was dropped. The 1991 law stipulates that no permission is required for investments except for:

- investments in the military industry, banking and insurance;
- acquisition of ownership rights of buildings and other real property;
- lease of agricultural land and forests;
- investment in specific geographical areas designated by the Council of Ministers;
- investment for exploitation of the territorial sea, the continental shelf and the exclusive economic zone;
- investment in particular branches and activities designated by the Council of Ministers when the foreign stake in a partnership will give foreign investors control of the partnership.

Permits are issued within 45 days after the application. Denials are not subject to appeal. Together with the application, a feasibility study must be submitted. After obtaining the permit, the foreign investor must register at the respective district court according to the regulations stipulated by the Commercial Law.

[4] ECE, East-West Joint Ventures and Investment News, No. 11, March 1992, pp. 11-12.

The Commercial Law and the Foreign Investment Law introduced a unified approach to Bulgarian and foreign enterprises. Foreigners are allowed to establish the same form of enterprises as domestic companies.

The new law places no restrictions on the maximum size of a foreign stake in newly formed or existing partnerships, i.e. wholly foreign-owned subsidiaries are allowed.

The Bulgarian legislation concerning ownership of land is relatively restrictive. Art. 5(1) of the Foreign Investment Act stipulates that "foreign persons and joint venture partnerships may not acquire ownership of land, subsoil resources, forests and waters". Foreign investors may acquire the right to use non-agricultural land in order to conduct business activity for a term of seventy years. When the business is wound up, the Bulgarian partner is entitled to preferential treatment over other applicants to buy the real property or the rights thereto. If there is no Bulgarian partner this preference is to be extended to the Bulgarian State. However, reportedly the new 1992 law has broadened foreign enterprises' rights with respect to the acquisition of land and real estate.

The Foreign Investment Law alleviates some of the shortcomings of the previous legislation with respect to the rights to exchange earnings in local currency and to remit these abroad. Profits and other income received in connection with investment in Bulgaria can now be remitted abroad in convertible currency upon application to the Bulgarian National Bank. The foreign investor is allowed to exchange into any foreign currency all profits, wages, liquidation receipts, indemnities for expropriation and the like, and the Bank shall effect this exchange within 30 days of receiving the order.

With the modifications to the legislation in December 1990 fiscal incentives for enterprises with foreign participation were reduced. A special tax rate of 30% on profits applies to enterprises with foreign ownership of more than 49% and with investment by the foreigner of at least US$ 100,000. Other enterprises which do not meet these criteria pay the standard 40% tax rate. Certain incomes, e.g dividends used for the purchase of shares and bonds in the country, are exempt from tax. Otherwise, dividends are taxed at a rate of 15%. Tax holidays for five years may be specially awarded by the Council of Ministers to enterprises investing in agriculture and food industries and in high technology sectors.

Foreign investors enjoy full protection of their rights. Investments shall be immune from confiscation or seizure by administrative means. In case of expropriation, compensation shall be reached by agreement. Negotiations are limited to 90 days before the matter is passed on to the district court for deliberation. Compensation shall be made immediately following the expropriation and capital shall be freely transferable abroad. The text of the Law does, however, not provide standards for the court to follow in determining the amount of compensation.

The pace of the Bulgarian privatization programme has been rather slow. The law on privatization of small business was enacted on 26 February 1991, but implementation has been sluggish. The Privatization Act stipulates that state-owned enterprises be transformed into joint stock companies and allows one fifth of the equity to be bought at a discount by employees. The remainder will be auctioned off or offered on the stock exchange. Foreigners are apparently allowed to purchase shares as companies are privatized.

F. Romania

The Romanian government approved a new Foreign Investment Law on 29 March 1991, which came into force on 3 April 1991. It supersedes the previous Decree No. 424 of 1972 and the Decree-Law No. 96 of 1990; the latter already provided a liberalized framework for FDI. Under the new law, the Romanian Development Agency was established, which now serves as a one-stop agency for approvals of foreign investment proposals (previously, approval had to be obtained from four separate ministries). The Agency has to reply within 30 days, otherwise the proposal is automatically considered as approved. Registration is authorized by a "Certificate of Investor".

The new law does not stipulate minimum capital requirements and no sector of the economy is closed to foreign investors. There are no restrictions with respect to the share a foreign party can hold. The Agency is given considerable scope in the approval process as the law does not provide clearcut criteria on which grounds proposals are to be rejected. Proposals may be rejected if they may infringe the environment protection law, if they affect the country's security and defence interest or harm the public order, health and good morals.

The Foreign Investment Law confirms previous regulations under the Commercial Companies Law of November 1990. Profits in convertible currency can be fully repatriated. Local currency earnings can be partly repatriated. The respective shares are defined in percentage of the contribution to the registered capital (and not in percentage of profits) and depend on the sector concerned:

- 15% in the areas of special importance for the economy, including the manufacture of anti-pollution technologies;

- 12% in the exploration and production of natural resources, industry, agriculture, the construction sector, communications and transport;

- 10% in finance, banking and insurance industries; and

- 8% in the rest of the service sector.

Proceeds from winding up the investment and from copyrights, technical assistance, expertise and other services can also be freely transferred abroad.

Under the new law, tax privileges to foreign investors were expanded. Investments in industry, agriculture and construction are eligible for a tax holiday of five years, while investment in the exploitation and production of natural resources is exempt for three years. Investments in the services sector including trade, tourism, banking and insurance enjoy tax holidays for two years. Further fiscal incentives may be granted after expiry of the tax holiday period. Investments which may improve the technical and material basis of the economy, create new manufacturing technologies, expand existing activities or protect the environment are eligible to a tax rebate of 50% on the assessed tax. 25% are accorded to investments where 50% of energy, fuel and raw materials inputs are imported; more than 10% of expenditures are devoted to locally based R&D and to professional training; 50% of the machinery used in production is bought locally; and where at least 50 new jobs

are created. These tax rebates will be awarded for an indefinite period as long as the criteria are met. In addition, foreign investors are exempt from import duty on machinery, equipment, installations and vehicles required for the project and, for a period of two years, from raw materials and other imported inputs used in production.

A foreign investor is permitted to own movable and immovable property, purchase and/or construct production facilities and buildings, and lease land. However, ownership in land or private residential buildings is not allowed. A new element in the foreign investment law is the explicit recognition of industrial and intellectual property rights (patents, copyrights etc.).

The new law has introduced legal safeguards against expropriation. Foreign investment will not be nationalized or expropriated except if it is in the public interest and only with prompt, adequate and effective compensation. The basis for the compensation is the market value of the firm on the date of its nationalization. If a market value does not exist, the parties negotiate on the valuation. In case that the foreign investor is not satisfied with the result, he can request the valuation to be carried out by the court.

The Commercial Companies Privatization Law passed in August 1991 provides a legal framework for privatization of the state-owned enterprises. 30% of the shares of each company will be allocated to five Private Ownership Funds and reserved for eligible Romanian citizens who will receive certificates of ownership. These certificates can be transferred to non-Romanians only after five years. The remaining 70% of the shares will be transferred to a State Ownership Fund. Foreign investors will be permitted to participate in the sale of these shares. The approval for acquisitions by foreigners is to be obtained from the Romanian Development Agency. The newly established National Agency for Privatization has to approve or reject the 100% take-over of a commercial company which is to be negotiated between the potential investor and the Private Ownership Fund to which the company belongs. The Law permits foreign acquisition of companies before the new institutions are operational but there may be considerable uncertainties regarding the approval process during this period.

C. Commonwealth of Independent States (CIS)

The former USSR has started to liberalize the Union law on foreign direct investments per decree of 13 January 1987 by which joint ventures with western partners were permitted for the first time. The decree "On Further Development of Foreign Economic Activities of State, Co-operative and other Social Enterprises, Amalgamation and Organizations" of 2 December 1988 significantly broadened the scope for foreign and local participation. However, the approval process remained very cumbersome as extensive documentation including a feasibility study was required and permission from various government offices had to be obtained. A great step forward was taken when the parliament of the former Union adopted the decree on "The Fundamental Principles of Legislation on Foreign Investments in the USSR" on 5 July 1991.

The main feature of the law is that it provides a general basis for the enactment of republican law on FDI. The individual republics were free to enact their own regulations and, in the meantime, many have formulated their own laws. However, the collapse of the Union and the emergence of the CIS with

its independent member states in December 1991 created considerable uncertainties with respect to the validity and applicability of the legislation on FDI. It can be expected that these uncertainties will abate as the individual republics enact their own laws and Union laws cease to provide a valid framework.

However, the main new aspects of the Fundamental Principles are likely to become guiding principles for republican law:

- The principles guarantee the protection of the rights of foreign investors, including a prohibition on nationalization or expropriation of their investments or their discriminatory treatment. Any expropriation must be carried out according to the law and must be accompanied without delay by adequate and effective compensation. Disputes relating to the compensation may be carried to the courts or take place at a location otherwise provided by an arbitration tribunal.

- Profits (including in the national currency) and original investments may be freely remitted abroad.

- Foreign direct investment may comprise 100% of an existing Soviet company's equity and foreign companies may form wholly-owned subsidiaries.

- Foreign firms are permitted to participate in the purchase of shares of the Union Government enterprises. Permission is given only after the Soviet organization running the enterprise has first refused to buy it and after the approval has been given by the Labour force of the enterprise and the USSR State Property Fund.

- Enterprises with foreign contribution have the freedom to engage in any type of transaction except where special licensing rules are imposed or which are specifically prohibited by all-Union or republic legislation.

As mentioned above, some of the republics have already enacted their own laws on FDI. The **Russian Federation** has set out procedures for approval and registration in the Law on Foreign Investment in the Russian Federation which came into force on 1 September 1991. Applications are to be submitted to the Ministry of Finance which has to respond within 21 days. Large investments of more than 100 million roubles require the additional approval of the Council of Ministers. Applications can be refused on the grounds that documents are not provided in the form specified by law or if they do not satisfy the conditions set out in the procedures. Incentives provided by the Russian law go beyond the law of the former Union. For example, enterprises with foreign contribution which engage in import-substituting production may apply to convert rouble profits into convertible currency through the Republic Convertible Currency Fund at a negotiated rate (i.e. at the more favourable commercial rate). Presently (February 1992), the Committee on Foreign Investment of the Ministry of Economy and Finance is drafting a law on concessions and rent as well as further amendments to the investment legislation which may soon be put into force. Concerning the participation of foreign investors in privatization the pertaining guidelines of December 1991 encourage engagements in many fields. However, involvement in trade and catering services, automobile transport and small enterprises necessitate

participation in a process of competitive bidding. Moreover, foreign investors interested in the acquisition of state monopolies, insurance and brokerage firms, and large enterprises face certain restrictions. All foreign participants in privatized enterprises have to obtain a licence from the Russian Federation Committee on Foreign Investments.

Other republics have also formulated or are presently drafting laws on FDI. **Kazahkstan** promulgated a law on foreign investment in January 1991 permitting foreign involvement in practically all sectors except for the manufacture of direct military products. No restrictions exist with regard to the foreign ownership share. Tax holidays are offered for five years provided the foreign stake exceeds 30 per cent and is located in one of several specified priority industries. While in principle the repatriation of profits is permitted, the methods to be applied for transferring local currency earnings are not clearly stated. No provisions are to be found concerning the acquisition or lease of land by foreigners.

