COOPERATION IN THE ADRIATIC-DANUBE REGION
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COMPARATIVE SURVEY OF NATURAL AND INDUSTRIAL RESOURCES
OF CZECHOSLOVAKIA, HUNGARY AND YUGOSLAVIA

written by

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Summary

This paper provides a brief overview of available indicators for natural and industrial resources of Czechoslovakia, Hungary and Yugoslavia. The purpose of this paper is to provide a framework which may be of assistance when discussing issues relating to the future economic growth, economic restructuring programmes toward market-oriented reforms and reaching international competitiveness of these countries.

The first part /1./ of this paper contains the overview of available indicators of natural and human resources and the second part /2./ is devoted to indicators of economic and industrial potential of the above-mentioned countries.

Introduction

There is no universally accepted system of natural and industrial resources classification comparable to the System of National Account /SNA/ developed by the United Nations Statistical Office or to the System of Balances of the National Economy which has been introduced by the Member States of the Council for Mutual Economic Assistance /CMEA/.

For the purpose of examining the interrelations between economic activities and natural resources, a basic distinction is made between resources which are used as direct inputs into production /e.g. raw materials/ and those, like air, water, and soil, which do not provide physical inputs into the production processes but mainly fulfill general support functions. The first category of resources can be briefly referred to as material inputs, and the second as environmental resources. Despite considerable differences in both their physical characteristics and the economic functions they perform, most natural resources have in common the property of being subject to intricate physical and ecological mechanisms, the mismanagement of which may result in severe and often irredeemable damage.

For the analytical purposes the comparative survey is oriented on three main categorries of resources according to their relations to the economic growth:

- natural rsources
    - land area and use
    - reserves and resources of commercial energy
    - environmental quality
- human resources
    - size and growth of population

- employment by industries

- basic characteristic of economic and industrial potential
  - economic growth potential
  - manufacturing potential
  - international division of labour

The selection of indicators characterizing natural and industrial resources of the three countries compared is given by their availibility and mutual comparability in time and space.

1. Natural and human resources

1.1 Natural resources

For general identification of the countries' supplies of natural resources we can use the indicators characterizing the area and structure of soil in their disposition, the reserves and resources of commercial energy and the environmental quality. Assumably, the specialization profile of the national economy of individual countries is, ceteris paribus, to some extent affected by the soil structure /though the impact of this factor on the specialization profile is falling with the growth of the economic level/.

Similarly, the level of reserves and resources of commercial energy affects the dynamics of the economic growth, as well as the specialization profile of individual countries and their dependence on external sources of energy.

Under present domestic and international conditions of the economic growth /the growth of globalization and internationalization/ there increases the significance of environmental quality /mainly in the countries where quantity was considered to be an indicator of nation's economic performance; in

Eastern European countries the importance attached to this criterion lead to "tonnage idelogy" as a basic characteristic of the "state" of natural resources.

The acreage of the land area, i.e. the basic condition for the development of agriculture, is quite different in the countries compared. Czechoslovakia has only about 49% and Hungary only 36% of the acreage of the land area of Yugoslavia. With regard to the number of population the reserves of land area /number of ha per 1 inhabitant/in both smaller countries is also lower, i.e. 0,80 ha in Czechoslovakia, 0,87 ha in Hungary, and 1,09 ha in Yugoslavia /see Table 1.1/.

Table 1.1

Land area and use (thousand hectares)

	Czechoslovakia	Hungary	Yugoslavia
Land area total (1987)	12547	9237	25540
People per thousand hectares (1987)	1249	1156	919
Land use: a)			
cropland	5169	5295	7803
permanent pasture	1665	1269	6378
forests, woodland	4582	1436	9269
other land	1132	1034	2089

a) 1982-1984

Source: U.N. Food and Agricultural Organization
U.N. Population Division
World Resources 1987, Basic Book
Inc., New York 1988

Available data of the land area structure in the countries compared make it possible to identify comparatively more fa-vourable conditions for agricultural production in Hungary /the share of crop land is 57.3 % in comparison with 41,2% in Czechoslovakia and only 30,6% in Yugoslavia/. More significant differences are apparent in both smaller countries in case of the share of permanent pastures /Czechoslovakia - 13,3% and Hungary - 13,7%/ in comparison with Yugoslavia with 25%.

Czechoslovakia and Yugoslavia have larger reserves of forests and woodlands /Czechoslovakia - 36,5% and Yugoslavia - 36,3% of the land area/ than Hungary /17,7%/. This precondition shows that both these countries are better equipped for the development of the complex of wood manufacturing /ISIC 331, 332, 341, 342/ and for the development of international co-operation between these subcomplexes of Czechoslovakia and Yugoslavia.

1.2 Reserves and resources of commercial energy

In today's economies, mineral resources fulfill two basic functions: firstly, as sources of energy /mainly in the form of coal, oil, gas and uranium/ and, secondly, as raw material inputs into industry. The utilization of mineral resources for production purposes depends on a variety of factors, of which the most important are the size of assessed reserves, their accessibility and the cost of their extraction and processing. As a consequence of technological progress, the range of economically exploitable resources is constantly expanding, and resources previously considered to be "sub-economic" or "non-economic" are being used as inputs into the production process. Furthermore, new opportunities are being opened up by the recycling of used products, the development of low- and non-waste technologies and other energy- and material saving technologies.

Table 1.3

Production, trade and consumption of commercial energy
(Quantifies in thousand metric tons and in kilograms per capita coal equivalent)

	Czechoslovakia		Hungary		Yugoslavi	
	1975	1987	1975	1987	1975	1
Primary energy production	64548	67914	19692	22012	25351	35
Primary energy production per capita	4362	4364	1868	2075	1188	1
Imports	33981	43590	17864	24310	14371	26
Exports	6640	7429	2067	5715	484	1
Consumption	88643	98220	33678	40510	37638	56
Consumption per capita	5989	6311	3195	3819	1763	2
Imports/Consumption, in %	38.3	44.4	53.0	60.0	38.2	4

Source: Energy Statistics Yearbook 1987, UN New York 1989

Cost and prices as well as dependence on energy and raw materials are basic determinants of growth /as demonstrated by the impact on the world economy of various "oil shocks" after 1973/ and much depends on which policies will be adopted to achieve a proper balance between raw materials demand and supply in compared countries. A main challenge for decission-makers in these countries is the development of domestic supplies through adequate energy policies /R and D/ and adequate investment in the exploration of domestic energy sources to prevent deterioration in the energy import dependency ratio/.

Among three countries compared Czechoslovakia has far the largest proved recoverable reserves of bituminous coal /see Table 1.2/. Only the proved recoverable reserves of lignite and sub-bituminous coal are larger in Hungary and much larger in Yugoslavia. Also proved recoverable reserves of crude oil and natural gas in Hungary and Yugoslavia are larger than in Czechoslovakia.

Significantly larger reserves of proved recoverable reserves of bituminous coal is reflected in permanently higher domestic production of primary energy in comparison with Hungary as well as with Yugoslavia /see Table 1.3./. This favourable natural condition has affected, even in the past, the development of metallurgy of iron and steel /ISIC 371/.

Table 1.2

Reserves and resources of commercial energy

	Czechoslovakia	Hungary	Yugoslavia
Bituminous Coal (mill. metric tons)			
Proved reserves in place	5750	450	80
Proved recoverable reserves	2700	225	70
Lignite and sub-bituminous coal (mill. metric tons)			
Proved reserves in place	7220	4400	17760
Proved recoverable reserves	2860	4000	16500
Crude oil (mill.metric tons)			
Proved recoverable reserves	3	16	41
Natural gas (bill.cubic meters)			
Proved recoverable reserves	10	120	40

Source: U.N. Statistical Office
World Resources 1987, Basic Book Inc., New York 1988

Appreciating significantly higher production of primary energy in Czechoslovakia, we must take into consideration not only the impact of more favourable energy sources reserves /in comparison with both countries/, but also the influence of more marked orientation of manufacturing industries on production with significantly higher consumption of energy and lower efficiency of its consumption /which is, however, characteristic also for both other countries/. A comparatively lower effectiveness of energy consumption in Czechoslovakia is reflected also in the growth of the share of import in its total consumption. This trend of development is typical also for

Hungary and Yugoslavia, but Czechoslovak import is much higher. Obviously, the comparatively higher energy consumption in Czechoslovakia is given by comparatively higher level of the economic development, nevertheless, the influence of lower effectiveness of its consumption is significant.

1.3 Environmental quality

The problems of energy and raw materials cannot be dissociated from a broader question of the natural resources base, environmental resources /i.e. air, water and soil/ and the related ecosystems should be regarded as basic determinants of future economic growth and its sustainability. Environmental quality is now widely recognized as a survival issue, both nationally and internationally.

Environmental resources /or "status resources" as they are sometimes called/ are comprised of physical systems which fulfill a number of basic, life-supporting functions. Environmental resources are characterized by the fact that, instead of providing material inputs for production and consumption processes, they mainly provide services in the form of amenities to the community at large.

One of these general functions is the capacity of environment to act as the ultimate receptor of all products, emissions and wastes generated by human activity. It should be stressed, however, that in addition to these general suport functions, a number of environmental resources, such as air and water resources, may also provide specific material inputs into production and consumption processes. Example of such inputs are the water consumed by households, industry and other economic sectors or, in the case of air resources, the industrial gases used by the various branches of the manufacturing sector.

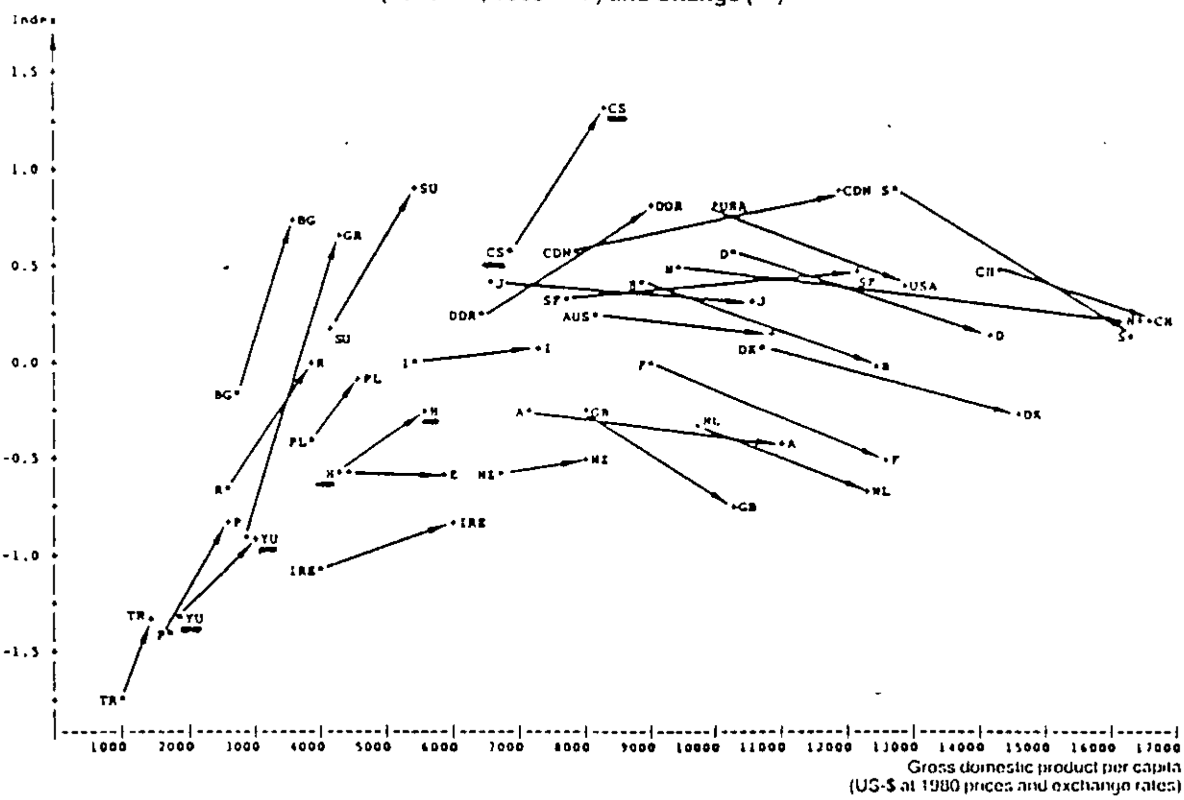
In considering the environmental quality /as a part of natural resources/ and the environmental impacts of production and consumption, one can discern three aspects: (a) absolute environmental impact; (b) impact per capita, and (c) impact per unit of the gross domestic product /GDP/. With regard to the absolute impact, it is the change over time that is of interest. Without reference to the size of the country, its population and output, however, the absolute impact is unsuitable for international comparison. Such comparison becomes feasible by using the per capita impact and the impact per unit of GDP.

For the assessment of the level of structural environmental impact in countries compared the result of study examining the correlation between structural changes and environmental pollution in thirty-one industrialized CMEA and OECD countries between 1970 and 1985 can be used /Jänicke, M. - Ranneberg, T. - Simonis, U. : Structural change and environmental impact. M: Intereconomics 21, 1989, p. 1./. For this purpose there was computed an aggregated environmental impact index, consisting of the per capita impacts resulting from the consumption of primary energy and crude steel, weight of freight transport and cement production. The aggregated index gives equal weight to these four factors and marks the deviation from the mean value of all countries for 1970 and 1985. Thus the relative position and the patterns of change of the countries can be studied. The abbreviations used are the internatinal signs for motor vehicles. The results of the computations are presented in Figure 1.

As Figure 1 shows, there was a significant connection between a country's per capita GDP in 1970 and the structural

Figure. 1

Index of Structural Environmental Impacts per Capita[1] and Economic Performance Level (1970 = *, 1985 = +) and Change (→)



Note: [1] Aggregated per capita indices of cement production, energy consumption, crude steel consumption and weight of freight transport (Mean 1970/85 = 0)

Source: Intereconomics, 21,1989,No. 1

impacts on its environment regarding the four selected factors. The correlation coefficient for the aggregated environmental impact index and the per capita GDP was 0,76 for all the thirty-one countries. This means that around 1970 the domestic product of the industrial countries was based strongly on "hard" productin factors /high volume production/. In the group of countries with high environmental impacts per capita /Sweden, the United States, the Federal Republic of Germany, Canada, Norway, Switzerland, Japan, Belgium and Finland/ there was also Czechoslovakia. In the lowest third of the scale were Hungary and Yugoslavia /Spain, New Zealand, Romania, Greece, Ireland, Portugal, Turkey/.

During the 1970s this relationship between economic performance /GDP/ and structural impacts changed to a considerable extent. The correlation coefficient in 1985 was only 0,31, significantly below that of 1970. The process of structural change in several countries pushed back the "hard" factros /high volume of production/ in the economy. Accordingly, the position of the countries has changed over time. Several countries were able by 1985 to improve their international placing considerably.

In contrast, the placing of several countries had deteriorated by 1985. This is especially true of Czechoslovakia, Hungary and also Yugoslavia. The group with the highest structural environmental impacts is led by member states of the CMEA, namely Czechoslovakia.

The main message from the dynamics and the international pattern of structural changes from 1970 to 1985 shown in Figure 1 is the variation as to direction of change. In the group of the medium -income countries two different patterns emerged, i.e. increasing environmental impacts on the one hand and decreasing environmental impacts on the other. The fact that the economically advanced Western industrialized nations occupied leading positions regarding per capita impacts in 1970 is not surprising. At that time Sweden the United States and Japan, being confronted with high pollution, had to recognize the need for sweeping environmental protection measures. The fact that Czechoslovakia was leading in 1985 indicates - by contrast - the problem of that country`s economic structure.

The environmental quality or the degradation of environmental conditions and the emissions and diffusion of trans-

Table 1.4

EMISSIONS AND TRANSBOUNDARY FLOW OF SULPHUR DIOXIDE FOR EUROPE FOR 1988

(Provisional estimates)

-----------> Emitters

	AL	AT	BE	BG	CS	DK	FI	FR	DD	DE	GR	HU	IS	IE	IT	LU	NL	NO	PL	PT	RO	ES	SE	CH	TR	SU	GB	YU	RE	IND	SUM
AL	5	0	0	1	1	0	0	0	1	0	1	1	0	0	3	0	0	0	0	0	0	0	0	0	0	0	0	3	0	7	25
AT	0	16	2	0	23	0	0	10	27	17	0	8	0	0	23	0	1	0	10	0	0	1	0	0	0	0	7	8	0	29	187
BE	0	0	47	0	1	0	0	13	2	9	0	0	0	0	0	0	3	0	1	0	0	1	0	0	0	0	11	0	0	10	101
BG	0	0	0	130	6	0	0	0	6	1	3	9	0	0	4	0	0	0	6	0	3	0	0	0	0	9	0	14	0	20	215
CS	0	3	3	0	351	0	0	7	116	23	0	35	0	0	7	0	1	0	63	0	0	1	0	0	0	1	8	9	0	29	665
DK	0	0	1	0	2	25	0	1	9	8	0	0	0	0	0	0	1	0	3	0	0	0	0	0	0	0	9	0	0	11	75
FI	0	0	1	0	3	1	51	1	8	4	0	1	0	0	0	0	0	0	10	0	0	0	4	0	0	53	4	0	0	72	215
FR	0	0	20	0	7	0	0	252	18	29	0	3	0	1	17	0	5	0	3	[illegible]	0	66	0	1	0	0	46	2	0	151	625
DD	0	0	5	0	56	2	0	9	614	41	0	1	0	0	1	0	3	0	18	0	0	1	0	0	0	0	14	0	0	22	791
DE	0	1	23	0	24	3	0	47	94	276	0	3	0	1	9	0	12	0	13	0	0	6	0	1	0	1	43	2	0	69	633
GR	0	0	0	12	3	0	0	0	3	1	41	3	0	0	4	0	0	0	2	0	0	0	0	0	0	3	0	5	0	23	107
HU	0	2	0	1	25	0	0	2	17	5	0	178	0	0	9	0	0	0	18	0	1	0	0	0	0	1	1	22	0	17	306
IS	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	17	20
IE	0	0	0	0	0	0	0	1	0	0	0	0	0	22	0	0	0	0	0	0	0	0	0	0	0	0	9	0	0	24	58
IT	0	1	2	0	11	0	0	17	17	10	0	8	0	0	326	0	1	0	8	0	0	9	0	1	0	0	7	15	1	76	515
LU	0	0	0	0	0	0	0	1	0	1	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	1	6
NL	0	0	11	0	1	0	0	8	4	22	0	0	0	0	0	0	29	0	1	0	0	0	0	0	0	0	16	0	0	12	108
NO	0	0	2	0	4	4	1	3	17	9	0	1	0	0	0	0	2	9	10	0	0	0	3	0	0	10	25	0	0	110	216
PL	0	2	6	1	123	4	0	11	243	39	0	27	0	0	6	0	4	0	677	0	1	1	1	0	0	11	17	8	0	66	1252
PT	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	29	0	13	0	0	0	0	0	0	0	22	67
RO	0	1	1	14	30	0	0	2	29	6	1	54	0	0	9	0	0	0	34	0	31	1	0	0	0	27	2	36	0	49	333
ES	0	0	1	0	0	0	0	11	1	2	0	0	0	0	1	0	1	0	0	12	0	460	0	0	0	0	9	0	1	91	593
SE	0	0	3	0	11	10	7	4	39	14	0	3	0	0	0	0	2	3	25	0	0	0	34	0	0	17	20	0	0	107	306
CH	0	0	1	0	2	0	0	10	4	6	0	0	0	0	12	0	0	0	1	0	0	3	0	7	0	0	3	1	0	15	69
TR	0	0	0	10	4	0	0	0	4	1	6	5	0	0	3	0	0	0	6	0	1	1	0	0	54	18	0	4	0	69	192
SU	0	2	5	9	90	8	24	10	136	32	1	65	0	0	9	0	3	0	259	0	8	1	7	0	3	1986	21	23	0	499	3207
GB	0	0	3	0	1	0	0	8	4	5	0	0	0	6	0	0	1	0	1	0	0	2	0	0	0	0	540	0	0	65	639
YU	1	3	1	15	26	0	0	6	27	9	2	44	0	0	48	0	1	0	21	0	1	2	0	0	0	3	5	219	0	69	568
	AL	AT	BE	BG	CS	DK	FI	FR	DD	DE	GR	HU	IS	IE	IT	LU	NL	NO	PL	PT	RO	ES	SE	CH	TR	SU	GB	YU	RE	IND	SUM

Source: *Executive Body for the Convention on Long-range Transboundary Air Pollution*, Report, EB.AIR/GE.1/14, page 17.

Explanation: Emissions include total (dry+wet) deposition of *sulphur*. Units are expressed in 1000 tonnes of sulphur per year. Emitters are found in the horizontal lines; receivers on vertical lines. The two-letter country code is given below. To find the contribution from other countries to a certain country follow the horizontal row starting from the relevant country code on the far left. To find the contributions from a certain country to other countries, follow the vertical column starting from the relevant country code at the top. RE signifies contributions to and from the part of the domain for deposition calculations which is not covered by European countries. IND signifies the part of the calculated depositions which cannot be attributed to any known emission sources by the present models.

boundary flows of compared countries can be identified by flows of sulphur and nitrogen dioxide in Europe /see Table 1.4, 1.5/. Only part of the original emissions of a given pollutant remains inside the country where it originated, while a substantial, and in some cases increasing, portion of pollution inside national boundaries does in fact come from other countries. Data included in Tables 1.4 and 1.5 show that the proportion of depositions originating from other countries can be considerable, particularly in small countries.

In analyzed countries the proportion of depositions originating from other countries is comparatively high /in percentage/:

	Sulphure dioxide	Oxidized nitrogen
Czechoslovakia	47,2	100,0
Hungary	41,2	84,9
Yugoslavia	56,9	93,3

Source: Tables 1.4 and 1.5

The very high environmental impact on Czechoslovakia can be proved also by the level of sulphur dioxide and oxidized nitrogen per capita emissions /per capita, in tonnes/:

	Sulphur dioxide 1988	Oxidized nitrogen 1985
Czechoslovakia	0,42	0,77
Hungary	0,29	0,47
Yugoslavia	0,22	0,47

Source: Tables 1.4, 1.5

Albania	AL	Italy	IT
Austria	AT	Luxembourg	LU
Belgium	BE	Netherlands	NL
Bulgaria	BG	Norway	NO
Czechoslovakia	CS	Poland	PL
Denmark	DK	Portugal	PT
Finland	FI	Romania	RO
France	FR	Spain	ES
German Dem.Rep.	DD	Sweden	SE
Germany Fed.Rep.of	DE	Switzerland	CH
Greece	GR	Turkey	TR
Hungary	HU	USSR	SU
Iceland	IS	United Kingdom	GB
Ireland	IE	Yugoslavia	YU

Table 1.5

EMISSIONS AND TRANSBOUNDARY FLOW OF OXIDIZED-NITROGEN FOR EUROPE FOR 1985

----------> Emitters

	AL	AT	BE	BG	CS	DK	FI	FR	DD	DE	GR	HU	IS	IE	IT	LU	NL	NO	PL	PT	RO	ES	SE	CH	TR	SU	GB	YU	RE	DO	SUM
AL	1	1	1	2	4	0	0	5	3	7	4	3	0	0	16	0	1	0	4	0	2	1	0	0	0	1	2	3	0	14	7
AT	0	35	18	0	69	4	0	84	48	227	0	10	0	1	80	2	24	1	42	0	3	4	2	17	0	2	41	8	0	28	75
BE	0	0	28	0	5	1	0	50	7	72	0	0	0	1	1	1	27	0	3	0	0	3	1	0	0	0	41	0	0	15	25
BG	1	3	2	29	21	1	0	7	12	23	5	15	0	0	18	0	4	0	22	0	38	1	1	1	2	16	5	11	0	33	27
CS	0	23	17	1	279	9	2	57	139	262	0	41	0	1	29	2	31	2	175	0	12	3	5	5	0	9	50	8	0	39	120
DK	0	0	5	0	6	24	1	9	11	44	0	1	0	1	1	0	13	3	7	0	0	1	6	0	0	2	38	0	0	13	16
FI	0	0	3	0	12	15	81	7	20	42	0	1	0	1	0	0	9	12	27	0	0	0	37	0	0	87	27	0	0	63	44
FR	0	7	75	0	55	11	1	851	64	413	0	6	0	6	120	8	81	2	41	12	3	104	5	22	0	4	222	4	1	271	235
DD	0	4	23	0	115	17	1	58	210	330	0	4	0	1	4	2	49	2	63	0	2	4	6	2	0	6	63	1	0	34	100
DE	0	10	92	0	109	22	2	305	1601	1065	0	5	0	5	36	10	159	3	68	2	2	17	8	24	0	6	214	3	0	95	242
GR	1	2	2	11	13	1	0	9	8	17	30	8	0	0	21	0	3	0	14	0	14	2	1	1	5	8	6	5	1	52	23
HU	0	17	5	1	72	3	0	21	32	72	1	75	0	0	43	1	9	0	59	0	18	1	2	2	0	7	15	18	0	23	47
IS	0	0	0	0	0	1	0	1	0	1	0	0	1	0	0	0	1	1	0	0	0	0	1	0	0	0	13	0	0	46	6
IE	0	0	3	0	2	1	0	9	4	17	0	0	0	10	0	0	5	0	2	0	0	1	0	0	0	0	43	0	0	95	17
IT	0	18	14	2	63	4	1	161	45	158	4	19	0	1	582	2	18	1	50	1	5	16	3	30	2	6	37	18	3	105	136
LU	0	0	1	0	0	0	0	5	1	6	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	2	0	0	1	1
NL	0	0	23	0	6	2	0	33	10	108	0	0	0	1	1	0	63	1	4	0	0	2	1	0	0	1	63	0	0	15	33
NO	0	1	8	0	12	19	12	19	19	70	0	2	0	3	0	0	17	57	20	0	1	1	33	0	0	23	86	0	0	77	5
PL	0	13	24	1	231	35	6	73	244	344	0	33	0	1	21	2	50	6	575	0	14	5	22	4	0	34	76	6	0	75	18
PT	0	0	0	0	0	0	0	7	1	4	0	0	0	0	1	0	1	0	1	53	0	28	0	0	0	0	3	0	0	120	2
RO	0	9	6	10	93	7	1	19	54	89	2	73	0	0	45	0	16	1	126	0	168	2	5	2	2	60	24	23	0	66	91
ES	0	2	8	0	9	2	1	123	11	53	0	1	0	1	20	1	12	0	10	64	0	411	1	2	0	1	37	1	2	342	11
SE	0	1	13	0	25	49	43	28	40	122	0	2	0	2	1	1	25	40	51	0	3	1	111	0	0	53	83	0	0	89	7
CH	0	2	6	0	7	1	0	80	9	68	0	1	0	0	50	1	7	0	4	1	0	4	1	31	0	0	18	1	0	16	3
TR	0	3	2	11	29	4	1	7	21	30	21	14	0	0	18	0	6	1	43	0	34	1	3	1	73	48	8	6	1	271	6.
SU	0	24	40	10	310	86	127	111	281	525	7	101	0	3	71	3	92	28	753	1	118	8	105	6	142	247	162	24	1	873	61
GB	0	1	15	0	14	8	1	51	21	90	0	1	0	14	2	1	39	4	23	1	1	5	5	0	0	4	460	0	0	147	8
YU	2	27	11	13	106	6	1	65	58	145	10	66	0	1	205	1	20	1	82	0	25	6	3	7	3	17	34	72	1	87	10
RE	2	28	116	18	227	144	69	606	254	893	42	61	2	35	523	6	262	67	316	47	64	226	119	24	32	262	992	35	10	1537	70
	AL	AT	BE	BG	CS	DK	FI	FR	DD	DE	GR	HU	IS	IE	IT	LU	NL	NO	PL	PT	RO	ES	SE	CH	TR	SU	GB	YU	RE	DO	SU

Source: Ibid.