The first foreign investment law passed by the parliament of **Belarus** in November 1991 adopts a broad definition of foreign investment to include joint shareholdings with Belarus legal entities and individuals, the acquisition of enterprises, assets, stocks, shares, bonds, of rights to use land and other natural resources and of other property rights. Whereas all foreign investments have to be registered with the State Committee on foreign economic relations, permission from the Council of Ministers is to be sought if foreign asset inputs exceed 30 million roubles. Although in principle all sectors are open to foreign investment, a special permission has to be obtained for certain industries a list of which is being prepared at present. With the exception of banking, insurance and other financial services where the foreign partner is restricted to a minority position, in general a 100% foreign ownership is allowed. However, the procedures for establishing such sole foreign ventures are still pending. The law also foresees fiscal incentives in the form of a three year tax holiday for joint ventures with a foreign share of the statutory capital exceeding 30%. In addition, a 50% tax reduction is granted for investments in the priority areas to be defined for the next three consecutive years. The unrestricted repatriation of profits earned in convertible currency is also guaranteed leaving, however, less clarity with respect to the transfer of earnings in local currency. Uncertainties remain concerning the acquisition, lease or use of land, although a general provision guarantees a legal regime no less favourable for foreign investors than for Belarus nationals. Participation of foreigners in privatized enterprises is possible only on a subsidiary basis, i.e. when ongoing privatization projects cannot be completed due to financial difficulties or only after shares have been offered to the company's labour force and to the company itself.

The Council of Ministers of **Kyrgyzstan** issued decrees on foreign investment in October 1991. They define the legal status of joint ventures and organizations domiciled in the Republic's territory, and the procedures for opening and operating offices of foreign firms, banks and the licensing of exports and imports of goods and services. Joint venture applications are to be submitted to the Ministry of Finance together with an extensive documentation which i.a. includes a feasibility study, a permit from the local authorities, a favourable report from the expert appraisal of the State Committee for External Economic Ties (SCEET) etc. The opening of an office requires authorization from SCEET against payment of US$ 700. Permission is given to those firms which are believed by the Republic's agencies to be

capable of furthering its interest.

Finally, the parliament of **Ukraine** is currently debating a draft text of its first full foreign investment law following-up and based upon the Law on Protection of Foreign Investment of September 1991. The draft encompasses the permission of sole foreign ownership, national treatment provisions and guarantees against nationalization, tax incentives for foreign investment in priority industries and special economic zones and the protection of intellectual property rights.

H. The Baltic Republics[5]

Each Baltic republic has enacted its own foreign investment legislation: Lithuania in December 1990 and May 1991, Estonia in September 1991 and Latvia in November 1991.

In **Lithuania**, government approval is needed for all foreign investments, independent of the size or sector of the planned activity. Whereas foreign interests are only allowed a minority share of state stock companies of up to 49 per cent, some sectors are completely closed to foreigners, such as the defence industry, public utilities and the mineral and natural resources sector. For the latter a special permit may, however, be obtainable. Furthermore, foreign investors are obliged both to insure their property with Lithuanian insurance agencies and to handle their financial operations exclusively through Lithuanian banks. Different categories of tax relief of up to three years are stipulated in the law, depending on the respective foreign ownership share and the income amount derived from manufacturing. Profits may be freely repatriated; they are, however, subject to a 5% tax when originating from an activity which has been granted a tax holiday. Land may be leased by firms with foreign capital for a maximum of 25 years with the plot size being limited to 10 ha and 2 ha in a village and a region's agricultural and city areas, respectively. Finally, whereas the law does rule out any discrimination against foreign investors, no formal guarantees are provided against nationalization or expropriation.

In **Estonia**, as a general rule foreign investment does not require government approval except in banking. However, the government reserves the right to deny access when deemed appropriate. Furthermore, the law does specify neither the tax to be levied on profits nor any tax exemptions. Foreign investors are free to remit their profits abroad. They are also allowed to acquire real estate if necessary for executing their activities as set out in their charters. Full guarantees against nationalization and expropriation including compensation are provided putting foreign and domestic investors on an equal footing in terms of overall rights and obligations.

According to the **Latvian** legislation foreign investors must seek a government licence for undertakings in excess of US $1 million as well as for activities which meet restrictions in the country's Law on Entrepreneurial Activity. Thus foreign investors are not allowed to control enterprises in

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[5] This section draws on ECE, East-West Joint Ventures and Investment News, No. 11, March 1992, pp. 1-5.

the defence industry, the mass media, national education, the exploitation of all renewable and non-renewable natural resources, fishing, hunting and port management. In general, however, a 100 per cent foreign ownership of companies is admitted. Upon receipt of an application for investment which has to include comprehensive and detailed documentation on the applicant's business and the planned new operation the Council of Ministers or a specially appointed institution is obliged to take a decision within [illegible] days. The law also stipulates three categories of tax holidays and rebates. Profits may be freely repatriated. Among the investment guarantees provided for are a mandatory compensation in the case of expropriation and the promise to foreign investors not to become subject to future laws which might create less attractive investment conditions. Finally, whereas the acquisition of land is not possible for foreigners, a lease of land is being granted for a period of up to 99 years.

Summing up the brief review of current FDI legislation in CEE countries, it emerges that within a clearly discernible overall tendency towards creating an increasingly liberal environment for foreign investment, significant differences remain in force between the individual national stipulations. These differences reflect distinct national approaches to the role foreseen for FDI and, accordingly, they will have implications for the future geographical distribution of investment inflows. Table 2 provides a synoptic survey of the FDI regulations outlined above.

Table 2: Synoptic compilation of foreign direct investment regulations in Central and Eastern European countries

Country	Law on foreign investment, date of enforcement	Ownership restrictions	Approval required	Sectors closed to FDI	Responsible authorities	Tax and fiscal incentives	Restrictions on repatriation of profits and capital transfer	Investment guarantees	Possibility of land acquisition	Participation in privatized enterprises possible?
CSFR	Commercial Code (1 Jan. 1992).	No	Only for joint ventures with state enterprises. All other: Registration with Company Register.	No. For Banking special licence required.	Relevant Federal Ministry and Czech (Slovak) Ministries of Privatization	Yes	No	Yes	Principally yes, but uncertainties.	Only with regard to large-scale enterprises under "Large-Scale Privatization Act."
Hungary	Foreign Investment Act (1 Jan. 1989); Amendment: 1 Jan. 1991.	No	No	No		Yes. Equal treatment of domestic and foreign companies.	No	Yes	Yes	Yes, approval by State Property Agency required.
Poland	Foreign Investment Law (14 June 1991).	No	No, except for specified activities; all other: registration with Polish Commercial Register.	No, unless economic, security or defence interests are endangered.	Only for activities needing a permit: Ministry of Ownership Transformation.	Yes	No	Yes, but procedures for compensation not stipulated.	Yes, if permit obtained from Ministry of Ownership Transformation.	Yes, up to maximum share of 80 per cent.
Bulgaria	Law on the Economic Activity of Foreign Persons & the Protection of Foreign Investments (16 Jan. 1992)	No	No, except for specified activities; all other: registration.		Only for activities needing a licence: Council of Ministers or organ authorized by it.	Yes	No, upon application with National Bank.	Yes, but no standards specified for determining amount of compensation.	No, land lease possible.	Not precisely known.

Table 2: Synoptic compilation of foreign direct investment regulations in Central and Eastern European countries (continued)

Country	Law on foreign investment, date of enforcement	Ownership restrictions	Approval required	Sectors closed to FDI	Responsible authorities	Tax and fiscal incentives	Restrictions on repatriation of profits and capital transfer	Investment guarantees	Possibility of land acquisition	Participation in privatized enterprises possible?
Romania	Foreign Investment Law (3 April 1991).	No	Yes	No clear-cut criteria for investment agency to reject proposals.	Romanian Development Agency as one-stop agency.	Yes	No. Local currency earnings in part only.	Yes	No, land lease possible.	Yes, up to maximum share of 70 per cent held by State Ownership Fund, approval by Romanian Development Agency required.
Common-wealth of Indepen dent States	"Fundamental principles of Lesgislation on Foreign Investment" (5 July 1991)	No	In general, no, but special licensing rules possible.	In general, no.	-	-	Yes	Yes		Yes, but only on residual basis.
Russian Federation	Law on Foreign Investment (1 Sept. 1991)	No	Yes, for foreign stake exceeding 100 mn Roubles; registration with Ministry of Finance.	No. For banking, insurance and other types of activity to be defined, special licenses required.	Committee on Foreign Investments	Yes	No	Yes	No provisions but land lease possible.	Yes. Certain restrictions concerning large enterprises.
Belarus	Law on Foreign Investments (14 Nov. 1991)	In general no, except for financial services (< 50%).	Registration with State Committee on Foreign Economic Relations.	No. For certain yet unspecified industries, special permission required.		Yes	No. Unclear with respect to profits in local currency.	Yes, but issue of compensation not addressed.	Use of land possible, but uncertainties.	Yes, but only on residual basis.

Table 2: Synoptic compilation of foreign direct investment regulations in Central and Eastern European countries (continued)

Country	Law on foreign investment, date of enforcement	Ownership restrictions	Approval required	Sectors closed to FDI	Responsible authorities	Tax and fiscal incentives	Restrictions on repatriation of profits and capital transfer	Investment guarantees	Possibility of land acquisition	Participation in privatized enterprises possible?
Kazakhstan	Law on Foreign Investments in Kazakh SSR (17 Jan. 1991)	No		No, except for manufacture of direct military products.		Yes, for investment in priority sectors.	No. Unclear with respect to profits in local currency.		No provisions	
The Baltic Republics										
Lithuania	Law on Foreign Investments (23 Dec. 1990). Law on the Prohibition & Restriction of Spheres of Activity for Foreign Investments (2 May 1991).	Yes, max. 49% of state stock companies.	Yes	Defence industries, public utilities and others.	Duly authorized government agencies.	Yes	No. Unclear with respect to profits in local currency. 5% tax on repatriated earnings if use has been made of tax holidays.	Discrimination prohibited. No guarantees against expropriation.	Land lease for up to 25 years; plot size limited.	
Estonia	Foreign Investment Law (17 Sep. 1991)	No	No, unless in banking or other specified areas.	No, but government reserves the right to close sectors to FDI.	State body appointed by government.	Neither profit tax rate nor incentives specified.	No. Unclear with respect to profits in local currency.	Yes	Yes, if necessary	
Latvia	Foreign Investment Law (5 Nov. 1991)	No	Yes, licence necessary for investments - over 1 mn US$; - in activities restricted by law.	No, but no foreign control permitted in military industries, mass-media, nat. education, natural resources, fishing, port management.	Council of Ministers or special institutions.	Yes, profit tax rate not specified.	No. Unclear with respect to profits in local currency.	Yes	No, only land lease for up to 99 years	

IV. STRATEGIES AND DETERMINANTS OF FDI IN CENTRAL AND EASTERN EUROPEAN COUNTRIES: A FIRST ASSESSMENT

A. Investment Motives

There are three basic objectives for manufacturing enterprises to invest in CEE countries: (a) to penetrate domestic markets, (b) to establish a production base for selling to the former CMEA countries, and (c) to set up a production base for exporting to western markets. With the collapse of the CMEA and the switch to hard currency settlements, objective (b) has lost importance for foreign investors since traditional market connections are in the process of advanced erosion and hard-currency requirements set tight limits for exports to other CEE countries. In many cases, sales to domestic markets must be supplemented with exports to western markets in order to generate hard currency required for financing imported production inputs.

Generally it appears that foreign investors who have entered into joint venture agreements with CEE partners or who have set up wholly-owned subsidiaries are primarily targeting domestic markets. In the short run, high monopoly profits are expected from joint ventures with local companies which serve the whole domestic, and in some cases even the whole former CMEA market. In general, newly established ventures, based on superior western technology and management capabilities, can often expect to rapidly capture large market shares. Specifically, small companies which can react flexibly often have advantages over large joint ventures which suffer from administrative inertia. On the other hand, there are a number of examples for large ventures which were able to exploit their stronger bargaining position in negotiating favourable contracts with governments and local companies.

In the long run, the markets of the CEE countries offer tremendous opportunities. The potential purchasing power of these markets with a total number of approx. 300 million consumers justifies an early presence of foreign companies. The future potential depends, however, on the pace and success of the system transformation. Therefore, most foreign investors tend to follow a "foothold strategy" with a cautious commitment and a wait-and-see attitude. This is clearly reflected in the statistics on joint ventures presented above. The rapidly growing number of newly established joint ventures and the small and even declining average size of the statutory capital and foreign contribution show that foreign investors generally have great interest in the emerging markets, yet have become increasingly cautious during the last two years. Most foreign companies apparently want to be present to explore and seize present and future opportunities and, in some cases, to introduce brand names, while at the same time investing only small amounts to minimize risks. In fact, many of the first generation joint ventures aiming at high and quick returns were seriously undercapitalized with high gearing ratios and only a small portion of the nominal capital paid up.

Only a minority of western companies invest in CEE countries and specifically in the CIS to establish a low-cost manufacturing base for exports to western markets. In some cases, a certain proportion of products is exported to western countries in order to meet hard currency requirements or to accommodate the needs and objectives of the domestic partners. However, with the bilateral association agreements between the EEC and Poland, the CSFR and Hungary coming into force by 1993, access to the common market will be more or less unrestricted and export-oriented manufacturing may become more attractive in these countries.

In order to realize lower production costs, production processes must be either highly labour-intensive and/or use cheap domestically or regionally available raw materials. However, although labour costs are much lower in CEE countries when compared to Western Europe (about one-quarter on average), lower productivity partly offsets this advantage. Moreover, additional higher costs of extra quality control, poor infrastructure etc. put the validity of the low-cost argument into question. Using local inputs increases operational uncertainties because of high inflation rates prevailing in most countries and the often insecure supply situation. Occasionally, western companies have entered into joint ventures to buy western market shares of successful companies in CEE countries (e.g.Tungsram), but quite obviously this applies only to the very few cases in which such companies had already achieved a competitive edge on western markets.

B. Determinants and Inhibiting Factors

1. The legal framework

As pointed out in Chapter III., all CEE countries reviewed have introduced liberal foreign investment regimes during 1990 and 1991. In all cases, the legislation has undergone a process of several amendments to further liberalize it with respect to approval requirements, rights of establishment, repatriation of profits and transfer of capital, as well as investment guarantees. At the same time, countries such as Hungary, Poland and Bulgaria while relaxing regulations on FDI have partly withdrawn fiscal incentives. The continuous changes in FDI laws reflect a growing understanding among these countries that FDI regimes have to be designed in a way to create a favourable business climate for foreign enterprises. It may be expected that with the progressing transformation towards a market economy the still existing suspicion of capitalist corporations, the fear of being dominated by foreign companies, and the inexperience in dealing with corporate ventures in a market environment will gradually fade.

The new legislation has not only introduced liberal regimes, it has also created a more transparent framework and better defined rules for the activities of foreign corporations.

The Czech and Slovak Federal Republic, Poland and Hungary presently have the most liberal legislation on FDI within the CEE countries. For example, only these three countries have lifted all restrictions on the remittance abroad of profits earned in local and foreign currencies and capital originally invested. Most types of foreign investment do not require a permit any more. Only the Czech and Slovak Federal Republic maintains permit requirements where the domestic partner is a state enterprise or the activity of the venture is in banking. However, a number of weaknesses remain. The Polish foreign investment law of June 1991, for example, introduced the requirement to obtain a permit if an investor wants to take over the property of a state-owned enterprise. Restrictive regulations on foreign take-over of state enterprises also in other CEE countries impede the participation of foreign corporations in the privatization programmes. Other weaknesses of the Polish law are the lack of a legislation enabling foreign investors to acquire or lease land owned by the state, and a lacking definition of principles and procedures for the payment of compensation in case of nationalization.

Although the other countries reviewed here, Bulgaria, Romania, the CIS

and the Baltic Republics, have also launched a liberal legislation on FDI, they have retained important restrictions. The major shortcomings of the Bulgarian law are the need for an investor to submit a feasibility study, the lacking standards for the courts to determine the amount of compensation in case of nationalization, and the restrictions on land ownership. In fact, the latter restrictions which, however, are reported to have been somewhat relaxed in the new January 1992 FDI law, provide a good illustration for legal obstacles encountered by foreign investors:

- The Foreign Investment Act explicitly forbids foreigners and joint ventures with foreign participation to own land. The only option is to acquire ownership rights over buildings or other rights over real estate. This, however, requires a permission, and applications are to be filed with the Ministry of Foreign Economic Relations. In the meantime (Decree of 12 November 1991), this ministry was dissolved and no other institution with which applications are to be filed was named. One of the options for approval would be the purchase of buildings which was possible under Council of Ministers Ordinance No. 42 issued on the grounds of Decree No. 56 on Economic Activity. This decree, in turn, was annulled by the entry into force of the Commercial Law, so that there is no legal basis for purchase. From the legal point of view, leasing of suitable premises and buildings faces the least problems. But in most cases considerable funds for reconstruction are required. Therefore, a lessee would be interested in a long-term contract. The Law on obligations and contracts does, however, not allow the managers of state-owned companies to sign contracts for more than three years without the permission of the authority which acts as owner.

In turn, the recent lifting of a previously applied minimum capital requirement of US$ 50,000 reflects acknowledgement of the significantly inhibiting character of such a stipulation, particularly in view of the small average size of joint ventures resulting from the risk minimization strategy of most western investors. Moreover, investors from other CEE countries, though they do not play a significant role, are often not in the position to raise such an amount of hard currency.

The new Romanian law on FDI, though improving the investment climate, may be perceived by investors as less favourable when compared with other CEE countries. There is still considerable paperwork to be completed in order to get the approval for investment, while in other countries no approval is required. Restrictions on the repatriation of local currency earnings, although they may prove not applicable in most cases, may be perceived as deterrent, particularly in view of the more liberal legislation in Hungary, Poland and the Czech and Slovak Federal Republic. On the other hand, fiscal incentives are quite attractive and comparable to those offered in Hungary.

Also in the former Soviet Union, the legal system has undergone a revision process. Individual enterprises have received more independence to conduct their business. Due to this process, the importance of contractual relations between enterprises including with foreign companies is likely to increase and the need for clearer, more flexible and publicly available rules to govern commercial conduct is becoming more pressing. In the same way, a process of decentralization of legal power from the Union level to the republic level has taken place which has reached its climax with the collapse of the Union and the formation of the CIS. The process of decentralization has

created confusion regarding the legal authority and applicability of federal law, state law and even municipal or regional law. The law of the City of Leningrad (now St. Petersburg) governing the registration of joint venture operations within the confines of that city serves as a prominent example. The law conflicts with the applicable federal and republican law, and thus poses difficulties for potential foreign investors in the city.

It is still premature to judge on the most recent legislation on FDI of the individual republics as the process of decentralization is still under way. The example of the very restrictive legislation of Kyrgyzstan shows, however, that some of the republics may have to go through the same process of trial and error that has been a characteristic of the continuous revision process of laws in the other CEE countries. With regard to the three Baltic republics, similar considerations may apply. Even though in practice foreign investors may not necessarily shy away from the impeding features of their laws, the desired inflow of large investment amounts may not materialize in the near future.

Another highly controversial legal issue which influences both the willingness and ability of interested foreign investors to start or expand business - the issue of property rights - is far from being solved in any country. It therefore remains a concern of foreign investors in several respects. As mentioned above, Bulgaria and Romania (and also the former Soviet Union) do not allow foreign ownership of land, while the CSFR and Poland maintain certain restrictions on foreign land acquisition. For manufacturing enterprises land ownership is, however, a very important collateral for outside financing. Particularly when state property is involved, all countries concerned have adopted a rather cautious policy, partly based on the initial experience with abuses, partly because of the fear of selling out the most valuable state assets to foreigners. This attitude is most evident in the case of foreign participation in the privatization programmes launched in the various countries. Depending on the size and prominence of foreign acquisition extensive bureaucratic hurdles have to be overcome to buy shares of state companies.

But even when a foreign company has acquired ownership rights in a privatized company, post-privatization claims may effectively restrict this right. Such restrictions can be claims for restitution or compensation by previous owners, continuous rights over the property by the state, and hidden liabilities which may arise only after the sale of the property. The legislation on post-privatization claims is somewhat unclear in most countries of the region. However, Hungary and the CSFR, for example, in their recent legislation have ruled against restitution and in favour of limited compensation to previous owners. Most countries maintain certain rights over the property after privatization. For example, in Hungary the new owner must report an intended sale of the property to SPA within three years after the privatization. Indemnities against undisclosed liabilities are subject to negotiations in most cases.

Moreover, unsettled property rights also affect day-to-day business of foreign companies or joint ventures. In many cases, the nature of existing property rights is unclear, so that (e.g. lease) contracts which are bona fide concluded may not be legally binding. In the case of the former Soviet Union, this rather operational problem is elevated to a national problem, since ownership rights among the republics and between the republics and the Union are not always clear. For example, disputes between central, republic and

local authorities over the control of natural resources have caused insecurities among foreign investors.

In summing up, it can be concluded that the legislation on FDI in the CEE countries is now quite liberal and does probably not pose any decisive obstacle to FDI in these countries. In the CIS, the legal situation is not fully settled, but republican law is expected to fill this vacuum in the near future. Minor differences in FDI laws and investment incentives are, nevertheless, likely to have an impact on the distribution of foreign investment among the countries of the region. However, equally important as the degree of liberalism are negative effects of frequent changes in and lack of transparency of investment rules which create a climate of uncertainty and foster a "wait-and-see" attitude of investors. It has also to be borne in mind that the legal environment relevant for foreign investors does not only comprise the foreign investment law but also other relevant laws such as company law, customs law, competition law, law on patents etc. In many cases, these laws overlap or are conflicting. In this context, a firm move towards solving the unsettled issue of property rights will assume particular importance in the imminent future in most if not all the countries reviewed. Nevertheless, in most countries of the region, the administrative-legal conditions have improved substantially while the business environment has not.

2. The economic framework

More than the legal environment, it is the overall economic framework which determines the strategies of transnational corporations and the flow of investment to the CEE countries. Foreign companies establish themselves in the countries of the region both to exploit short-term opportunities and to gain a foothold for long-term engagement. Therefore, in the economic sphere decisions on investment in these countries are influenced by (1) the actual macro-economic situation and the long-term prospects for the system transformation; (2) the major structural features of the potential host economy; and (3) prevailing plant-level conditions and expected problems of the envisaged activities. These three groups of determinants are being dealt with in some detail below.