Explanation: see Table 1.4

Achievement of more sustainable patterns of development in compared countries can result only from concerted and simultaneous action on the main economic determinants of pollution including, as main policy variables, all the actions directed at decreasing material intensity of output /through shift towards less material- and energy- intensive types of consumptions, through improvement in quality and durability of products, through energy- and materials- conservation policies/ and at pollution abatement /through cleaning of emissions, through recycling of waste, through introduction of low-and non-waste technologies/.

Attainment of a more sustainable pattern of development will undoubtedly be facilitated by the process of structural change, especially in manufacturing industries of the countries compared. One of the main contributing factors in this respect will be the decline in energy consumption per unit of output /i.e. increased energy efficiency/ and increased penetration in the economy of less polluting sources of energy /such as new and renewable sources of energy/. Another of the main contributing factors is constituted by changes in consumption patterns away from material-intensive types of consumption towards servces, which, except for private transportation, are generally characterized by lower levels of energy and materials consumption per unit of output.

In the long run, a decisive contribution of sustainable development is expected to come from the development and diffusion of /"closed-cycle"/ pollution- control technologies, which are rightly considered to be most effective way to protect the environment from harmful emissions, while at the same time decreasing energy and other material input requirements. The potential inherent in existing technologies is reported to be significant but nonetheless considerable efforts will be required on the part of governments, scientists and the business community to promote the development of new, clean technological processes and their successful introduction into production.

Generally speaking, the implementation of sustainable development will require, together with appropriate regulatory standards /particularly in the form of environmental quality standards/, powerful economic incentives to conserve natural resources and develop new environmentally-friendly technologies. In a context characterized by an increasing internationalization of both domestic economies and ecological problems it is felt that only concerted international action /also between countries of the Adriatic - Danube region/ can lead to the formulation of appropriate policies and the proper sharing of corresponding costs and benefits.

1.4 Human resources

In spite of the fact, that the human resources development in the countries compared is affected by different historical and economic factors, we can find numerous mutual development characteristics.

The basic characteristic of demographic development in the three countries is slowing down of the average annual dynamics of the population /which is especially apparent in Hungary - see Table 1.6/.

In the period till the end of the 1990s there is supposed some acceleration in the development dynamics of the number of population in both Czechoslovakia and Hungary. The trend towards moderate decrease of its average annual dynamics should continue in Yugoslavia.

Table 1.6

Estimated size and growth of population

	Czechoslovakia	Hungary	Yugoslavia
Estimated population, thousands			
1960	13654	9984	18402
1987	15673	10679	23461
2000	16581	10714	25206
Estimated average annual population change (percent)			
1961 - 1987	0.81	0.40	1.44
1988 - 2000	0.43	0.03	0.55
1986 - 1990	0.32	-0.07	0.63
1996 - 2000	0.52	0.10	0.50

Source: U.N. Population Division World Resources 1987, Basic Book Inc., New York 1988

According to the basic indicators of the reproduction of population /see Table 1.7/ all three countries are characterized by birth rate decrease while in Yugoslavia and Czechoslovakia the birth rate is comparatively higher. in all three countries we can see a tendency towards increase in the death rate, which is highest in Hungary and lowest in Yugoslavia.

Table 1.7

Estimated crude birth rate, death rate, fertility rate and age dependency ratio

	Czechoslovakia	Hungary	Yugoslavia
Births per thousand population			
1965 - 1970	15.5	14.3	19.8
1985 - 1990	14.6	12.1	15.2
Deaths per thousand population			
1965 - 1970	10.4	10.8	8.8
1985 - 1990	11.4	12.8	8.9
Estimated total fertility rate			
1965 - 1970	2.09	1.99	2.49
1985 - 1990	2.09	1.84	1.99
Ratio of people age 0-14 and 65 + to those 15-64			
1960	56.4	52.4	58.3
1970	52.3	47.8	54.4
1985	55.2	51.9	46.8
Estimated life expectancy at birth (years)			
1965 - 1970	70.1	69.2	66.6
1985 - 1990	72.0	71.3	71.7

Source : U.N. Population Division
World Resources 1987, Basic Book Inc., New York 1988

While in Hungary and Yugoslavia we can observe the fall in fertility rate, in Czechoslovakia its level is more or less stabilized.

The trend typical for most European countries - the growth of the age dependency ratio, i.e. the share of the population in the age groups of 0 - 14 and 65+ years in the total size of population, is observed in Czechoslovakia as well as in Hungary. Only in Yugoslavia the decrease of this indicator is permanent. In all three countries there increases the expected duration of life /for people born in 1985-1990 the level is about 72 years/. This trend is more apparent in Yugoslavia.

Table 1.8

Urban and rural settlements

		Czechoslovakia	Hungary	Yugoslavia
Urban population as percentage of total				
1960		46.9	40.0	27.9
1970		55.2	45.6	34.8
1985		66.3	57.0	46.3
Average annual change in population (percent)				
Urban	1966-1970	1.8	1.7	3.1
	1976-1980	1.9	1.6	2.8
	1986-1990	1.3	1.2	2.3
Rural	1966-1970	-1.4	-0.7	-0.1
	1976-1980	-1.2	-1.1	-0.4
	1986-1990	-1.5	-1.6	-0.9

Source: U.N. Population Division
World Resources 1987, Basic Book Inc. New York 1988

In spite of the above-mentioned different historical and economic factors /differences in achieved economic development level and its impact on the life of the society/ in all three countries in general we can see the growth of urbanization rate /see Table 1.8/. All the time it is the lowest in Yugoslavia and highest in Czechoslovakia. For all three countries there is typical a permanent fall of the size of rural population. It can be supposed that overlasting differences in the urbanization rate between the three countries are affecting many elements of the economic growth and will influence the future cooperation among these countries.

2. Basic characteristic of economic and industrial potential

To identify the economic and industrial potential of the countries compared we have used three groups of indicators characterizing

- achieved level of economic development
- manufacturing industry potential
- level of involvement into the international division of labour.

In selecting this scale of indicators we have emphasized achievement of some extent of their space /international/ comparability. We have used the indicators derived from the systems of national accounts /SNA/ from the UNIDO data bank.

2.1 Economic growth potential

To characterize the achieved level of economic development it is possible to use the indicator of gross domestic product /GDP/ expressed in internationally comparable currency equivalent, i.e. in USD international prices /see Table 2.1/.

According to the absolute value of this indicator the economic dimensions of national economy in Czechoslovakia and Yugoslavia are nearly the same at the end of 1980s: the GDP value reaches /in 1987/ in Czechoslovakia 98% of its value in Yugoslavia. Its value in Hungary is 54% of the level in Czechoslovakia and 53% of the level in Yugoslavia. While between Czechoslovakia and Hungary there have occured no significant

Table 2.1

Estimated GDP at constant international prices[a)]

	Czechoslovakia	Hungary	Yugosla
GDP, bill. US dollars			
1950	38.703	20.618	17.99
1965	69.504	39.099	43.96
1973	90.757	50.837	67.88
1980	106.605	58.996	105.52
1987	114.820	61.560	117.11
GDP per capita, US dollars			
1950	3124	2208	110
1965	4913	3851	226
1973	6238	4876	324
1980	7002	5508	473
1987	7373	5802	500
Relations GDP per capita			
1950	100	71	3
1965	100	78	4
1973	100	78	5
1980	100	79	6
1987	100	79	6

a) International prices 1980

Source: The Review of Income and Wealth 34, 1988, No.1
Meddison, A.: The World Economy in the 20th century, OECD Paris 1989

changes in mutual proportions of economic dimensions of national economy during the last 27 years /in 1950 the value of internationally comparable GDP was about 53% of its value in Czechoslovakia/, in case of Yugoslavia the proportion in relation to Czechoslovakia is changing for the benefit of Yugoslavia. In 1950 the GDP value in Yugoslavia was only about 47% of its value in Czechoslovakia.

We can suppose, that preserving the differences in the scope of economic dimensions of national economy in Hungary in relation to both Czechoslovakia and Yugoslavia affects to some extent the character and functioning of economic relations between these countries and structural differences in involvement of economic complexes of the three countries into the internatinal division of labour /e.g. countries with smaller dimensions of national economy, ceteris paribus, usually show higher share of export in production and higher share of import in consumption/.

When using the indicator of GDP expressed in internationally comparable equivalent per capita in identification of the achieved level of economic development it is clear, that Czechoslovakia is still in position of economically more advanced economic complex in relation to both countries, during the period under study, however, the levels of economic development have become considerably nearer to one another, mainly in relation to Yugoslavia. While in 1950 the per capita level of GDP in Hungary was 75% and in Yugoslavia 35% of the level of this indicator in Czechoslovakia, in 1987 it was 79% and 68% respectively.

We can suppose, that Czechoslovakia should have on this economic level some comparative advantage from economic cooperation with these countries.

The differences in achieved level of economic development between compared countries are reflected to some extent in characteristics of GDP dynamics /see Table 2.2/: countries on lower levels of development preserve /ceteris paribus/ usually comparatively higher dynamics of economic development. This relation is valid in comparison of GDP dynamics between Czechoslovakia and Yugoslavia, as well as between Hungary and Yugo-

Table 2.2

Growth rates of gross domestic product[a)]

	Czechoslovakia	Hungary	Yugoslavia
Indices 1950 = 100			
1950	100.0	100.0	100.0
1965	180.8	190.5	231.5
1973	236.6	248.3	358.1
1980	280.3	287.6	544.4
1987	301.9	300.1	604.2
Growth rates in percentage			
1951 - 1965	4.0	4.4	5.8
1966 - 1973	3.4	3.4	5.6
1973 - 1980	2.5	2.1	6.2
1981 - 1987	1.1	0.6	1.5
1951 - 1973	3.8	4.0	5.7
1974 - 1987	1.8	1.4	3.8

a) At constant prices

Source: Meddison, A.: The World Economy in the 20th Century, OECD Paris 1989

slavia. This relation is true also in long-run dynamics of the internationally comparable GDP per capita /annual growth rate, in percentage/:

	Czechoslovakia	Hungary	Yugoslavia
1951 - 1973	3,0	3,5	4,8
1974 - 1987	1,2	1,2	3,1

Apart from global characteristics of the economic potential of compared countries /GDP, GDP per capita/ we can use also structural indicators. Their development and levels can also be used for identification of the achieved level of economic development. One of basic indicators of such type is the level of the manufacturing industries share in the GDP value and development /see Table 2.3/.

Table 2.3

Share of manufacturing value added[a] in GDP[a] (in %)

	1980	1985	1987
Czechoslovakia	55,2	55,6	56.1
Hungary	26.4	29.4	28.5
Yugoslavia	27.9	30.8	31.2

a) At constant 1980 prices

Source: Industry and Development. Global Report 1989/90
UNIDO Vienna 1989

Significantly higher share of the manufacturing industry in the GDP structure in Czechoslovakia may reflect higher level of economic development achieved in this country in comparison with Hungary and Yugoslavia, but it has its causes also in previous stages of development of Czechoslovak economy in which there was implemented a development strategy oriented more apparently on manufacturing industry than in other countries with a similar level of development. Also the role of Czechoslovak economy and especially of this industry in the industrialization process of other European CMEA member-countries, when Czechoslovakia played the role of production supplier /mainly in case of engineering/ with high level of manufacturing, has affected to some extent such development /and level/ of the share of manufacturing industry in the GDP in Czechoslovakia.