All CEE countries have embarked on a transition of their economies toward market-based allocation. The speed of the reform programmes, though varying from country to country, generally accelerated in 1991. As far as the actual economic situation is concerned, the transition process has been accompanied by macro-economic instabilities which form an unfavourable business climate for foreign investors. While the system of central planning has collapsed, the market-based mechanisms are only beginning to develop. As a consequence, actual output has been falling in virtually all countries concerned (see Table 3). Although OECD estimates for 1991 expected a gradual recovery in Poland, and in 1992 also in Hungary, the economic downturn may continue in most countries for several years.

Although the private sector in the CSFR, Poland and Hungary has responded to economic reforms and apparently expanded strongly during 1990 and 1991, this was insufficient, however, to offset the slump in production of the state-owned companies. Output losses in 1990 were particularly severe in Bulgaria, Poland and Romania, while in the former Soviet Union the decline was still moderate. In the CSFR, a comprehensive reform programme was introduced only in January 1991, so that adjustment took place during the year.

**Table 3: Output growth in CEE countries
(percentage changes)**

	1989	1990	1991	1992
Bulgaria	-0.4	-13.6	-11.0	...
CSFR	1.0	-3.1	-9.0	-2.0
Hungary	-0.2	-5.0	-3.0	1.5
Poland	-0.2	-13.0	2.0	4.0
Romania	-7.9	-10.5	...	...
USSR	2.4	-4.0	-8.0	...

[illegible]

Price reforms have been launched in all countries of the region, the latest ones in the CIS in January 1992. Due to the large monetary overhang, price liberalizations have fuelled inflation and provoked a tightening of financial policies, particularly in Bulgaria, the CSFR and Romania. On the other hand, wage restraint is an important element in supporting the reform programme. All countries have adopted some form of income policy, either by directly limiting or by taxing excessive wage increases. Consequently, real wages have declined in all countries with the exception of Romania and the former USSR, where nominal wages still rose faster than the official retail price index in 1990. As a result, demand conditions have become quite depressed in the countries concerned and have set limits to the attractiveness of domestic markets in the short run.

In addition, external factors have contributed to the decline in output. In the wake of the collapse of the CMEA in January 1991, intra-trade volumes are estimated to have declined in the order of 30 to 50% in 1991, after a drop of 20 to 30% already in 1990, largely due to the breakdown of trade with the former GDR and the Soviet republics. The switch from administered to world market prices with settlement in hard currency has also entailed significant terms-of-trade losses for the former east European CMEA member countries with corresponding gains for the former Soviet Union. Bulgaria and the CSFR have been hit particularly hard by the decline in intra-regional trade since exports to former CMEA countries comprised 83% and 54%, respectively, of their total exports in 1989 (see Table 4). Hungary and Poland, on the other hand, have been very successful in shifting trade to OECD countries, particularly to the EEC, and increased exports to OECD markets by 26% and 44%, respectively, in 1990. The dissolution of the trade agreements has basically invalidated access to the former CMEA market as an incentive for foreign investment in the region. As mentioned above, in the medium run, preferential trade agreements with the EEC and, in the long run, possible membership with the EEC (e.g. in the case of Hungary) could become a more attractive reason for foreign investment.

In sum, foreign companies intending to produce in the CEE countries to serve the former CMEA market may, for the time being, face demand problems despite the tremendous market potential in these countries in the long run. On the other hand, certain products such as garments, steel etc. destined for export to the west European markets and particularly the EEC are presently facing market access problems.

Table 4: Export shares of CEE countries to CMEA countries and to the USSR, 1989

	Share of Exports to CMEA countries	Share of Exports to the USSR
Bulgaria	83.0	65.8
Czechoslovakia	53.7	30.5
Hungary	41.0	25.1
Poland	34.3	20.5
Romania	35.8	21.4
USSR	55.2	-

Source: IMF, World Economic Outlook, 1991

Apart from the precarious economic situation triggered by system reforms, considerable uncertainties for foreign investors arise from the transition process itself. The progress and success of the reform programmes are unsure, and the duration of the restructuring of the economies may go well beyond the expected time frame and take several decades. Macro-economic instability and particularly rising open unemployment may question public support for drastic reform measures. Particularly in the CIS, reform has been half-hearted and accompanied by disintegration and loss of authority of central and even federal governments. In the Czech and Slovak Federal Republic unemployment has soared up since the second half of 1990 and reached around 7% of the labour force by December 1991, up from less than 1% (in the Slovak Republic 10.3% in October 1991).[6] In Hungary, open unemployment has accelerated since the second half of 1990 and reached an estimated 6% towards the end of 1991, up from 0.4%.[7] High unemployment rates not only provoke social unrest, but may also force governments to slow down the transformation process and cause inconsistencies in the various elements of the reform package.

A number of structural deficits most of which are a legacy of the command economy present serious obstacles to foreign investors. Compared with western standards a poor physical infrastructure in all CEE countries is a case in point. There are, however, wide differences between the various countries and regions. The transport system is generally inadequate and roads and railways are poorly maintained. Compared with west European countries the transport system relies much more on railways than on road transport. In general, transport does not meet the requirements of modern production systems with respect to speed, reliability and punctuality. The telecommunication system is obsolete, connections with western countries are often expensive and unreliable. Export-oriented joint ventures are more affected by the poor transport and communication system than companies producing for the local and domestic market. Some large transnational corporations have, therefore, set up their own communication system. Also other elements of the physical infrastructure such as office space in the big cities, apartments for

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[6] OECD, Economic Survey, Czech and Slovak Federal Republic, December 1991.

[7] OECD, Economic Survey, Hungary, July 1991.

personnel, etc. are inadequate when compared with western standards, but also with standards in many developing countries. Although major investments are now planned in all countries, it is expected that the transport and communication system will lag behind western standards for many years if not decades. From the viewpoint of a foreign investor, a poor infrastructure hampers operational efficiency and, in effect, raises the production costs.

The widely underdeveloped banking system and the lack of functioning financial markets constitute other serious shortcomings of the support infrastructure in most of the countries. Also, the continued devaluation pressure on most currencies poses further risks for foreign investments. In fact, only the CSFR has so far achieved a real depreciation of the currency on a sustained basis while in the other countries high inflation rates have offset the effect of devaluations. Risks from depreciations arise when the foreign investor, after a depreciation, intends to repatriate his originally invested capital, and when high taxable profits in the local currency are earned while costs for imports had been met in foreign exchange.

At the plant level, financial problems are among the greatest obstacles for doing business, especially with regard to the severe scarcity of convertible currency. Access to foreign exchange for import of raw materials and semi-finished products poses problems particularly in Bulgaria, Romania[8] and the CIS due to convertibility restrictions. Since the introduction of limited internal convertibility in Poland, the CSFR and Hungary, companies can purchase foreign currency through banks to cover their import bills. Loans in convertible currency from local banks are more difficult to obtain, and taking loans from foreign banks is mostly restricted or subject to approval from the central bank. Moreover, exporting firms are often faced with serious difficulties to obtain export credits. In the past, foreign companies have been quite inventive to solve foreign currency related problems. For the former Soviet Union, it was reported that countertrade or selling under currency clearing arrangements through Turkey, India, Egypt and other developing countries turned out to be very difficult.[9] Thus, many companies have resorted to export part of their production to obtain foreign exchange.

Further financial problems occurring in company operations can result from different accounting systems as well as from the frequently poor payment behaviour of state-owned companies, a phenomenon which is often palliatively referred to as "inter-enterprise lending".

Concerning human resources there is a widespread lack of the specific management capabilities required in a market-oriented setting. Managers are not used to taking independent decisions for which they are fully accountable. Consumer orientation and marketing skills are poor, as they have never been needed under sellers market conditions. Moreover, there is hardly any knowledge of foreign markets and preferences of western customers, while the

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[8] Romania introduced, effective 11 November 1991, internal convertibility of the Leu, which is extended to all international current account transactions, so that the access problem to foreign exchange is expected to be relieved.

[9] Richard N. Dean, "Considering Business Opportunities in the Soviet Union in the 1990s", Vanderbilt Journal of Transnational Law, Vol. 24, 1991, pp. 335.

competitiveness of own products is often overestimated. In general, western business practices are not widely known yet.

Skilled labour is available but mostly not familiar with modern production technologies and organization. Foreign companies and joint ventures are often confronted with demand for salaries based on western standards, whereas qualification, labour productivity and work discipline do not match the same standards. Therefore, labour costs are not necessarily low. Costs are further pushed up by the need for extensive training of personnel.

Problems also arise in the area of material-technical supply. Foreign investment is often induced by the availability of cheap raw materials and other local inputs such as semi-finished products. However, supply of local inputs is often unreliable and must therefore be supplemented with imports. Although the traditional problems with securing supplies not included in the national plan are fading, state-owned supplying industries still have difficulties in meeting the requirements of foreign investors, both quantity- and quality-wise. The situation has been aggravated by the collapse of the CMEA and the break-up of the Soviet Union. Many enterprises in the CEE countries have been cut off from their traditional supplies and have been forced to improvise. Joint ventures which do not earn foreign exchange are in a particularly weak position because their scope for overcoming supply problems through imports or local purchase against foreign exchange are limited. Many joint ventures have tried to solve supply problems through vertical integration of supplying industries.

V. SELECTED ISSUES AND OUTLOOK

Acknowledging the important role foreign capital, know-how and technology are to play in the course of the envisaged industrial restructuring, all CEE countries, with the exception of some CIS member states, have introduced and continuously amended relatively liberal FDI regimes at a rather early stage of transforming their economies. Foreign investors have responded with strong interest as reflected in the rapidly growing number of joint ventures with partners from CEE countries since 1988. A more than ten-fold increase from 3,287 to almost 34,000 projects was reported for the period January 1990 to January 1992 alone. However, without intending to belittle this impressive development, it has to be stressed that the actual contribution of FDI in the transition process so far has been rather marginal in overall economic terms. Only Hungary - which has received more than one half of the FDI flows to all CEE countries except the former USSR - can claim a perceptible impact of FDI: The share of FDI in total gross fixed capital formation reached a peak of 4.9% in 1989 (2.6% in 1990) which, by international standards, is relatively low.

At the micro level, the rather cautious approach followed by foreign investors is reflected in the continuously decreasing average size of the joint ventures in general and the shrinking average foreign capital contribution to the joint ventures in particular. Moreover, foreign investors tend to pay up only a fraction of the nominal contribution, so that the actual inflow of foreign capital is even lower. This risk-averse behaviour of investors has caused many joint ventures to be grossly under-capitalized while the domestic financial markets are not sufficiently developed to supplement with external financing.

The considerable gap between the number of approved and actually operational joint ventures in virtually all the countries is a further matter of concern, especially when being looked at in connection with the decreasing size of individual investments mentioned above. It means that the urgently needed foreign capital inflow to alleviate some of the restructuring frictions is not forthcoming. In the CSFR, for example, only approximately 10% of the registered firms had started operation by the beginning of 1991. Estimates for the former Soviet Union indicate a similar percentage of operational firms.[12] Whereas bureaucratic hurdles to be overcome by foreign investors can be assumed to explain part of the low shares of operational ventures it is the whole bundle of investment obstacles identified in chapter IV, which contributes to this implementation gap albeit to a different extent in the various countries concerned.