The value of this structural indicator can also show the comparatively higher level of industrialization development of

Czechoslovak economy in comparison with Hungary and Yugoslavia. According to this indicator it seems possible /potentially/ to get higher comparative effects of this position of Czechoslovak economy towards both countries compared.

2.2 Manufacturing potential

In spite of the fact that with the growth of achieved level of economic development there are changing basic structural parameters of the national economy in favour of non-agriculture and non-manufacturing industries, i.e. in favour of services in the wide sense of the word, the level and dynamics of manufacturing industry development remains a decisive factor of economic strength of individual countries and a prerequisite of getting effects from involvement into international division of labour. this conclusion is true also for the three countries compared.

If we use for characterization of the manufacturing industry potential in these countries the value added expressed in comparable currency equivalent /USD/, we can state, that Czechoslovakia is still maintaining the position of a country with the highest economic dimensions of this potential /see Table 2.4/.

Table 2.4

Value added, gross output and employment in manufacturing

		Czechoslovakia	Hungary	Yugoslavia
Value added, mill. US dollars				
Constant prices	1980	29036	5856	19526
	1985	31761	7101	22283
	1987	33620	7290	22954
Current prices	1980	22411	5907	21750
	1985	19809	5356	17171
	1987	23655	6663	25751
Gross output, mill US dollars				
Current prices	1980	53983	24898	72629
	1985	68299	21690	57021
	1987	87096	26970	79713
Employment, thousands				
	1980	2518	1384	2106
	1985	2588	1278	2467
	1987	2612	1266	2634

Source: Industry and Development. Global Report 1989/90, UNIDO Vienna 1989

According to the data from the UNIDO data base in comparable prices /1980/ the level of the value added is in Hungary about 20-21% and in Yugoslavia about 67-68% of its level in Czechoslovakia. A bit different picture is given by the data of gross production of this industry in current prices: in 1987 the volume of gross output produced in manufacturing industry amounts in Hungary to about 31% and in Yugoslavia to about 90% of its volume in Czechoslovakia.

Using data on employment in this industry is getting nearer mutual relations of economic dimensions of manufacturing industry toward the data on the basis of gross output, i.e. in 1987 employment in this industry reached in Hungary about 48% and in Yugoslavia about 101% of its value in Czechoslovakia.

Table 2.5

Growth rate of manufacturing value[a] (in %)

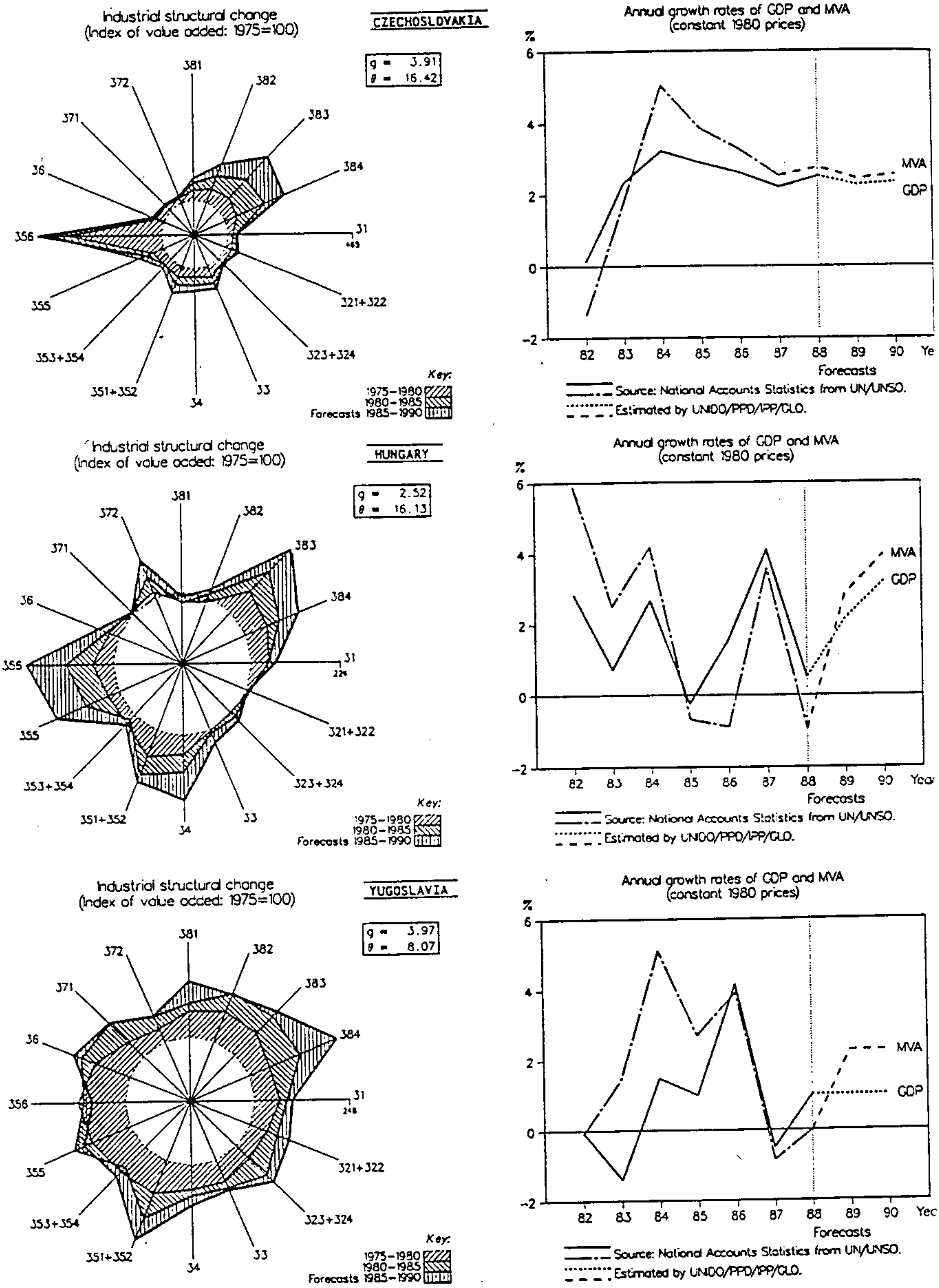
	1971-1985	1971-1973	1974-1975	1976-1980	1981-1985
Total					
Czechoslovakia	3.9	5.4	8.0	3.8	1.8
Hungary	5.3	8.7	7.9	4.9	3.4
Yugoslavia	5.9	7.4	8.7	7.3	2.5
Per capita					
Czechoslovakia	3.3	4.8	7.3	3.1	1.5
Hungary	5.1	8.3	7.5	4.5	3.4
Yugoslavia	5.0	6.4	7.7	6.4	1.7

a) At constant 1980 prices

Source: Handbook of Industrial Statistics 1988, UNIDO Vienna 1988

In dynamic characteristics of this industry production there are reflected similar mutual relations towards achieved level of economic development as in case of the GDP /see Table 2.5 and Figure 2/. The dynamics of this industry production is lower in Czechoslovakia than in both countries compared. This

Figure 2



a) Based on value added in US dollars at current prices

Source: Industry and Development Global Report 1989/90, UNIDO Vienna 1989 trend, however, is significantly slowing down in all the three countries /mainly in the course of 1980s/.

The quality of manufacturing industry potential can be globally characterized through indicators of the level of this industry production per worker. According to these data, Czechoslovakia preserves a favourable position in relation to both Hungary and Yugoslavia /see Table 2.6/. In 1987 Hungary achieved about 47% and Yugoslavia about 68% of the level of labour productivity in this industry in Czechoslovakia.

Table 2.6

Value added in manufacturing per employees

		Czechoslovakia	Hungary	Yugosla
Value added in US dollars at constant prices	1980	11531	4231	9272
	1985	12272	5556	9032
	1987	12871	5758	8714
Relations of value added at constant prices	1980	100	37	80
	1985	100	45	74
	1987	100	46	68

Source: Industry and Development. Global Report 1989/90, UNIDO Vienna 1989

Also on the basis of mutual relations of this indicator we can judge on comparatively more favourable position of Czechoslovakia from the point of view of getting relative comparable effects from mutual economic cooperation with both countries.

Differences in the achieved levels of economic and industrial development between countries compared are reflected also in industrial structure of the manufacturing industry potential characterized through the structure of the value added /see Table 2.7 and A1 and Figure 2/.

Table 2.7

Branche structure of value added in manufacturing [a]
(in percentage)

ISIC	Industry	Czechoslovakia		Hungary		Jugoslavia	
		1980	1987	1980	1987	1980	1987
311/2	Food products	7.3	6.9	9.4	3.1	8.7	10.7
313	Beverages	1.7	1.3	1.4	1.9	2.1	2.6
314	Tabacco	0.2	0.2	0.5	0.5	0.8	1.3
321	Textiles	6.4	6.3	6.0	5.5	8.1	7.7
322	Wearing apparel	1.6	1.8	3.3	3.1	4.2	4.6
323	Leather and products	0.5	0.5	0.8	0.7	1.0	1.2
324	Footwear	1.7	1.7	1.3	1.6	2.2	2.5
331	Wood products	2.2	1.9	1.4	0.9	4.5	2.9
332	Furniture, fixtures	1.3	1.0	1.7	1.8	3.4	2.9
341	Paper and products	2.3	2.1	1.6	2.2	2.4	2.4
342	Printing, publishing	0.8	0.7	1.4	2.0	4.0	3.0
390	Other industries	1.3	1.1	4.0	3.0	0.6	0.6
	Light manufacturing	27.2	25.5	32.8	26.4	42.0	42.6
351	Industrial chemicals	7.3	6.1	7.1	5.2	3.2	3.3
352	Other chemical products	1.0	1.0	4.1	5.8	3.1	2.9
353	Petroleum refineries	2.9	3.8	2.6	1.7	2.1	1.2
354	Petroleum, coal products	0.7	0.6	-	-	0.5	0.5
355	Rubber products	1.2	1.2	0.9	1.5	1.3	1.5
356	Plastic products	0.3	0.3	1.0	1.6	1.9	1.6
361	Pottery, china etc.	0.3	0.3	1.0	0.9	0.6	0.6
362	Glass and products	2.4	1.7	1.2	1.4	0.7	0.7
369	Non-metal products n.e.c.	4.5	3.5	3.5	3.1	4.2	3.0
371	Iron and steel	10.2	12.4	6.3	4.1	5.6	5.3
372	Non-ferrous metals	1.9	1.6	3.6	0.5	2.2	2.2
381	Metal products	4.6	4.6	3.6	4.5	9.7	8.8
382	Machinery n.e.c.	20.2	20.0	8.4	11.0	8.4	9.3
383	Electrial machinery	5.0	6.8	11.1	15.9	7.4	8.9
384	Transport equipment	9.7	10.2	8.2	10.1	6.6	7.0
385	Professional goods	0.6	0.4	4.6	6.2	0.5	0.5
	Heavy manufacturing	72.8	74.5	67.2	73.6	58.0	57.4
3	Manufacturing	100.0	100.0	100.0	100.0	100.0	100.0

a) Based on value added in US dollars at current prices
Source: Industry and Development Global Report 1989/90, UNIDO Vienna 1989

In all three countries there are asserting trends characteristic for the growth of economic and industrialization level: the structure of industry is shifting away from traditional unskilled labour-intensive industries, such as textiles, clothing and leather and towards more advanced, capital- and especially skill-intensive industries such as chemicals and engineering. However, the constraints which have appeared in the last decade or so, particularly on the side of energy availibilities and import possibilities, have noticeably affected the performance of the energy- and material-intensive branches. The expansion of some of these branches was also constrained by restricted investment allocations.

Czechoslovakia is producing significantly higher share of the group of heavy manufacturing industries, mainly the group of machinery and electrical industries /ISC 381-385/. In 1987 the level of the group of heavy manufacturing industries in Hungary got nearer to Czechoslovakia. In spite of the fact that Yugoslavia is showing more significant changes in the structure of the value added of manufacturing industry /together with Hungary/ than Czechoslovakia /see Table A2/, it preserves comparatively stable proportions between branches of light and heavy manufacturing industry.

It is obvious from the level and development of indicators of the degree of specialization, that the structure of productive potential /value added/ of the Czechoslovak manufacturing industry is more markedly concentrated on two industries, i.e. iron and steel /ISIC 371/, machinery n.e.c. /ISIC 382/, which is reflected in considerably higher indicators of the degree of branch specialization in comparison with Hungary and Yugoslavia /see Table 2.7 and A 2/.

2.3 Involvement into the international division of labour

For general characteristic of involvement of the economic potential of the three countries into the international division of labour we can make use of the share of export of goods in the GDP value. In evaluating these indicators, however, it is necessary to consider economic dimensions of individual countries /usually countries with smaller economic dimensions show lower share of export in GDP/. According to OECD data (OECD Economic Outlook, 1990, No. 47) this share in 1988 was 19,7% in Czechoslovakia, 14,7% in Hungary and about 29,4% in Yugoslavia /incl. services/ (OECD Economic Surveys - Yugoslavia 1988/90, OECD Paris 1990). With regard to a lower share of services in Czechoslovak export's value it seems that the degree of involvement of Yugoslav economy into the international division of labour is significantly higher in comparison with both other countries.

The goods structure of export and import potential of manufacturing production reflects, to some extent, differences in manufacturing industries structures of the countries compared. The export and import structure of Czechoslovak manufacturing production is more significantly oriented on non-electric machines /SITC 71/ /see Table A3/ than in both compared countries /see Table A4, A5/.

The above mentioned characteristics of involvement of economic and industrial complexes of compared countries into the international division of labour also show higher degree of achieved industrialization level of development in Czechoslovakia, which could be utilized for development of mutually advantageous cooperation between the three countries. We may suppose that acceleration of the process of their connecting to the international trade flows and to the international cooperation with economically advanced countries with market economies could help to accelerate the transformation process in economies of the three countries compared in their transformation toward the market system.

Table A.1

STRUCTURAL CHANGE IN THE MANUFACTURING SECTOR, SELECTED PERIODS

Share of branch in the sector

Branch (ISIC Code)		Value added a) Czechoslovakia 1979-1981	Value added a) Czechoslovakia 1983-1985	Value added a) Hungary 1979-1981	Value added a) Hungary 1983-1985	Value added a) Yugoslavia 1979-1981	Value added a) Yugoslavia 1983-1985	Employment Czechoslovakia 1979-1981	Employment Czechoslovakia 1983-1985	Employment Hungary 1979-1981	Employment Hungary 1983-1985	Employment Yugoslavia 1979-1981	Employment Yugoslavia 1983-1985
Food products (311/2)	...	7.2	6.7	8.6	6.8	8.8	8.5	6.8	6.8	12.0	13.1	8.6	8.6
Beverages (313)	...	1.6	1.6	1.8	2.1	2.1	2.0	1.3	1.3	1.9	2.1	1.7	1.6
Tobacco (314)	...	0.2	0.2	0.5	0.5	0.8	1.1	0.2	0.2	0.4	0.4	0.8	0.8
Textiles (321)	...	6.6	6.6	5.9	6.1	8.3	9.1	8.8	8.5	8.5	8.3	10.7	10.6
Wearing apparel (322)	...	1.7	1.9	3.1	2.9	4.1	4.3	4.3	4.1	5.6	5.4	6.4	6.8
Leather and fur products (323)	...	0.6	0.5	0.8	0.7	1.1	1.3	1.1	1.0	0.9	0.9	1.1	1.1
Footwear (324)	...	1.8	1.9	1.4	1.6	2.2	2.8	2.8	2.7	2.6	2.8	3.1	3.6
Wood and cork products (331)	...	2.2	2.1	1.3	0.8	4.2	3.2	2.6	2.5	1.3	0.9	4.7	4.5
Furnit., fixtures excl. metal.(332)	...	1.2	1.3	1.7	1.6	3.3	2.6	2.5	2.4	2.2	2.2	4.3	4.2
Paper (341)	...	2.2	2.1	1.7	2.0	2.5	2.3	1.9	1.9	1.1	1.1	1.9	1.9
Printing and publishing (342)	...	0.8	0.8	1.5	1.7	4.1	2.9	1.2	1.1	1.4	1.5	3.3	3.2
Industrial chemicals (351)	...	7.0	6.6	6.7	6.0	3.1	3.8	3.7	3.8	3.0	3.2	2.1	2.3
Other chemicals (352)	...	1.1	1.0	4.3	5.5	3.1	3.1	0.9	0.9	1.9	2.0	2.0	2.1
Petroleum refineries (353)	...	2.8	3.0	3.1	3.0	2.0	2.1	0.9	0.9	0.5	0.5	0.5	0.6
Prods. of petroleum and coal (354)	...	0.7	0.6	-	-	0.4	0.6	0.3	0.4	-	-	0.2	0.3
Rubber products (355)	...	1.3	1.3	1.0	1.3	1.4	1.5	1.0	1.0	0.8	0.9	1.4	1.4
Plastic products (356)	...	0.3	0.3	1.2	1.4	1.9	1.7	0.3	0.3	0.9	1.0	1.6	1.5
Pottery, china, earthenware (361)	...	0.3	0.3	0.9	0.9	0.6	0.4	0.4	0.3	1.1	0.9	0.7	0.7
Glass (362)	...	2.4	2.0	1.1	1.3	0.8	0.6	2.9	2.9	1.2	1.3	0.9	0.9
Other non-metal. min. prods. (369)	...	4.3	3.8	3.3	3.3	4.2	3.0	3.5	3.4	2.9	2.9	4.1	3.8
Iron and steel (371)	...	9.9	9.2	5.9	4.0	5.6	5.9	6.4	6.5	5.5	5.0	4.9	4.7
Non-ferrous metals (372)	...	1.9	1.6	2.9	1.1	2.0	3.0	1.1	1.1	1.4	1.5	1.4	1.4
Metal products (381)	...	4.6	4.7	3.7	3.8	9.7	9.1	6.8	6.5	4.3	4.1	9.8	9.8
Non-electrical machinery (382)	...	20.5	21.5	8.9	10.4	8.4	8.5	20.3	21.0	9.3	9.8	8.4	8.6
Electrical machinery (383)	...	5.2	6.2	11.5	13.6	7.4	8.3	6.0	6.2	11.8	11.9	7.1	7.2
Transport equipment (384)	...	9.9	10.4	8.7	9.2	6.9	7.3	9.7	9.8	7.5	7.1	7.1	6.9
Prof., scient. equipment (385)	...	0.6	0.6	4.6	5.2	0.5	0.5	0.7	0.6	4.2	4.2	0.5	0.6
Other manufactures (390)	...	1.3	1.2	4.0	3.2	0.6	0.5	1.7	1.8	5.7	4.7	0.5	0.5

a) Based on value added in US dollars at current prices

Source: Handbook of Industrial Statistics 1988, UNIDO Vienna 1988

Table A.2

Indicators of structural change and degree of specialization in manufacturing a)

	Czechoslovakia	Hungary	Yugoslavia
Structural change (in degrees)			
1980	0.71	1.75	1.77
1985	1.05	1.92	1.99
1987	0.98	1.99	2.14
Structural change as a percentage of average structural change 1970-1975 (=100)			
1980	62	66	77
1985	93	72	86
1987	87	85	93
Degree of specialization			
1980	16.0	9.9	8.8
1985	17.9	10.4	8.9
1987	18.2	10.4	9.0

a) In 3 Digit ISIC branches (28) at current prices (US dollars)

Source: Industry and Development Global Report 1989/90, UNIDO Vienna 1989

The measure for structural change, θ, is defined by:

$$\cos\theta = \frac{\sum_i s_i(t)\cdot s_i(t-1)}{\sqrt{\left(\sum_i s_i(t)^2\right)\cdot\left(\sum_i s_i(t-1)^2\right)}}$$

where $s_i(t)$ is the share of the i-th branch in total manufacturing value added in the year t.

The value θ can be interpreted as the angle between the two vectors $s_i(t-1)$ and $s_i(t)$ measured in degrees.

The theoretical maximum value of θ is 90 degrees.

The degree of specialization is defined as follows:

$$h = 100\left(1 + \frac{\sum_i s_i \cdot \ln s_i}{h_{max}}\right)$$

where s_i is defined as above and $h_{max} = \ln$ (number of branches), and ln is the natural logarithm.

If the shares of all branches are equal, the degree of specialization equals 0. If only one branch exists, the value is 100.

Table A.3

GROWTH AND STRUCTURE OF TRADE BY GROUP OF MANUFACTURES, SELECTED PERIODS AND YEARS
CROISSANCE ET STRUCTURE DU COMMERCE PAR GROUPE DE PRODUITS MANUFACTURÉS

Product group	Czechoslovakia		Tchécoslovaquie				Groupe de produits
	Growth rates / Taux de croissance		Share in total manufactures / Part dans le total des produits manufacturés				
	Exports / Exportations	Imports / Importations	Exports / Exportations		Imports / Importations		
	1975 - 1985	1975 - 1985	1975	1985	1975	1985	
Food products (part of SITC 0)	-4.7	-7.9	3.3	4.0	4.9	4.2	Produits alimentaires (inclus dans CTCI 0)
Beverages and tobacco (part of SITC 1)	-6.2	-13.7	0.6	0.6	1.7	0.7	Boissons et tabacs (inclus dans CTCI 1)
Simply processed materials (part of SITC 2)	9.0	-7.2	1.3	5.7	4.5	4.1	Matières de base (inclus dans CTCI 2)
Petroleum products (SITC 332)	15.0	-4.4	0.8	6.3	0.9	1.1	Produits dérivés du pétrole (CTCI 332)
Animal, vegetable oils, fats (SITC 4)	19.0	-7.4	0.0	0.3	0.9	0.8	Huiles, graisses, animales, végétales (CTCI 4)
Chemical elements, compounds (SITC 51)	5.1	-0.4	1.6	5.1	3.1	5.8	Eléments chimiques, composés (CTCI 51)
Mineral tar etc. (SITC 52)	-19.2	10.0	0.4	0.1	0.0	0.2	Goudron minéral etc. (CTCI 52)
Dyes, tanning, colouring products (SITC 53)	-11.4	0 9	0.9	0.5	0.8	1.6	Prod. teinture, tannage et colorants (CTCI 53)
Medicinal, pharmaceutical products (SITC 54)	-11.1	0.0	0.9	0.5	0.9	1.8	Prod. médicinaux, pharmaceutiques (CTCI 54)
Perfume, cleaning etc. products (SITC 55)	-15.3	-1.6	0.3	0 1	0.7	1.2	Huiles essentielles, parfumerie etc. (CTCI 55)
Fertilizers, manufactured (SITC 56)	21.4	-4.1	0.1	0.7	0.8	1.0	Engrais manufacturés (CTCI 56)
Explosives, pyrotechnic products (SITC 57)	-15.8	11.3	0.3	0.1	0.0	0.3	Explosifs, articles de pyrotechnie (CTCI 57)
Plastic materials etc. (SITC 58)	11.3	-1.2	0.6	3.3	1.7	2.9	Matières plastiques etc. (CTCI 58)
Chemical materials n.e.s. (SITC 59)	-6.9	-7.6	0.6	0.5	2.6	2.3	Matières, produits chimiques, n.d.a (CTCI 59)
Leather, dressed fur etc. (SITC 61)	26.4	7.9	0.0	0.2	0.2	1.0	Cuirs, fourrures apprêtées etc. (CTCI 61)
Rubber manufactures n.e.s. (SITC 62)	-3.8	-7.7	1.0	1.3	0.7.	0.6	Caoutchouc manufacturé, n.d.a. (CTCI 62)
Wood, cork manufactures n.e.s. (SITC 63)	3.0	-8.7	0.4	1.1	0.5	0.4	Articles en bois et liège, n.d.a. (CTCI 63)
Paper, paperboard and manufactures (SITC 64)	-1.6	-8.4	0.9	1.4	1.1	0.8	Papier, carton et articles (CTCI 64)
Textile yarn, fabric etc. (SITC 65)	-0.3	-2.8	3.6	6.7	1.9	2.7	Filés, tissus etc. (CTCI 65)
Non-metal mineral manufactures n.e.s. (SITC 66)	-2.9	-3.1	3.2	4.6	1.1	1.5	Articles minéraux non métalliques (CTCI 66)
Iron and steel (SITC 67)	-3.7	-9.0	11.5	15.1	5.3	4.0	Fer et acier (CTCI 67)
Non-ferrous metals (SITC 68)	1.9	-8.4	0.3	0.7	6.3	5.1	Métaux non ferreux (CTCI 68)
Metal manufactures n.e.s. (SITC 69)	-7.2	-2.4	2.2	2.0	1.5	2.3	Art. manufacturés en métal, n.d.a. (CTCI 69)
Non-electric machinery (SITC 71)	-12.8	-8.4	32.1	15.8	36.1	29.0	Machines non électriques (CTCI 71)
Electrical machinery (SITC 72)	-10.6	-2.1	6.8	4.3	6.9	10.9	Matériel électrique (CTCI 72)
Transport equipment (SITC 73)	-11.4	-10 9	13.1	7.6	7.6	4.6	Matériel de transport (CTCI 73)
Sanitary, plumbing etc. fixtures (SITC 81)	3.7	-0.0	0.2	0.6	0.3	0.6	Appar. sanitaires, de plomberie etc. (CTCI 81)
Furniture (SITC 82)	-1.9	-10.5	1.0	1.6	0.7	0.5	Meubles (CTCI 82)
Travel goods etc. (SITC 83)	12.0	12.0	0.1	0.5	0.0	0.1	Articles de voyage etc. (CTCI 83)
Clothing (SITC 84)	-6.8	-6.8	3.4	3.3	2.0	1.9	Vêtements (CTCI 84)
Footwear (SITC 85)	-15.6	-4.3	4.5	1.6	0.4	0.4	Chaussures (CTCI 85)
Instruments, watches, clocks (SITC 86)	-7.0	-2.0	1.2	1.1	2.2	3.4	Instruments, montres et horloges (CTCI 86)
Misc. manufactured goods n.e.s. (SITC 89)	-6.9	-4.3	2.9	2.8	1.7	2.2	Articles manufacturés divers, n.d.a. (CTCI 89)