Turning to future prospects of FDI in CEE countries, some aspects merit special attention. In the first place, it has to be recalled that contrary to a widely held view favourable FDI regulations per se do not induce urgently needed capital inflows. Relatively liberal FDI regimes do constitute a necessary but by no means a sufficient condition to spur FDI. Rather, it is the overall political and economic environment including the nature and extent of structural strengths and weaknesses of the potential host countries which count most. In the context of industry, particular mention is to be made of the availability of functioning supplies networks; appropriate technical,

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[12] Due to the wide statistical definition of operational ventures in the former Soviet Union, the ECE data base indicates a much higher percentage.

scientific and managerial skills; and a well developed physical infrastructure, especially in transport and communications. These factors have to be complemented by relatively low production costs, an efficient and competent administration and a satisfactory macroeconomic performance. Consequently, although there is certainly much scope for improvements of the FDI legislation in several CEE countries e.g. with regard to clarifying foreigners' possible participation in privatization programmes continued action is called for to improve this overall environment. Otherwise, foreign investors will further pursue their 'foot-in-the-door strategy' to be largely observed at present.

Nonetheless, even if FDI inflows to CEE countries will gain further momentum in the future, the bulk of the total capital formation will have to come from domestic investors. Thus while the authorities' present emphasis on FDI as a mechanism to enhance industrial development is fully appreciated, it needs to be stressed that strong complementarities exist between foreign investment on the one hand and domestic entrepreneurship on the other. There are at least three reasons why the generation of further foreign investment may be bound to fail unless accompanied by the stimulation of efficient local entrepreneurship in different fields of industry. Firstly, the establishment of joint ventures is contingent upon the availability of attractive local partners. Secondly, small companies often act as important suppliers of specialized parts and components, i.e. they are essential elements in creating industrial networks. Thirdly, it is only through domestic entrepreneurship that significant spread effects can be generated and utilized for overall industrial development.

FDI policies and promotional measures, therefore, should be carefully designed in a way not to result in any discriminatory treatment in favour of potential foreign investors and at the expense of domestic private business in the CEE countries. For instance, tax rebates and other fiscal incentives granted to FDI projects should also be applied to domestic entrepreneurs. There is thus a need to better coordinate FDI policies with domestic investment promotion and entrepreneurship development activities. In the latter context, it may be worthwhile exploring whether and to what extent the establishment of venture capital funds could serve as a means to foster domestic investments in new fields of industrial activity.

With respect to the removal of FDI impediments in CEE countries, much more attention than hitherto will have to be paid to environmental issues. In a recent World Bank/OECD survey, more than 60 per cent of the respondents from major North American and European corporations ranked environmental problems at least as important as non-environmental obstacles to investment.[11] In particular, open questions regarding the liability for previously contaminated sites, uncertainties about environmental requirements as well as the costs of complying with environmental stipulations featured prominently among the concerns raised. While this calls for an intensification of efforts to formulate comprehensive and consistent environment protection policies in the CEE countries, there is an immediate need to expand the countries' capacities in terms both of expertise and infrastructure necessary to undertake environmental audits and other

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[11] See World Bank News, Vol. XI, No. 20, 21 May 1992.

assessment procedures with a view to (a) providing potential investors with the requested environmental information and (b) effectively negotiating concessions such as price reductions, indemnifications or reimbursements.

In general, it appears that in most CEE countries expectations concerning the prospects for future FDI inflows are often unrealistically high. On the one hand, while the general upward trends as expressed in recent FDI figures are pervasive and affect basically all countries reviewed in this report, there are significant differences in the performance of the individual countries. The northern group of countries comprising Poland, the CSFR and particularly Hungary has taken the lead in attracting foreign investment over the southern group comprising Bulgaria and Romania. Within the CIS, the European part is much more successful in attracting foreign investors than the central Asian republics. On the other hand, the prospects for the macro-economic situation and the further development of the transition process itself are quite different for each of the CEE countries. While there is little disagreement about the significant contribution FDI can and will make to the industrial restructuring of CEE countries in the long run, in the short to medium term the duration and success of the reform programmes are difficult to predict, although some countries such as Hungary [illegible] CSFR and Poland have made good progress. It is basically this eleme[illegible] predictability which for some time to come can be expected to shape [illegible]gion's perception of foreign investors.

A final issue to be briefly addressed from a more global perspective are frequently uttered fears of many developing countries that increasing FDI inflows to the CEE area would necessarily occur at their expense. While a thorough analysis of this question is beyond the scope of the present report, there seems to be little evidence so far of a diversion of FDI flows from developing to CEE countries. First of all, FDI flows to the CEE countries, despite their recent upsurge, have remained insignificant when compared to the record of the main FDI recipients in the developing world: In 1991, the former attracted close to US $5 billion of FDI which is roughly equal to the amount of FDI absorbed by Indonesia alone. Moreover, as shown above, the main investors in CEE countries come from Western Europe and because of historical, linguistic and geographic ties, particularly from Germany and Austria. Neither of these two countries are substantial investors in developing countries. While there has been a decline in Germany's share of total FDI flows to developing countries from OECD countries, this decline began in the 1970s, i.e. before the new political and economic developments in the CEE countries. Thus, it would be misleading to argue that any decline in FDI to developing countries from Germany has been caused by increased activity in the CEE area. Moreover, Japan and the United States, ranking first and second as investors in developing countries, have not as yet figured prominently in the establishment of joint ventures in CEE countries.

Secondly, the available evidence on the major investment motives does not support the hypothesis of 'investment diversion' away from the developing countries. So far, CEE countries are not significantly used as cheap locations for export manufacturing. The apparently prevailing motive for investing in these countries has been to penetrate the growing domestic markets. It is not a question, therefore, of FDI shifting from "South to East". Rather, investment decisions are determined by the locational conditions and business prospects in each single country. Investors seize the identified new opportunities, in other words: worldwide flows of FDI are not a zero-sum game.

However, two more specific potentially negative repercussions on developing countries may emerge. Firstly, once serving the EC market from CEE countries will be facilitated through association agreements, foreign investors may well consider to use CEE locations at the expense of developing countries, e.g. in North Africa, which have been benefitting from the same association links. Secondly, increasing FDI flows to the CFE countries may have an impact on developing countries in a non-FDI context: For instance, it was reported that US authorities are at present considering to channel US $1.2 billion now earmarked for general foreign aid into funds to guarantee ventures of US firms in the CIS.[12]

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[12] See The New York Times, 4 May 1992.

VI. UNIDO'S ROLE

The challenge of overall economic transformation and of industrial restructuring in the CEE countries is a complex one. To be carried through successfully, it requires far-reaching changes in traditional attitudes and modes of behaviour, a completely new legal framework, drastic policy reforms, sub-sector restructuring programmes, comprehensive privatization efforts, the rehabilitation and modernization of companies, technology and skill upgrading as well as retraining in various categories of technical, managerial and administrative staff. Whereas the choice of speed and sequence required of fundamental policy reforms has been the subject of considerable debate, there can be little disagreement about the need to support the restructuring process with specific measures and assistance linked in a consistent way. Indeed, there is little automaticity in this first, complex stage of transformation towards competitive structures of production. So far, market forces alone seem not to be developing as required nor can they be expected to bring about automatically entrepreneurship and modernization in industry in the near future.

Efforts undertaken so far show that in most industrial companies, productivity levels are generally low. So is product quality and there is a general lack of market orientation, marketing capabilities, after-sales services and other company services required for an industry to survive in a modern competitive environment. Overall, the countries' industry sector is largely dualistic and disintegrated - with large industrial complexes dominating the economic structure. In other words: the critical need is to build up an efficient industrial system based on specialization and economic interlinkages between enterprises of various sizes. Both the theory and practice of industrial organization have convincingly demonstrated that efficiency is derived from a system's synergy, and not from the strength of large companies alone. A key issue in all CEE countries for attaining international competitiveness of their industries thus is the fostering of and support to building up effective, integrated production structures.

Evidently, FDI can act as a catalyst in bringing about many of the required changes and innovations. Not only does it mobilize additional financial resources but, even more important, it infuses new process and product technologies, innovative management styles and company organization, marketing expertise, etc. However, as stressed above, this can only be brought to bear on the host economies if FDI promotion - rather than being seen as a panacea - is accompanied by and linked to domestic entrepreneurship development.

The analysis presented above of major obstacles and difficulties as encountered or expected by (potential) foreign investors at this stage suggest the following critical areas for particular attention in FDI-related co-operation programmes:

- Collection and analysis of detailed statistical data and other information normally required by any potential foreign investor before deciding on an activity;

- investment code formulation or assessment; formulation and design of supplementary support measures; reforms of decision-making procedures, etc.;

- assessment of the relative attractiveness of the investment incentive packages versus competing investment locations; and

- creation of an efficient approval system and of "one-stop" service units for joint ventures, etc.

International organizations, be they development finance institutions or specialized technical agencies, are substantially involved now in assisting the authorities in remedying many of the investment obstacles and creating a better environment for private commercial activities. UNIDO sees it as its main task to act as a bridge, as a neutral broker, between the industrial development potential offered in the countries concerned and the technical, managerial and financial resources represented by international business.

Investment promotion is one key area where UNIDO has accumulated a wealth of expertise and know-how over time which it is increasingly making available to CEE countries on request:

- In particular, UNIDO prepares and organizes investment forums in which potential foreign investors are invited to review investment projects and negotiate directly with the local partners. Such investment forums were (or are planned to be) held in Poland (October 1987, May 1990, October 1992), Yugoslavia (October 1990), and CSFR (November 1991); requests were received from Bulgaria, Hungary and Romania to hold similar forums. Mostly in conjunction with these events, UNIDO assistance is usually provided for the publication of "Investors' Guides" for the individual countries, the latest ones being on Czechoslovakia and Hungary.

- For supporting analytical work and as a contact point in the field of investment and related activities, UNIDO is operating an Investment Promotion Service office in Warsaw, and has been requested to set up another one in Bucharest. Being incorporated into the already existing worldwide network of UNIDO's Investment Promotion Service offices in several western European countries as well as in Japan, the USA, and the Republic of Korea, the CEE countries thus can increasingly participate in the international exchange of investment-related information and also benefit from the manifold business contacts which have been systematically established over time.

- The UNIDO Centre for International Co-operation in Moscow - opened in early 1990 - is identifying and promoting projects for investment and other co-operation, for instance in the telecommunications and agro-industrial sectors, and is also promoting Soviet technology abroad.

These UNIDO investment promotion activities are supplemented by various other investment-oriented programmes implemented by UNIDO for specific industrial sub-sectors. Assistance in legal, institutional and information aspects of investment are also provided. As a general information base and specific guidance to foreign business partners and investors, UNIDO prepares special Industrial Development Reviews which contain up-to-date economic information on the industrial sector, relevant policies and institutions etc. in the particular country. An Industrial Development Review on Poland has been

issued;[13] reviews on Hungary and CSFR are under preparation.