Source: Handbook of Industrial Statistics 1988, UNIDO Vienna 1988

Table A.4

GROWTH AND STRUCTURE OF TRADE BY GROUP OF MANUFACTURES, SELECTED PERIODS AND YEARS

CROISSANCE ET STRUCTURE DU COMMERCE PAR GROUPE DE PRODUITS MANUFACTURÉS

Product group	Hungary — Growth rates / Taux de croissance: Exports / Exportations 1975 - 1985	Hungary — Growth rates / Taux de croissance: Imports / Importations 1975 - 1985	Hongrie — Share in total manufactures / Part dans le total des produits manufacturés: Exports / Exportations 1975	Exports / Exportations 1985	Imports / Importations 1975	Imports / Importations 1985	Groupe de produits
Food products (part of SITC 0)	4.3	1.4	7.8	8.8	3.6	3.8	Produits alimentaires (inclus dans CTCI 0)
Beverages and tobacco (part of SITC 1)	3.0	2.2	3.0	2.9	0.9	1.0	Boissons et tabacs (inclus dans CTCI 1)
Simply processed materials (part of SITC 2)	...	...	...	0.1	...	1.0	Matières de base (inclus dans CTCI 2)
Animal, vegetable oils, fats (SITC 4)	14.2	-8.3	0.6	1.7	0.4	0.1	Huiles, graisses,animales,végétales (CTCI 4)
Chemical elements, compounds (SITC 51)	12.3	2.8	1.7	4.0	5.2	6.4	Eléments chimiques,composés (CTCI 61)
Mineral tar etc. (SITC 52)	...	...	...	...	0.0	...	Goudron minéral etc. (CTCI 52)
Dyes, tanning, colouring products (SITC 53)	-1.2	1.0	0.3	0.2	0.8	0.8	Prod.teinture,tannage et colorants (CTCI 53)
Medicinal, pharmaceutical products (SITC 54)	2.8	8.5	5.4	5.2	1.2	2.6	Prod.médicinaux, pharmaceutiques (CTCI 54)
Perfume, cleaning etc. products (SITC 55)	9.2	4.6	0.2	0.3	0.4	0.6	Huiles essentielles,parfumerie etc. (CTCI 55)
Fertilizers, manufactured (SITC 56)	33.2	-1.6	0.1	1.6	3.2	2.5	Engrais manufacturés (CTCI 56)
Explosives, pyrotechnic products (SITC 57)	7.5	-13.6	0.0	0.0	0.0	0.0	Explosifs,articles de pyrotechnie (CTCI 57)
Plastic materials etc. (SITC 58)	19.2	5.2	0.3	1.5	1.9	3.0	Matières plastiques etc. (CTCI 58)
Chemical materials n.e.s. (SITC 59)	16.9	2.0	0.5	1.7	3.5	4.0	Matières,produits chimiques, n.d.a (CTCI 59)
Leather, dressed fur etc. (SITC 61)	1.2	11.2	0.7	0.6	0.3	0.7	Cuirs,fourrures apprêtées etc. (CTCI 61)
Rubber manufactures n.e.s. (SITC 62)	6.1	0.2	0.8	1.0	1.1	1.0	Caoutchouc manufacturé, n.d.a. (CTCI 62)
Wood, cork manufactures n.e.s. (SITC 63)	7.3	-2.8	0.3	0.4	0.7	0.5	Articles en bois et liège, n.d.a. (CTCI 63)
Paper, paperboard and manufactures (SITC 64)	4.2	-0.0	0.4	0.4	2.6	2.4	Papier,carton et articles (CTCI 64)
Textile yarn, fabric etc. (SITC 65)	1.0	3.2	3.9	3.1	3.6	4.6	Filés,tissus etc. (CTCI 65)
Non-metal mineral manufactures n.e.s. (SITC 66)	6.2	5.4	1.4	1.9	2.4	3.7	Articles minéraux non métalliques (CTCI 66)
Iron and steel (SITC 67)	0.4	-4.8	5.7	4.3	8.7	5.0	Fer et acier (CTCI 67)
Non-ferrous metals (SITC 68)	1.2	-3.4	2.7	2.2	6.1	4.0	Métaux non ferreux (CTCI 68)
Metal manufactures n.e.s. (SITC 69)	-3.3	1.3	2.8	1.5	2.2	2.4	Art. manufacturés en métal,n.d.a. (CTCI 69)
Non-electric machinery (SITC 71)	2.1	-0.1	18.3	16.5	23.2	21.5	Machines non électriques (CTCI 71)
Electrical machinery (SITC 72)	2.8	3.0	11.6	11.2	7.3	9.1	Matériel électrique (CTCI 72)
Transport equipment (SITC 73)	2.5	-2.6	15.5	14.6	14.0	10.0	Matériel de transport (CTCI 73)
Sanitary, plumbing etc. fixtures (SITC 81)	7.5	6.0	0.3	0.5	0.3	0.5	Appar.sanitaires,de plomberie etc. (CTCI 81)
Furniture (SITC 82)	1.8	-0.9	1.2	1.0	0.5	0.5	Meubles (CTCI 82)
Travel goods etc. (SITC 83)	-1.7	-5.0	0.6	0.4	0.1	0.0	Articles de voyage etc. (CTCI 83)
Clothing (SITC 84)	1.0	5.4	5.5	4.4	1.4	2.3	Vêtements (CTCI 84)
Footwear (SITC 85)	-2.6	8.4	3.8	2.1	0.4	0.9	Chaussures (CTCI 85)
Instruments, watches, clocks (SITC 86)	9.8	5.0	2.2	4.2	1.8	2.8	Instruments,montres et horloges (CTCI 86)
Misc. manufactured goods n.e.s. (SITC 89)	0.2	1.1	2.2	1.7	2.1	2.1	Articles manufacturés divers,n.d.a. (CTCI 89)

Source: Handbook of Industrial Statistics 1988, UNIDO Vienna 1988

Table A.5

GROWTH AND STRUCTURE OF TRADE BY GROUP OF MANUFACTURES, SELECTED PERIODS AND YEARS
CROISSANCE ET STRUCTURE DU COMMERCE PAR GROUPE DE PRODUITS MANUFACTURÉS

Product group	Yugoslavia		Yougoslavie				Groupe de produits
	Growth rates / Taux de croissance		Share in total manufactures / Part dans le total des produits manufacturés				
	Exports / Exportations	Imports / Importations	Exports / Exportations		Imports / Importations		
	1975 - 1985	1975 - 1985	1975	1985	1975	1985	
Food products (part of SITC 0)	9.2	-1.8	6.2	5.5	3.3	2.1	Produits alimentaires (inclus dans CTCI 0)
Beverages and tobacco (part of SITC 1)	7.5	-3.4	0.9	0.7	0.2	0.1	Boissons et tabacs (inclus dans CTCI 1)
Simply processed materials (part of SITC 2)	6.1	7.4	3.8	2.6	4.7	7.3	Matières de base (inclus dans CTCI 2)
Petroleum products (SITC 332)	26.0	12.6	0.6	2.1	1.7	4.2	Produits dérivés du pétrole (CTCI 332)
Animal, vegetable oils, fats (SITC 4)	22.0	0.1	0.0	0.1	1.7	1.3	Huiles, graisses, animales, végétales (CTCI 4)
Chemical elements, compounds (SITC 51)	11.9	7.8	2.9	3.3	5.5	8.9	Eléments chimiques, composés (CTCI 51)
Mineral tar etc. (SITC 52)	79.3	7.2	0.0	0.4	0.1	0.1	Goudron minéral etc. (CTCI 52)
Dyes, tanning, colouring products (SITC 53)	0.3	5.2	1.2	0.5	1.3	1.6	Prod. teinture, tannage et colorants (CTCI 53)
Medicinal, pharmaceutical products (SITC 54)	10.6	3.2	1.8	1.8	1.2	1.2	Prod. médicinaux, pharmaceutiques (CTCI 54)
Perfume, cleaning etc. products (SITC 55)	17.6	9.8	0.3	0.5	0.3	0.7	Huiles essentielles, parfumerie etc. (CTCI 55)
Fertilizers, manufactured (SITC 56)	10.2	13.1	1.2	1.2	0.8	2.1	Engrais manufacturés (CTCI 56)
Explosives, pyrotechnic products (SITC 57)	23.3	18.6	0.7	2.2	0.0	0.1	Explosifs, articles de pyrotechnie (CTCI 57)
Plastic materials etc. (SITC 58)	16.0	5.4	1.1	1.8	2.6	3.3	Matières plastiques etc. (CTCI 58)
Chemical materials n.e.s. (SITC 59)	-5.3	6.6	1.0	0.2	1.6	2.4	Matières, produits chimiques, n.d.a (CTCI 59)
Leather, dressed fur etc. (SITC 61)	6.2	7.2	0.7	0.5	0.6	0.8	Cuirs, fourrures apprêtées etc. (CTCI 61)
Rubber manufactures n.e.s. (SITC 62)	15.6	3.7	0.9	1.5	1.3	1.4	Caoutchouc manufacturé, n.d.a. (CTCI 62)
Wood, cork manufactures n.e.s. (SITC 63)	7.9	-3.5	1.5	1.2	0.5	0.3	Articles en bois et liège, n.d.a. (CTCI 63)
Paper, paperboard and manufactures (SITC 64)	12.8	0.3	1.4	1.7	1.3	1.1	Papier, carton et articles (CTCI 64)
Textile yarn, fabric etc. (SITC 65)	7.8	3.2	4.8	3.8	4.2	4.3	Filés, tissus etc. (CTCI 65)
Non-metal mineral manufactures n.e.s. (SITC 66)	7.7	0.9	2.2	1.7	1.5	1.3	Articles minéraux non métalliques (CTCI 66)
Iron and steel (SITC 67)	7.6	-0.5	5.7	4.4	12.5	9.1	Fer et acier (CTCI 67)
Non-ferrous metals (SITC 68)	3.4	4.4	10.0	5.2	3.1	3.6	Métaux non ferreux (CTCI 68)
Metal manufactures n.e.s. (SITC 69)	7.9	-1.6	4.8	3.8	3.2	2.1	Art. manufacturés en métal, n.d.a. (CTCI 69)
Non-electric machinery (SITC 71)	15.5	0.9	7.3	11.3	25.1	21.0	Machines non électriques (CTCI 71)
Electrical machinery (SITC 72)	10.9	3.6	9.5	9.9	7.0	7.6	Matériel électrique (CTCI 72)
Transport equipment (SITC 73)	10.3	0.5	14.1	13.8	10.1	8.2	Matériel de transport (CTCI 73)
Sanitary, plumbing etc. fixtures (SITC 81)	14.0	-4.7	0.3	0.4	0.3	0.1	Appar. sanitaires, de plomberie etc. (CTCI 81)
Furniture (SITC 82)	12.8	-2.6	2.9	3.5	0.1	0.1	Meubles (CTCI 82)
Travel goods etc. (SITC 83)	6.2	-9.0	0.2	0.1	0.0	0.0	Articles de voyage etc. (CTCI 83)
Clothing (SITC 84)	10.6	-9.0	5.5	5.6	0.4	0.1	Vêtements (CTCI 84)
Footwear (SITC 85)	14.2	-0.4	4.9	6.8	0.1	0.1	Chaussures (CTCI 85)
Instruments, watches, clocks (SITC 86)	14.2	4.3	0.4	0.6	1.8	2.1	Instruments, montres et horloges (CTCI 86)
Misc. manufactured goods n.e.s. (SITC 89)	12.7	-1.4	1.2	1.5	1.8	1.2	Articles manufacturés divers, n.d.a. (CTCI 89)

Source: Handbook of Industrial Statistics 1988, UNIDO Vienna 1988

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Aspen Institute Italia

CRISES IN YUGOSLAVIA IN THE CONTEXT OF THE ADRIATIC-DANUBE COOPERATION

written by

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Paper presented on the occasion of the Conference

COOPERATION IN THE ADRIATIC-DANUBE REGION

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Aspen Institute Italia
Conference COOPERATION IN THE ADRIATIC-DANUBE REGION
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CRISIS IN YUGOSLAVIA IN THE CONTEXT OF THE ADRIATIC - DANUBE COOPERATION

(Introductory remarks)

Ladies and Gentlemen,

The recent "Policy Document on the Pentagonal Initiative", of 1st August 1990, had identified, inter alia, the folowing main objectives of the Initiative:

"A) establishing and strengthening mutually beneficial partnership structures based on the shared values of parliamentary democracy and human rights.
B) ....
C) beginning to work, within its geographically defined limits, on a solution to the problems of national, ethnic, religious and linguistic minorities within existing borders, while awaiting a broader codification of such matters within the framework of the Helsinki process and the Council of Europe;
D) contributing towards the consolidation of democratic institutions and economic recovery and development.
E) promoting a general participation in the construction of a new Europe, a process that has been accelerated following the democratic changes and in particular the free elections held in some of the member States...."

With great deal of concern, I have to inform you that it is particularly those, above mentioned objectives of the Pentagonal Initiative, that have been threatened in Yugoslavia, in this very moment.