The preparation and evaluation of feasibility studies is yet another critical area which needs to be enhanced in CEE countries so as to facilitate local and foreign investment. UNIDO has, for several years, been involved in assisting in the preparation of feasibility studies and - above all - in providing training to professionals in the industry, government and banking sectors. Meanwhile, UNIDO's methodology and in particular the Computer Model for Feasibility Analysis and Reporting (COMFAR) is being applied in most CEE countries.

Apart from technical assistance directly related to the promotion of FDI, UNIDO is actively co-operating with the CEE countries in a wide range of fields from policy advisory services to company-level assistance:

- In many countries, attempts are being made to analyse the structural weaknesses of the economy and to conceive appropriate policy measures and support programmes. UNIDO is assisting some countries in these endeavors by examining prospects and constraints in key industrial sub-sectors and in the manufacturing sector as a whole and advising on approaches and policies for restructuring. The issue here is to build up the information base and develop a "vision" of, on the one hand, likely investment requirements for modernization and associated infrastructure and, on the other hand, the anticipated dissolution of non-competitive production capacities and redeployment of manpower. Only on this analytical basis can appropriate structural adjustment measures be formulated.

- Similarly, at the level of individual companies, there is a increasing need for diagnoses of rehabilitation prospects and for valuation of assets in the context of privatization programmes. UNIDO - parallel with other entities - is providing assistance in these fields, including training in relevant valuation methods. Such company level diagnoses and prospective assessments are carried out, *inter alia*, in cases where critical markets have been lost due to the termination of former CMEA trade agreements, where environmental damages force current production to be discontinued, where high energy costs induce the company to carry out major energy saving programmes or where in general the company is no more able to operate under the new conditions of market competition. A special case of company diagnosis concerns the conversion of military industries to civilian production. The issue here is to examine the possible utilization of the - mostly technologically sophisticated - installed capacities for other product lines for which market niches could be captured.

- In response to requests from CEE countries, UNIDO is providing assistance in the transfer and application of new technologies. Specifically, this involves areas such as industrial applications

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[13] UNIDO, Poland: Managing the Transition to a Market Economy, Industrial Development Review Series, Vienna 1991.

of laser technology, informatics, biotechnology, new materials, the use of CAD/CAM and the introduction of modern numerical methods based on the finite element method (FEM) in various metallurgical and engineering industries and the upgrading of measurement and control instrumentation. Programmes of Total Quality Management and upgrading of technological capabilities in a large steel work are further illustrative examples.

- In practically all countries of the region, urgent measures are called for to avoid further pollution and to utilize the technological upgrading and renewal in industry for applying environmental protection devices. UNIDO is very active in these fields. The programme contains both regional projects - covering several of the CEE countries - and country projects. It covers assistance in rehabilitation of existing production facilities by application of low waste technologies and introduction of environmentally clean equipment and related measures. Improved process control, monitoring of emissions, and environmental impact assessment are further examples in which UNIDO provides technical services at the company level. Advisory and training activities are also provided to concerned entities in the field of safety management. It is primarily the metallurgical sub-sector which is being currently assisted but overall information and control systems at the country level are also subject to UNIDO's co-operation. Undoubtedly, UNIDO can play an important role as a neutral, non-commercial, technical body to screen projects, specific technologies and entire operating plants for environmental safety.

- Given the magnitude and complexity of the economic transformation process in CEE countries, there may be a tendency by central policy-makers and international assistance to neglect the need for decentralized regional development and the promotion of local initiatives as source for entrepreneurial development. UNIDO suggests that more attention be given - in policy reforms, institutional changes and international co-operation - to industrial regional development as a key element in the regeneration of economic growth. Promotional institutions, including decentralized financial agencies, also for FDI promotion, would need to be built up to strengthen local entrepreneurship and generate new structures "from below". In some cases, it may be necessary to launch such regional development approaches on the basis of diagnostic surveys of existing industry and available and potential resources for development in individual regions with a view to identifying investment opportunities and the need for special measures in support of private investment, skill development, R&D, financing etc. UNIDO is involved in such activities and is envisaging the launching of various support programmes for regional development in some of the CEE countries. It may also be possible to utilize Western European countries' experience and the potentials for direct region-to-region co-operation to initiate regional growth dynamics.

UNIDO's activities in CEE countries are only to a very small proportion financed by the Organization's regular budget. UNIDO is increasingly relying

on special financing arrangements and execution of projects for individual or groups of UNIDO member countries. The bulk of UNIDO's operational projects is currently and will in the years ahead be financed through trust fund agreements. The special nature of the assistance that UNIDO can give and the professional contacts it has established over the years in the region have, for instance, been recognized by the British, French and Japanese Governments who have set up funds with UNIDO for management upgrading and modernizing industry in these countries. Hungary and Poland alone have benefitted from the £1.5 million that the UK has provided to UNIDO under its know-how fund for revitalizing these countries' industries (Hungary £0.5 million, Poland £1 million). Both countries benefitted also from the Japanese Government trust fund in the amount of $1 million (Hungary $0.5 million and Poland $0.5 million); France contributed $0.5 million for a regional project in which Hungary, Poland, CSFR and Romania are beneficiaries.

It is believed that also other countries as well as the European Bank for Reconstruction and Development and similar institutions could generally benefit from utilizing UNIDO's professional competence, its information base and its analytical services for work on industries in the CEE countries. Close co-ordination between the international and national agencies in conceiving and carrying out co-operation programmes will generally be a key concern in the years to come. Proper mechanisms and exchange of information in this regard will be essential for attaining the desired impact of co-operation and ensuring the linkage between the various activities for the overall benefit of the recipient countries.

STATISTICAL ANNEX

Annex Table 1. Operational foreign investment projects in the CSFR, 1983-March 1991

	Statutory capital			
	Total	Foreign		
	(mn CSK)	(mn CSK)	(mn USD)	Number
1983	65.0	32.5	5.2	1
1984	0.0	0.0	0.0	0
1985	112.0	56.0	8.2	1
1986	0.0	0.0	0.0	0
1987	264.8	69.4	12.7	2
1988	644.1	313.9	58.8	12
1989	614.8	279.1	18.5	27
1990	1,068.6	511.7	27.4	135
1991 (10)	25.7	19.4	0.7	50
Total	**2,794.9**	**1,282.0**	**131.4**	**228**

Note: On 25 March 1991. Figures may not add to totals because of rounding.

Source: ECE database on joint ventures.

Annex Table 2. Operational foreign investment projects in the CSFR, by origin of foreign partner

Country/Region	Statutory capital			Number
	Total	Foreign		
	(mn HUF)	(mn HUF)	(mn USD)	
Western Europe	**1,611.3**	**777.7**	**71.8**	**195**
EEC	**1,217.4**	**545.5**	**53.2**	**90**
Belgium	4.1	2.1	0.1	2
Denmark	135.3	66.3	12.3	1
France	186.5	88.8	13.0	7
Germany	436.8	227.4	12.7	56
Italy	9.9	5.4	0.3	9
Netherlands	321.5	52.9	8.3	7
Spain	0.1	0.1	0.0	1
United Kingdom	123.1	102.6	6.6	7
EFTA	**391.9**	**231.1**	**18.6**	**102**
Austria	232.1	115.9	11.9	80
Finland	1.2	0.7	0.0	2
Sweden	10.6	5.3	0.3	4
Switzerland	148.1	109.3	6.3	16
Other Europe	**2.0**	**1.1**	**0.0**	**3**
Yugoslavia	2.0	1.1	0.0	3
United States	**1.5**	**0.8**	**0.0**	**4**
Japan	**0.0**	**0.0**	**0.0**	**0**
Developing countries	**5.1**	**3.1**	**0.2**	**2**
Brazil	5.0	3.0	0.2	1
Syrian Arab Republic	0.1	0.1	0.0	1
Economies in Transition	**252.5**	**125.9**	**17.0**	**12**
Bulgaria	10.0	5.0	0.3	1
Hungary	68.2	34.0	5.3	3
Poland	0.1	0.1	0.0	1
USSR	174.2	86.9	11.5	7
Non-European Planned Economies	**54.8**	**27.4**	**5.0**	**1**
China	54.8	27.4	5.0	1
Multi-Party a/	**868.8**	**346.0**	**37.4**	**13**
Unknown	1.0	1.0	0.0	1
TOTAL	**2,794.9**	**1,282.0**	**131.4**	**228**

a/ Foreign investment projects with foreign partners from two or more countries.

Note: On 25 March 1991. Figures may not add to totals because of rounding.

Source: ECE database on joint ventures.

Annex Table 3. Manufacturing foreign investment projects in the CSFR, by branch

ISIC rev.3 Code	INDUSTRY	Statutory capital: Total (mn CSK)	Statutory capital: Foreign (mn CSK)	Statutory capital: Foreign (mn USD)	Number
15	Food	112.8	93.9	5.7	6
17	Textiles	9.1	4.5	0.3	2
20	Wood and wood products	36.5	14.1	1.9	5
21	Paper and paper products	0.0	0.0	0.0	0
22	Publishing and printing	7.7	3.6	0.2	5
24	Chemicals	303.0	154.5	6.4	2
25	Rubber and plastics	140.1	68.7	12.4	5
26	Non-metallic products	5.3	3.6	0.2	3
28	Metal products	26.5	5.4	0.3	2
29	Machinery & equipment N.E.C., of which	513.8	255.8	37.7	21
291	General purpose machinery	32.4	16.1	2.0	6
292	Special purpose machinery	202.6	105.4	11.8	13
	Other[a]	278.8	134.3	23.9	2
30	Office equipment and computers	254.4	163.0	10.7	3
31	Electrical equipment	13.1	8.7	0.4	5
32	Communication equipment	213.8	44.0	7.8	4
33	Precision instruments	2.1	1.1	0.1	3
34	Motor vehicles	4.2	2.3	0.1	1
35	Other transport equipment	0.0	0.0	0.0	0
36	Furniture and manufacturing N.E.C.	102.6	6.7	0.5	4
	Other[b]	5.6	2.7	0.2	2
	Total	**1,750.6**	**832.6**	**84.8**	**73**

a/ Including activities not classified in specific manufacturing ISIC group.
b/ Including activities not classified among manufacturing.

Note: On 25 March 1991. Figures may not add to totals because of rounding.

Source: ECE database on joint ventures.

Annex Table 4 Operational foreign investment projects in Hungary, 1974-January 1991

	Statutory capital			
	Total	Foreign		
	(mn HUF)	(mn HUF)	(mn USD)	Number
1974 or earlier	992.3	407.9	36.6	6
1975	26.0	12.7	1.5	1
1976	0.0	0.0	0.0	0
1977	0.0	0.0	0.0	0
1978	0.0	0.0	0.0	0
1979	1,067.3	704.4	19.8	1
1980	2,857.4	656.2	20.1	2
1981	328.3	230.5	6.7	2
1982	701.4	404.9	11.1	6
1983	635.7	269.7	6.3	8
1984	3,332.4	1,605.1	33.4	6
1985	2,504.2	1,292.5	25.8	19
1986	1,598.3	1,110.6	24.2	14
1987	5,809.6	2,760.5	58.8	42
1988	15,965.7	8,338.6	165.4	103
1989	36,286.6	17,056.8	288.8	452
1990	18,962.6	9,420.1	149.1	340
1991 (January)	29.6	14.5	0.2	4
Total	**91,097.4**	**44,284.9**	**847.8**	**1,006**

Note: January 1991. Figures may not add to totals because of rounding.

Source: ECE database on joint ventures.

Annex Table 5. Operational foreign investment projects in Hungary, by origin of foreign partner

Country/Region	Statutory capital			Number
	Total	Foreign		
	(mn HUF)	(mn HUF)	(mn USD)	
Western Europe	**58,084.9**	**28,398.2**	**530.9**	**797**
EEC	**26,658.0**	**12,918.2**	**257.1**	**412**
Belgium	89.9	54.0	1.2	7
Denmark	335.6	294.1	6.2	8
Greece	245.6	81.6	1.9	3
France	871.0	527.4	8.8	9
Germany	9,285.2	3,848.7	78.6	252
Ireland	1.0	0.5	0.0	1
Iceland	1.6	0.6	0.0	1
Italy	5,646.6	2,037.7	42.9	46
Luxembourg	3,435.3	2,756.1	54.5	5
Netherlands	1,614.0	880.7	17.2	24
Portugal	134.4	41.0	0.8	1
Spain	122.0	41.6	0.7	7
United Kingdom	4,875.9	2,354.2	44.5	48
EFTA	**30,829.5**	**15,292.2**	**269.8**	**374**
Austria	22,625	11,734.7	200.9	257
Finland	1,223.6	465.3	9.5	9
Liechtenstein	2,212.6	783.9	14.7	21
Norway	26.0	12.4	0.2	2
Sweden	1,490.1	766.3	14.3	24
Switzerland	3,251.5	1,529.6	30.2	61
Other Europe	**597.4**	**187.8**	**3.7**	**11**
Cyprus	590.0	184.3	3.6	6
Turkey	3.4	1.5	0.0	2
Yugoslavia	4.0	2.0	0.0	3
United States	**10,255.8**	**5,127.2**	**91.6**	**65**
Canada	**186.8**	**85.3**	**1.5**	**17**
Japan	**190.4**	**52.9**	**1.0**	**2**
Developing countries	**6,861.4**	**3,405.0**	**58.0**	**15**
Korea, Republic of	6,517.0	3,258.5	55.2	2
Economies in Transition	**1,086.3**	**541.3**	**11.1**	**16**
Bulgaria	30.0	14.7	0.2	1
Poland	12.0	6.0	0.1	1
USSR	1,044.3	520.6	10.7	14
Other	**68.3**	**35.4**	**0.6**	**4**
Australia	16.0	8.0	0.1	1
Israel	14.8	4.7	0.1	1
New Zealand	37.5	22.7	0.4	2
Multi-Party [a]	**14,307.7**	**6,611.0**	**153.0**	**74**
Unknown	55.9	28.6	0.5	16
TOTAL	**91,097.4**	**44,284.9**	**847.8**	**1,006**

a/ Foreign investment projects with foreign partners from two or more countries.

Note: January 1991. Figures may not add to totals because of rounding.

Source: ECE database on joint ventures.

Annex Table 6. Operational foreign investment projects in Hungary, by industry

ISIC rev.3 Code	INDUSTRY	Statutory capital			Number
		Total	Foreign		
		(mn HUF)	(mn HUF)	(mn USD)	
A	Agriculture, hunting and forestry	187.0	86.4	1.6	7
B	Fishing	52.2	20.2	0.3	2
D	Manufacturing	55,195.6	26,350.5	498.0	399
41	Purification of water	1.0	0.7	0.0	1
F	Construction	4,084.2	2,332.6	40.0	61
G	Wholesale and retail trade	5,816.5	2,742.5	59.7	226
H	Hotels and restaurants	1,137.5	755.2	14.4	10
I	Transport, storage & communication	1,864.3	580.2	11.0	55
J	Financial intermediation	15,717.7	8,056.8	156.3	13
70	Real estate	293.5	146.9	2.5	14
71	Renting of machinery & equipment	52.3	22.8	0.4	7
72	Computer and related activities	400.9	179.6	3.2	32
73	Research and development	114.3	53.3	0.9	6
74	Other business activities	4,472.4	2,302.3	46.0	138
M	Education	144.5	7.7	0.1	6
N	Health and social work	1,046.2	405.0	8.0	4
90	Sewage and refuse disposal	56.0	37.4	0.6	2
92	Cultural and sporting activities	447.7	198.4	4.6	19
93	Other services	1.0	0.5	0.0	1
	Other[a/]	12.6	5.8	0.1	3
	Total	**91,097.4**	**44,284.9**	**847.8**	**1,006**

a/ Including activities not classified among industries.

Note: January 1991. Figures may not add to totals because of rounding.

Source: ECE database on joint ventures.

Annex Table 7. Manufacturing foreign investment projects in Hungary, by branch

ISIC rev.3 Code	INDUSTRY	Statutory capital Total (mn HUF)	Statutory capital Foreign (mn HUF)	Statutory capital Foreign (mn USD)	Number
15	Food	2,710.8	1,181.3	43.2	29
16	Tobacco	4,713.7	2,159.0	37.3	18
17	Textiles	1,263.7	534.3	10.2	23
19	Leather	110.3	47.3	0.8	5
20	Wood and wood products	845.7	531.5	11.0	16
21	Paper and paper products	5,339.7	2,171.0	34.8	7
22	Publishing and printing	973.3	377.4	6.5	33
24	Chemicals, of which:	4,417.0	2,063.9	37.6	37
241	Basic chemicals	2,956.4	1,434.9	25.6	7
242	Other chemicals, of which:	1,412.5	600.9	11.6	27
2423	Pharmaceuticals	239.2	106.1	2.3	10
2424	Cosmetics	411.3	206.2	3.8	6
	Other a/	48.1	28.0	0.5	3
25	Rubber and plastics	967.7	454.9	7.7	15
26	Non-metallic products	10,488.5	6,120.5	113.5	16
27	Basic metals	546.8	169.8	2.9	7
28	Metal products	878.4	401.5	7.3	28
29	Machinery & equipment N.E.C., of which	2,675.9	1,353.8	25.0	56
291	General purpose machinery	1,029.5	539.7	8.9	17
292	Special purpose machinery, of which:	1,355.7	598.7	10.9	27
2921	Agriculture & forestry machinery	116.5	68.0	1.2	3
2922	Machine tools	816.0	343.0	6.0	7
2925	Food processing machines	74.0	26.9	0.5	5
	Other a/	290.8	215.4	5.2	12
30	Office equipment and computers	1,604.7	509.4	10.0	6
31	Electrical equipment	7,705.4	4,039.1	68.5	20
32	Communication equipment, of which:	2,471.7	935.0	18.1	17
321	Electronic components	981.5	402.8	7.7	4
322	TV, radio transmitters	74.7	33.1	0.5	6
323	TV, radio receivers	1,322.5	466.1	9.2	3
	Other a/	93.0	33.1	0.6	4
33	Precision instruments	764.5	369.1	7.3	19
34	Motor vehicles	2,987.5	1,561.8	31.7	12
35	Other transport equipment	862.4	439.8	7.7	2
36	Furniture and manufacturing N.E.C.	993.1	531.7	9.6	17
37	Recycling	381.6	177.1	3.4	5
	Other b/	1,493.4	230.5	3.9	11
	Total	**55,195.6**	**26,350.5**	**498.0**	**399**

a/ Including activities not classified in specific manufacturing ISIC group.
b/ Including activities not classified among manufacturing.

Note: January 1991. Figures may not add to totals because of rounding.

Source: ECE database on joint ventures.

Annex Table 8. Foreign investment projects in Poland, by origin of foreign partner

Country/Region	Statutory capital			
	Total	Foreign		
	(mn PLZ)	(mn PLZ)	(mn USD)	Number
Western Europe	**4,235,898.3**	**2,859,519.0**	**301.0**	**2,296**
EEC	**2,793,552.3**	**1,914,501.8**	**201.5**	**1,661**
Belgium	107,394.6	75,819.5	8.0	60
Denmark	101,228.3	77,741.4	8.2	74
Greece	8,870.1	6,608.2	0.7	11
France	222,442.6	135,970.7	14.3	130
Germany	1,559,715.0	1,036,440.5	109.1	981
Italy	[illegible]0,818.8	184,116.7	19.4	131
Luxembourg	3,499.0	2,785.4	0.3	5
Netherlands	316,365.5	253,044.9	26.6	108
Portugal	1,100.0	950.0	0.1	2
Spain	12,550.2	9,374.6	1.0	14
United Kingdom	199,568.4	131,650.1	13.9	145
EFTA	**1,406,789.4**	**918,288.1**	**96.7**	**613**
Austria	320,467.1	208,555.4	22.0	200
Finland	17,119.9	13,788.3	1.5	20
Iceland	475.0	475.0	0.1	1
Liechtenstein	167,489.0	62,555.6	6.6	24
Norway	218,059.1	187,730.5	19.8	22
Sweden	386,291.8	307,785.8	32.4	256
Switzerland	296,887.6	137,397.6	14.5	90
Other Europe	**35,556.7**	**26,729.2**	**2.8**	**22**
Cyprus	1,904.3	975.7	0.1	2
Gibraltar	15,932.1	10,549.8	1.1	2
Monoco	1,474.6	1,014.6	0.1	2
Turkey	10,188.6	9,444.9	1.0	11
Yugoslavia	6,057.2	4,744.3	0.5	5
United States	**381,748.5**	**279,206.0**	**29.4**	**214**
Canada	**48,824.2**	**36,743.2**	**3.9**	**48**
Japan	**10,529.7**	**9,672.0**	**1.0**	**5**
Developing countries	**79,733.6**	**52,794.4**	**5.6**	**42**
Lebanon	8,973.7	8,971.8	0.9	5
Singapore	23,694.8	8,532.9	0.9	9
Syrian Arab Republic	16,601.5	15,295.0	1.6	3
Economies in Transition	**56,773.1**	**35,938.5**	**3.8**	**54**
Bulgaria	1,924.7	1,098.2	0.1	2
CSFR	593.8	475.0	0.1	1
Hungary	1,952.0	1,436.4	0.2	3
USSR	52,302.6	32,928.9	3.5	48
Other	**90,095.6**	**83,445.2**	**8.8**	**39**
Australia	19,993.2	16,879.6	1.8	19
Israel	70,102.4	66,565.6	7.0	20
Multi-Party a/	**265,351.9**	**193,361.0**	**20.4**	**101**
TOTAL	**5,168,954.6**	**3,550,929.0**	**373.8**	**2,799**

a/ Joint-ventures with foreign partners from two or more countries.

Note: On 1 January 1991. Figures may not add to totals because of rounding.

Source: ECE database on joint ventures.