As you well know, in the two most advanced, north-western federal republics of Yugoslavia, i.e. Croatia and Slovenia, the first free elections have been held earlier in the year, and new democratically elected governments in both republics have been established. By the series of constitutional and legislation changes, both democratic governments have introduced - at their republican level - the system of parliamentary democracy, free market economy, as well as various programs of deregulation and reprivatisation of economy.

This process of democratic transition was absolutelly peaceful and proved of the maturity and political expedience of both, the winning democratic parties, and their electorate. As a consequence, an asymmetric political and economic system was established and still exists in Yugoslavia. The north-western part, bordering with Italy, Austria, and Hungary is now making an integral part of the Western democratic system, while the south-eastern part of the country, bordering with Bulgaria and Rumania is still ruled by one-party Communist regimes, and a sort of centrally administered, government-controlled economic system.

Since recently, under the pressure of events that have altered the political scene in the north-western part of the country, the preparations for democratic elections in the south-eastern republics have also advanced. Unfortunatelly, the forces of the Communist "Ancien régime" are still prevailing there and, evidently, consolidating their posture and taking counter-offensive. The main objective of this counter-offensive is to prevent the democratic elections, later this year, in their own part of the country, as well as to destabilize and, eventually reverse the results of the democratic elections in the republics of Croatia and Slovenia. Since the latter are most advanced and strong enough to stand the pressure, in the most recent period, the counter-offensive from the east has taken the most dramatic, violent forms.

By manipulating historical frustrations of the Serbian minority in Croatia, the dogmatic, "Greater Serbia" forces are actually instigating an armed insurgence and terrorism in the local communities of Croatia, inhabited mostly by ethnic Serbs. Their objective is to provoke an armed response by the Croatian forces of order, i.e. the revival of the old hatreds and the bloodshed itself. This scenario, orchestrated from Belgrade, is aimed to portray the Croatian democratic government as right-wing, even pro-Fascist, and thus to tarnish its image in the democratic world. The final outcome of this scenario would be, in fact, provocation of a military coup of the Latin American type, the destruction of Yugoslav federalism, and reestablishment of a "Greater Serbia", an authoritarian or quasi-parlamentarian system. At the international level, this antidemocratic and anti-European scenario is objectivelly leading towards forming of an "Unholly Alliance" with the similar forces in Bulgaria nad Rumania.

For almost fifty days now, the Croatian Government was trying to solve the problem peacefully, to reopen the blocked railway and road communications beetween the coastal, Adriatic part of Croatia, and its interior, and in fact, the whole of Middle Europe, that is normally serviced by the the southern Croatian harbours of Split, Sibenik and Zadar. Despite considerable damage inflicted to tourism and transporation service - two of the most profitable Croatian industries - the government of Croatia has not adopted yet any forceful measures against insurgents, since this could easily bring many victims. Instead, the government is trying to negotiate - with the assitance of the federal government officials.

In spite of these efforts, the instigators have now announced the new stage of their scenario: in order to facilitate "show down" with the Croatian democracy, they have devised a plan to literally "throw out" Slovenia from Yugoslavia, by forcing it to secede, and thus to weaken up the existing democratic Croatian-Slovenian coalition, to eliminate easier the only remaining democratic government in Croatia, and merge its territories with the "Greater

Serbia".

In order to counteract these dramatic developments, both the Republic of Croatia and Slovenia have announced a week ago their joint model for the constitutional reform of Yugoslavia. This model in fact, represents the basic elements of the future Confederation, which should replace the existing, conflict-laden Yugoslav federation. Only three days ago, Republic of Croatia had announced its own draft proposal of the final text of the Yugoslav Confederation, which is considered as the only way, the only institutional framework in which the very idea of Yugoslavia could be preserved in the actual circumstances.

Both of these documents are attached to these introductory remarks and offered to your kind consideration. Thank you !

Draft-VERSION 3

THE PRESIDENCY OF THE REPUBLIC OF CROATIA

D R A F T

OF THE TREATY OF THE YUGOSLAV CONFEDERATION

--THE ALLIANCE OF SOUTH SLAVIC REPUBLICS

The Presidency of the Republic of Croatia is publishing the text of the Draft of the Treaty of Yugoslav Confederacy--The Alliance of South Slavic Republics, which has been compiled by the professional team of the Presidency of the Republic of Croatia and represents a possible concrete model of a confederacy in Yugoslavia. This model was made public on October 3, 1990 and has been deposited with the Presidency of the SFRY and with the other republics.

Zagreb
October 11, 1990

DRAFT
OF THE TREATY OF YUGOSLAV CONFEDERACY
--THE ALLIANCE OF SOUTH SLAVIC REPUBLICS

The Republic of Croatia, The Republic of Slovenia ..... in the name of their peoples,

- reaffirming the moral values which are the joint heritage of all European peoples, founded on the principles of individual liberty, political freedoms, and the rule of law, and which form the basis of every true democracy,

- rejecting any type of oppression of any nation or of any ethnic or religious group under the yoke of any other national group,

- reaffirming the principles of private, cooperative, corporate, public, or mixed ownership, as well as free enterprise and the freedom of expression,

- believing in joint economic and social advancement and in mutual solidarity as the basis of the economic, social and personal security of every man,

- uniting for the purpose of maintaining the security of the Alliance from external factors and safeguarding the independence and territorial integrity of every member state,

- attempting in this manner to contribute to European security and stability and to initiate the process of integration of all contemporary European peoples and states,

- on the basis of the inalienable and unspent right of every people to self-determination, including the right to secession and union with other nations and states,

HAVE DECIDED TO UNITE INTO

"THE YUGOSLAV CONFERATION --
ALLIANCE OF SOUTH SLAVIC REPUBLICS

(Further referred to as Alliance)

I. PRINCIPLES AND MUTUAL GUARANTEES

1. Member states of the Alliance mutually acknowledge the basic rights of every member state to existence, independence, equality, international commerce, and to respect. They agree not to interfere in the internal affairs of other member states, except when this is permitted by international law or by this Treaty.

2. The member states agree not to enter into any international treaties or agreement which would be directed against the Alliance, or which may in any other way be in conflict with this Treaty or damaging to any other member state.

3. Member states agree to safeguard the independence of the Alliance as a whole from every foreign attack, and to this end, this Treaty shall establish a system of collective security and mutual defense.

4. All the member states shall acknowledge and respect the full extent of rights to equal treatment, to cooperation in political decision-making, to language and alphabet, and to the cultural institutions of all the ethnic groups that live in their area.

5. The member states agree to steadfastly respect and make a commitment to the European Convention for the Protection of Human Rights and Basic Human Freedoms of 1950, and its Articles nos. 1, 4, 6, and 7. Application for membership in this Convention by the member states of this Alliance or by the Alliance shall be executed in accordance with this Treaty.

6. The citizens of every member state who are permanent residents in any other member state of the Alliance shall have rights equal to the citizens of the member state of residency, including all civil and political rights.

7. Citizens of every member state shall have freedom of movement within the territory of any other member state of the Alliance. Freedom of movement shall not be restricted by the examination of passports or other documents, with the condition that abuse of this right is forbidden in accordance with section I/1 of this Treaty.

8. There shall be freedom of movement for the work force on the territory of the Alliance. There shall be no discrimination among the citizens of member states based upon their citizenship, with regard to their employment, compensation, and other work conditions.

9. Physical and legal entities from every member state shall have the right to form enterprises and corporations on the territory of the Alliance and their activities shall be governed by the same conditions for all.

10. Because the Alliance forms part of a single European ecological territory, the established norms confirmed by international agreement shall be followed in protecting and advancing the environment.

11. The member states shall execute the decisions and other individual acts of the organs of other member states on the basis of reciprocity and according to the agreements which will be entered into for those purposes.

II. MEMBERSHIP

1. The founding members of this Alliance shall be the states which are party to this Treaty.

2. Other states which accept the terms of this Treaty may become members of the Alliance, provided that they have established a democratic, parliamentary system of government based on free, secret, multi-party elections, with the full and equal right to vote, which guarantees freedom of expression and represents the will of the voters, and which guarantees property rights, free enterprise, and complete freedom of union membership.

3. Every such state shall be accepted as a member of the Alliance when an agreement for that purpose goes into effect after having been ratified by the authorized bodies of that state and all the member states of the Alliance.

4. If the Confederate Court determines that a state is obstinately and consistently transgressing the terms of this Treaty which are crucial for maintaining the Alliance, the membership of that member state may be revoked by a verdict of the Council of Ministers. The said member state shall have no right to vote in reaching such a verdict. Under these same conditions, such a member state may be expelled from the Alliance.

III. JURISDICTIONS

1. Member states of the Alliance shall have their own armed forces. A designated portion of the forces of each member state shall be placed under the command of the Alliance and they shall create appropriate bodies to that effect.

2. A technologically and economically coordinated railway, postal and telecommunication system shall operate on the territory of the Alliance.

3. The territory of the Alliance shall form a single jurisdiction for customs purposes. There shall be no customs or other duties on the transport of goods and services within the Alliance.

4. The territory of the Alliance shall be a single market. The commerce of goods, services and capital within the Alliance shall be free and there will be no restrictions to free market competition. Moreover, the Alliance shall comprise a joint monetary territory.

5. Member states of the Alliance shall develop a joint agricultural policy for the purpose of increasing agricultural production, to guarantee the standard of living for the agricultural population, for stabilizing the market, and for guaranteeing an agricultural supply to the population at a reasonable cost.

6. Within the framework of the Alliance, member states shall coordinate measures designed to improve living and working conditions for the population.

(This is not the final listing of mutual activities. A comprehensive, supplementary listing of mutual jurisdictions will be formulated which will become an integral part of this Treaty.)

IV. INSTITUTIONS

1. Main Institutions

The chief branches of the Federation shall be the Advisory Parliament, The Council of Ministers, the Executive Committee and the Confederate Court.

a) Advisory Parliament

1. The Advisory Parliament shall be comprised of representatives of the member states of the Alliance. It executes an advisory and supervisory authority in accordance with this Treaty.

2. The citizens of each member state shall elect by direct and secret ballot approximately fifty representatives to the Advisory Parliament by uniform electoral procedures which will be confirmed by the Council of Ministers.

3. The Advisory Parliament shall convene four times per year. Emergency meetings shall be called at the request of the Council of Ministers or of the Executive Committee.

4. The Advisory Parliament shall choose officers and a president from the membership.

5. Members of the Executive Committee shall have the right to participate at all of the sessions of the Advisory Parliament and shall have the right to debate discussions on their own initiative in the name of the Executive Committee.

6. The Executive Committee may answer questions from the Advisory Parliament verbally or in writing.

7. The Council of Ministers may deal with the Advisory Parliament in accordance with its by-laws.

8. The Advisory Parliament shall reach its decisions by means of an absolute majority vote.

9. At the March session, the Advisory Parliament shall examine the annual report submitted by the Executive Committee. At the December session, the Advisory Parliament shall discuss the proposed budget of the Alliance for the following year.

10. If a vote is proposed to recall the Executive Committee based on its activities, the Advisory Parliament shall decide the issue with an open vote. If the proposal for recall is adopted with a two-thirds majority of votes, the members of the Executive shall jointly resign. They shall continue to perform in their capacities until new members of the Executive Committee are elected.

11. The Advisory Parliament shall conduct business with a majority vote of all the members.

b) The Council of Ministers

1. The Council of Ministers shall be comprised of one representative per member state in the Alliance.

2. The post of President shall be filled by the members of the Council of Ministers, on a rotational basis, each serving a term of six months in the alphabetical order of the member states.

3. The Council of Ministers shall convene at the discretion of the president, at the request of one of its members, or at the request of the Executive Committee.

4. The Council of Ministers shall execute its decisions unanimously, except in matters concerning procedure.

5. The Council of Ministers shall rule on all matters in this Treaty and its addenda as specified herein. The Council of Ministers may transfer to the Executive Committee the authority to carry out the measures that it enacts. It may also transfer to the Executive Committee the authority to make decisions regarding

certain issues. Such authority may be revoked if it is deemed necessary.

6. The Council of Ministers may request that the Executive Committee undertake any type of investigation it may deem necessary for establishing the aims of this Treaty and may request appropriate proposals from the Executive Committee.

7. If the Council of Ministers makes a ruling based on a proposal from the Executive Committee, such a proposal can only be changed by unanimous vote.

8. The Council of Ministers shall be responsible for the duties described in Articles 28, 31, 32 and 54 of the European Convention for the Protection of Human Rights and Basic Human Freedoms in relation to every member state of the Alliance which has not become a member of that Convention.

9. The Council of Ministers shall write its own by-laws.

c) Executive Committee

1. For the survival of the Alliance and the realization of all the goals of this Treaty, the Executive Committee shall be responsible for applying the terms of the Treaty and its addenda, as well as the measures that the governing branches of the Alliance shall carry out, or shall be required to carry out, in accordance with this Treaty.

2. The Executive Committee shall make recommendations and convey opinions regarding matters governed by this Treaty and its addenda when it is specifically stipulated or when it is deemed necessary.

3. The Executive Committee shall have the independent authority to rule on matters which have been assigned to the Executive Committee by the Council of Ministers.

4. The Executive Committee shall publish its report on the work of the Alliance every year, no later than one month before the convening of the Advisory Parliament.