Annex Table 9. Foreign investment projects in the USSR, by month of registration

	Statutory capital			
	Total	Foreign		
Month	(mn SUR)	(mn SUR)	(mn USD)	Number
May-87	0.8	0.4	0.6	1
Jun-87	5.4	2.5	3.9	4
Jul-87	57.1	19.5	30.5	2
Aug-87	0.0	0.0	0.0	0
Sep-87	2.0	0.8	1.3	1
Oct-87	37.3	11.6	18.4	3
Nov-87	11.4	5.6	9.2	3
Dec-87	45.4	15.1	25.5	9
Total 1987	**159.3**	**56.5**	**89.3**	**23**
Jan-88	40.0	14.9	25.1	6
Feb-88	0.0	0.0	0.0	0
Mar-88	28.0	10.4	17.5	7
Apr-88	13.2	6.2	10.4	5
May-88	58.0	23.0	38.7	10
Jun-88	54.1	18.3	30.4	12
Jul-88	74.1	30.9	49.8	9
Aug-88	33.2	14.3	22.8	16
Sep-88	44.6	16.2	25.8	17
Oct-88	13.7	5.7	9.1	8
Nov-88	183.9	71.8	118.9	30
Dec-88	109.6	41.0	68.2	48
Total 1988	**652.3**	**252.7**	**416.6**	**168**
Jan-89	140.2	55.7	90.7	41
Feb-89	99.7	33.3	53.9	46
Mar-89	143.7	69.0	111.2	87
Apr-89	125.3	57.7	92.1	53
May-89	260.8	120.1	188.4	101
Jun-89	429.7	202.8	311.7	160
Jul-89	113.9	31.0	48.8	66
Aug-89	219.9	96.4	151.4	128
Sep-89	113.5	46.8	72.4	63
Oct-89	232.9	114.8	182.4	107
Nov-89	168.5	84.6	134.7	90
Dec-89	494.2	156.4	254.4	128
Total 1989	**2,542.2**	**1,068.8**	**1,692.2**	**1,070**
Jan-90	136.9	54.3	89.6	41
Feb-90	1155.7	42.1	70.2	46
Mar-90	62.1	26.7	43.9	87
Apr-90	83.6	32.0	52.6	53
May-90	166.2	63.1	105.2	101
Jun-90	141.0	41.7	69.4	160
Jul-90	46.6	20.9	35.5	66
Aug-90	171.3	63.4	109.2	128
Sep-90	343.7	135.9	238.4	63
Oct-90	93.0	39.9	71.4	107
Nov-90	215.0	103.9	62.9	90
Dec-90	19.9	8.8	5.3	128
Total 1990	**1,595.0**	**632.7**	**953.6**	**789**
TOTAL	4,948.8	2,009.7	3,151.7	2,050

Note: On 1 January 1991. Figures may not add to totals because of rounding.
Source: ECE database on joint ventures.

Annex Table 10. Foreign investment projects in the USSR, by origin of foreign partner

Country/Region	Statutory capital			Number
	Total	Foreign		
	(mn SUR)	(mn SUR)	(mn USD)	
Western Europe	**3,037.0**	**1,168.4**	**1,870.9**	**1,228**
EEC	**1,741.3**	**682.5**	**1,074.4**	**700**
Belgium	94.6	37.2	42.1	22
Denmark	6.7	2.0	3.2	8
Greece	278.1	113.4	181.2	70
France	564.1	218.6	346.1	281
Germany	8.8	4.3	6.9	10
Ireland	19.4	9.0	13.8	6
Italy	477.6	178.4	289.8	130
Luxembourg	2.3	0.9	1.4	7
Netherlands	57.0	21.9	34.4	24
Portugal	0.3	0.1	0.2	1
Spain	60.2	24.8	39.7	29
United Kingdom	172.4	71.9	115.4	112
EFTA	**1,063.0**	**418.0**	**685.4**	**468**
Austria	244.8	89.3	143.0	115
Finland	509.3	214.4	356.9	183
Norway	9.5	2.5	4.2	8
Sweden	184.2	59.4	95.7	66
Switzerland	96.8	43.4	71.1	73
Liechtenstein	18.4	9.0	14.6	18
Other Europe	**232.6**	**67.9**	**111.1**	**60**
Cyprus	21.0	7.2	11.6	21
Malta	2.0	0.9	1.4	2
Turkey	12.8	4.2	7.1	5
Yugoslavia	196.8	55.7	91.0	32
Canada	**125.6**	**53.3**	**86.7**	**53**
Japan	**69.5**	**28.7**	**46.4**	**33**
United States	**526.8**	**251.4**	**360.2**	**247**
Developing countries	**235.9**	**104.0**	**148.9**	**130**
Brazil	11.8	2.6	4.3	4
Hong Kong	39.4	26.6	21.1	12
India	37.3	14.3	23.1	30
Lebanon	4.8	2.1	2.9	6
Panama	5.3	2.7	4.4	8
Economies in Transition	**431.3**	**173.8**	**273.4**	**154**
Bulgaria	203.1	92.2	151.3	45
CSFR	16.5	7.9	7.8	7
Hungary	105.6	31.3	48.9	27
Poland	106.2	42.4	65.3	75
Non-European Planned Economies	**80.3**	**37.0**	**58.6**	**46**
China	37.6	16.5	26.4	25
Korea, Democratic P. Rep. of	35.4	17.4	27.5	12
Viet Nam	7.2	3.1	5.1	9
Other countries	**56.4**	**27.6**	**43.3**	**35**
Australia	48.3	23.1	35.9	30
Israel	6.6	3.9	6.5	3
New Zealand	1.5	0.6	0.9	2
Multi-Party [a]	**385.2**	**165.1**	**262.5**	**121**
Unknown	0.9	0.3	0.6	3
TOTAL	**4,948.9**	**2,009**	**3,151.6**	**2,050**

a/ Foreign investment projects with foreign partners from two or more countries.
Note: On 1 January 1991. Figures may not add to totals because of rounding.
Source: ECE database on joint ventures.

Annex Table 11. Foreign investment projects in the USSR, by industry

ISIC rev.3 Code	INDUSTRY	Statutory capital			Number
		Total	Foreign		
		(mn SUR)	(mn SUR)	(mn USD)	
A	Agriculture, hunting and forestry	54.3	24.6	41.4	26
B	Fishing	52.8	24.4	39.6	10
C	Mining and quarrying	17.4	8.5	15.1	7
D	Manufacturing	3,249.1	1,215.9	1,930.6	1,029
41	Purification of water	7.6	3.8	6.0	3
F	Construction	166.0	80.0	110.2	94
G	Wholesale and retail trade	202.4	107.8	164.4	68
H	Hotels and restaurants	266.7	152.6	244.8	138
I	Transport, storage & communication	85.8	39.2	40.9	64
J	Financial intermediation	129.7	74.6	117.7	5
70	Real estate	17.4	8.7	8.26	6
71	Renting of machinery & equipment	19.7	9.5	15.1	25
72	Computer and related activities	103.3	48.3	70.2	117
73	Research and development	35.4	8.7	14.2	11
74	Other business activities	164.8	73.0	116.1	268
M	Education	12.0	5.4	8.	22
N	Health and social work	116.1	49.1	79.4	46
90	Sewage and refuse disposal	15.5	7.7	12.4	11
92	Cultural and sporting activities	88.7	40.7	64.4	85
93	Other services	2.2	1.0	1.7	5
	Other[a]	42.1	26.4	42.6	10
	Total	**4,948.9**	**2,009.7**	**3,151.6**	**2,050**

a/ Including activities not classified among industries.

Note: On 1 January 1991. Figures may not add to totals because of rounding.

Source: ECE database on joint ventures.

Annex Table 12. Manufacturing foreign investment projects in the USSR, by branch

ISIC rev.3 Code	INDUSTRY	Statutory capital			Number
		Total	Foreign		
		(mn SUR)	(mn SUR)	(mn USD)	
15	Food	255.5	78.5	123.6	78
16	Tobacco	0.0	0.0	0.0	0
17	Textiles	34.8	14.5	23.6	19
18	Wearing apparel	82.0	35.9	54.6	74
19	Leather	166.2	33.6	54.4	26
20	Wood and wood products	137.6	58.5	93.5	60
21	Paper and paper products	52.5	24.2	38.6	10
22	Publishing and printing	69.2	26.7	42.9	51
23	Coke, refined petroleum, nuclear fuel	76.7	30.2	33.5	4
24	Chemicals, of which:	364.9	159.0	253.6	65
241	Basic chemicals	178.3	74.3	119.8	19
242	Other chemicals, of which:	176.0	80.7	127.2	35
2423	Pharmaceuticals	30.0	15.0	23.7	9
2424	Cosmetics	106.6	48.2	76.8	12
	Other[a/]	10.6	3.9	6.7	11
25	Rubber and plastics	149.0	64.7	104.0	29
26	Non-metallic products	149.6	60.6	97.9	56
27	Basic metals	46.4	17.5	28.7	5
28	Metal products	167.3	41.3	66.1	23
29	Machinery & equipment N.E.C., of which	330.4	111.9	178.4	111
291	General purpose machinery	101.2	27.6	45.8	26
292	Special purpose machinery, of which:	191.7	69.5	108.9	64
2921	Agriculture & forestry machinery	13.9	2.6	4.3	4
2922	Machine tools	87.0	34.1	55.1	21
2925	Food processing machines	19.2	7.1	11.4	5
2926	Textile machinery	24.1	6.5	10.7	4
	Other[a/]	37.5	14.7	23.6	21
30	Office equipment and computers	191.2	83.2	133.7	110
31	Electrical equipment	328.3	127.7	220.4	21
32	Communication equipment, of which:	155.6	63.7	90.7	51
3210	Electronic components	3.5	1.5	2.3	5
3220	TV, radio transmitters	62.1	30.1	34.5	8
3230	TV, radio receivers	2.4	0.8	1.2	7
	Other[a/]	87.7	31.4	52.7	31
33	Precision instruments	140.1	61.4	97.6	71
34	Motor vehicles	40.2	12.2	19.1	17
35	Other transport equipment	21.5	4.1	6.1	12
36	Furniture and manufacturing N.E.C.	174.4	56.4	91.1	72
37	Recycling	27.1	9.0	14.7	14
	Other[b/]	88.4	41.1	63.8	50
	Total	**3,249.1**	**1,215.9**	**1,930.6**	**1,029**

a/ Including activities not classified in specific manufacturing ISIC group.
b/ Including activities not classified among manufacturing.

Note: On 1 January 1991. Figures may not add to totals because of rounding.

Source: ECE database on joint ventures.

Annex Table 13. Foreign investment projects in the USSR, by location

Region	Statutory capital			Number
	Total	Foreign		
	(mn SUR)	(mn SUR)	(mn USD)	
Armenia	63.0	21.1	34.3	14
Azerbauan	32.1	14.6	24.3	12
Byelaurus	96.3	36.2	57.2	43
Estonia	96.7	39.5	63.2	105
Georgia	132.4	51.1	81.7	61
Kazakhstan	19.6	7.1	11.5	14
Kyrghyzstan	0.6	0.3	0.5	1
Latvia	51.7	18.5	29.8	46
Lithuania	50.2	24.3	39.0	18
Moldova	65.2	21.7	35.3	21
Russian SFSR, of which:	3,826.0	1,588.9	2,485.5	1,535
Moscow	1,926.0	891.1	1,410.1	982
Moscow region	125.6	57.9	72.3	48
St. Petersbourg	347.4	136.1	199.0	178
St. Petersbourg region	31.2	12.4	19.6	16
Other Russian SFSR	1,395.8	491.4	784.6	311
Tajikistan	2.1	1.0	1.6	3
Turkmenistan	4.0	1.3	2.0	1
Ukraine	330.5	133.3	206.5	148
Uzbekistan	87.1	39.7	61.2	24
Unknown	21.2	11.2	18.1	4
Total	**4,948.9**	**2,009.7**	**3,151.6**	**2,050**

Note: On 1 January 1991. Figures may not add to totals because of rounding.

Source: ECE database on joint ventures.

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