5. The Executive Committee shall be comprised of thirteen members who shall be nominated by the governments of the member states. They shall have a four-year term of office with the right of reelection. The number of members on the Executive Committee is subject to change by the Council of Ministers.

6. The members of the Executive Committee must be citizens of the member states within the Alliance. Each member state must have at least two representatives on the Executive Committee.

7. The members of the Executive Committee shall perform their

duties independently and in the common interest of the Alliance. They shall neither seek nor accept any advice or direction from any government or from any other body. They shall avoid any objectives which are not in keeping with their responsibilities.

8. Member states of the Alliance shall vow to respect the principle of section 7, and shall not interfere with the members of the Executive Committee in the performance of their duties.

9. For the duration of their term in office, members of the Executive Committee may not engage in other paid or unpaid professional activities. By accepting these responsibilities, members shall give their solemn pledge in accordance with the by-laws of the Executive Committee.

10. At the suggestion of the Council of Ministers or the Executive Committee, the Confederate Court may expel any member of the Executive Committee who no longer fulfills the conditions necessary for the performance of his duties, or who has been found guilty of negligence in his work.

11. The President and two Vice-Presidents of the Executive Council shall be appointed by the Council of Ministers for a term of two years with the right to reappointment.

12. The Executive Committee shall execute decisions by majority vote. Sessions of the Executive committee shall have a quorum if the number of members required is prescribed in the by-laws.

13. The Council of Ministers and the Executive Committee shall consult and advise one another and shall establish methods of cooperation.

14. The Executive Committee shall write its own by-laws.

d) The Confederate Court

1. The Confederate Court shall guarantee respect for the law in the interpretation and enforcement of this Treaty and its addenda.

2. The Confederate Court shall be comprised of fifteen judges chosen from a pool of individuals of the highest moral caliber who fulfill the requirements for the highest position of magistrate, or who are recognized as consummate legal professionals.

3. Judges are appointed in cooperation with the governments of the member states of the Alliance for a nine-year term. Every three years the term shall expire for seven, and alternately eight, judges. After their term of office has expired, the judges may be reappointed.

4. The President and Vice-President of the Confederate Court

shall be elected by the judges of the said court for a three-year term.

5. The Confederate Court shall select its own secretary and may select other necessary employees of the court.

6. Any member state of the Alliance which feels that another member state has not fulfilled its duties in accordance with this Treaty and its addenda may file a grievance with the Confederate Court. Before filing such a grievance with the Confederate Court, the grievance shall be directed to the Executive Committee. The Executive Committee shall then reach a ruling after giving the respective states an opportunity to state their own case, either verbally, or in writing. If the Executive Committee does not act upon this grievance within three months, the lack of a ruling from the Executive Committee shall not prevent filing the said grievance with the Confederate Court.

7. If the Executive Committee rules that a member state of the Alliance has not fulfilled its duties in accordance with this Treaty and its addenda, it shall provide a substantiated ruling after having given the said member state the opportunity to state its case. If the member state does not act in accordance with the Executive Committee's ruling in the time allotted, then the Executive Committee may file a grievance with the Confederate Court against that member state.

8. If the Confederate Court establishes that a member state has not fulfilled its duties in accordance with this Treaty and its addenda, the state will have to undertake the necessary measures to act in accordance with the Court's ruling. The Confederate Court delivers the verdict to the member state and to the Council of Ministers who shall be responsible for its execution.

9. The Confederate Court shall supervise the lawfulness of the acts of the Council of Ministers and of the Executive Committee, except for their recommendations and opinions. The Confederate Court shall be authorized to rule on cases submitted by member states, the Council of Ministers, or the Executive Committee, in the event of lack of authority, the transgression of crucial rules of order, violation of the Treaty or of any regulations dealing with its implementation.

10. Under the conditions of Section 9, every physical and legal entity has the right to submit a grievance to the Confederate Court regarding any ruling which affects said entity or which affects some other entity, but has an immediate or practical effect on that entity. A grievance may also be submitted if some body of the Alliance fails to make a necessary ruling.

11. If the grievance mentioned in Sections 9 and 10 has merit, then the Confederative Court shall declare the ruling null and void. If a statute is involved, the Confederate Court shall, if

it is deemed necessary, make a ruling regarding which effects of the statute that has been declared null and void shall remain in effect.

12. The body whose ruling has been declared null and void or whose failure to act is deemed to be contrary to the terms of the Treaty, will be required to take the necessary measures to carry out the sentence of the Confederate Court.

13. The Confederate Court shall be authorized to rule on matters of prejudice at the request of the court of a member state, when the interpretation of this Treaty is at issue, on the validity of an interpretation of one of the bodies of the Council, or on the interpretation of the statutes of the bodies which have been established by the Council of Ministers. If there is any question about a case tried in a member state court which has received a final ruling with no appeal, then, that court shall direct such a case to the Confederate Court for ruling.

14. A Commission of seven members shall be appointed by the Confederate Court from a roster of candidates who fulfill the requirements of section 2. This Commission shall perform the duties described in Articles 20 to 37 and in Articles 44 to 48 of the European Convention for the protection of Human Rights and Basic Freedoms in the cases of physical entities, non-governmental organizations and groups of individuals against every member state of the Alliance which has not yet become party to the Convention.

15. The Confederate Court shall have full jurisdiction with respect to Articles 38 to 54 of the European Convention for the Protection of Human Rights and Basic Freedoms vis-a-vis every member of the Alliance which has not yet become party to the Convention.

16. The Confederate Court shall have jurisdiction over all cases involving the organs of the Alliance and their employees and under established regulations in matters regarding employment and conditions of employment.

17. All of the rulings of the Confederate Court or of its Commission shall be reached with a majority vote of the judges present. In the case of an even split of votes, the president or whoever is substituting for him shall decide the outcome.

18. A ruling must be explained. If the ruling in its entirety or in part does not express the unanimous opinion of the judges, every judge has the right to contribute to the ruling by expressing his personal views.

19. A ruling made by the Confederate Court is final with no right to appeal. In the event that there is disagreement in reaching and explaining a verdict, the court shall have the right to ex-

plain the ruling at the request of each party.

20. The Statute of the Confederate Court is an integral part of this Treaty. The Confederate Court shall write its own by-laws.

2. Other Institutions

By special agreement among the member states in executing joint authorities and interests, additional institutions and organizations of the Alliance may be created.

3. General Regulations

1. The location of the institutions and organizations of the Alliance shall be determined by the member states by mutual agreement.

2. In order to fulfill their responsibilities and the duties entrusted to them, the institutions and organizations of the Alliance may form permanent or ad hoc assisting bodies.

3. The Alliance shall enjoy the full legal capacity necessary to fulfill its responsibilities and to achieve its goals on the territory of every member state.

4. The buildings and offices of the confederate bodies shall be inviolable. The organs of the state where these buildings and offices are located shall not enter without the authorization of the responsible bodies of the Alliance. That state is obligated to take all necessary measures to prevent these buildings and offices from being forcefully entered or damaged and to maintain peace so that the dignity of the Alliance shall not be violated. The property of the Alliance, including its buildings, may not be searched, taken over, confiscated, or subject to court seizure.

5. The representatives of the member states and the employees of the Alliance shall enjoy the privileges and exemptions necessary for independently performing their jobs for the Alliance.

V. JOINT DEFENSE SYSTEM

1. The member states of the Alliance reaffirm their faith in the principles and goals of the U.N. Charter and their desire to live in peace with all peoples and all Governments, seeking to promote peace and stability in South East Europe. Within the framework of this Alliance, they shall establish the principles and bodies for a Joint Defense System.

2. This System is based on the principle that all the member states of the Alliance agree that an armed attack on the territory, the vessels or the aircraft of one of the member states shall be considered an attack on all of them. In such a case, the member states of the Alliance agree that each of them in exercising collective self-defense recognized by Article 51 of the U.N. charter, will assist the attacked member state, immediately taking individual or collective action which may be deemed necessary, including the use of armed force, but with the exclusive aim of reestablishing peace and security in the Alliance.

3. In principle, only those portions of the armed forces of the member states of the Alliance which make up part of a joint command will participate in joint military actions. Every member state shall decide independently about the military involvement of that portion of the armed forces which is under its own command.

4. For portions of the armed forces of the Alliance, the member states shall establish a Joint Command, as well a Military Political Council, which shall be ready to meet promptly to deliberate and decide about the implementation of joint defenses.
(Or will this function remain the responsibility of the Executive Committee or the Council of Ministers?)

5. With the consensus of the member states of the Alliance, and on the basis of the proper invitation by the Military Political Council, or the Executive Committee, any state in the world may join the Joint Defense System of the Alliance, and after applying for membership, may engage in the joint defense of the peace and stability of the Alliance.

6. The member states of the Alliance agree not to enter into any international agreements or to accept any obligations toward a third state which would be in conflict with the terms of the Joint Defense System of this Treaty. Furthermore, the member states of the Alliance solemnly declare that they will not abuse the Joint Defense System through their acts, nor will they question its strict defense orientation.

7. Member states of the Alliance declare that their Joint Defense System is not in conflict with the laws and commitments of the Alliance as a signer of the U.N. Charter or in its responsibilities toward the United Nations Organization in maintaining international peace and security. Therefore, the Alliance will inform the U.N. Security Council of every action of the Joint Defense System and will cease its action as soon as the Security Council takes necessary and sufficient measures to establish peace and security.

VI. FINANCING THE ALLIANCE

1. Every member state shall offer the necessary buildings and

office space, and will finance the maintenance and functioning of those joint bodies of the Alliance (The Advisory Parliament, The Council of Ministers, The Executive Committee, The Joint Command, The Military Political Council and so on) which shall be located on its territory.

2. The general and joint expenses of the activities of the Alliance (diplomatic and consular representations, The Joint Command, administrative expenses, etc.), miscellaneous expenses, and those expenses which are agreed to by a consensus of the member states shall be financed by all member states of the Alliance, each state's share being determined by the combination of per capita income (40%), size of state territory (30%), and population (30%).

3. Each member state of the Alliance shall finance the maintenance of that portion of its own armed forces which shall be placed under the joint command of the Alliance and they will finance their military involvement.

VII. FOREIGN AFFAIRS OF THE ALLIANCE

1. Within the scope of the authority delegated by this Treaty, the Alliance may maintain diplomatic relations with any third states and appropriate inter-governmental organizations.

2. Member states of the Alliance may have joint or independent diplomatic or consular missions, and informative, tourist and commercial representations in any third state.

3. Within its jurisdiction, the Alliance may enter into international agreements with any third state or appropriate inter-governmental organization. Such agreements shall be made by the Council of Ministers, and they shall be ratified by the authoritative bodies of all the member states of the Alliance.

VIII. TRANSITIONAL AND CONCLUDING STIPULATIONS

1. The member states shall enter into a separate agreement regarding all questions of succession resulting from the reorganization of the Yugoslav Federation into a confederation.

2. The agreements among the member states which have been extended shall form an integral part of this Treaty.

3. The member states of the Alliance and the parties to this Treaty shall ratify the Treaty and its provisions shall be carried out in accordance with their constitutional processes. Instruments of ratification shall be deposited with the government of the Republic of Croatia as soon as possible, which will inform all other member states of the Alliance about every deposit. The Treaty shall enter into force between the states which have ratified it on the day when the ratification instruments

have been deposited.

4. After the Treaty has been in force for ten (five?) years, or at any time thereafter, the member states of the Alliance, shall, if any of them so requests, consult together for the purpose of reviewing this Treaty or of dissolving the Alliance.

5. Depending on the further development and expansion of European integration, the member states of the Alliance may individually secede from, or jointly dissolve the Alliance on their own initiative, or by the decision of the Council of Ministers and apply for membership in the European Community.

6. This Treaty has been written in the official languages of the member states and is equally valid in any one of those languages.

Signed this ______________________ day of ____________________ 1990.

PRESIDENCY OF THE REPUBLIC OF CROATIA
PRESIDENCY OF THE REPUBLIC OF SLOVENIA

Joint Professional Team

A CONFEDERATE MODEL AMONG THE SOUTH SLAVIC STATES

Zagreb and Ljubljana
October 4, 1990

A CONFEDERATE MODEL AMONG THE SOUTH SLAVIC STATES

Introductory Remarks

The Presidency of the Republic of Croatia and the Presidency of the Republic of Slovenia in mutual cooperation, on the basis of an agreement in the Presidency of the Socialist Federal Republic of Yugoslavia (SFRY), created the framework for a confederate model of relations among the republics of present-day SFRY. Other republics and both autonomous regions would prepare the foundation for a model of contemporary federation on the basis of the same agreement in the Presidency of the SFRY. In accordance with the decision of the Presidency of the Republic of Slovenia and the Presidency of the Republic of Croatia, the draft for a confederate model was prepared by a group of experts from both presidencies. The model was prepared on the basis of theoretical generalization of confederate examples from history and the experience of the European community.

Possible solutions proposed in the model should not prejudice the real interests and the real possibilities for the republics to become party to the confederate treaty and should particularly not bias the starting point for discussions by interested parties. The Confederate Treaty, as an act of international law, may be entered into only by independent, sovereign states, that is to say those republics in present-day SFRY which are constituted on the basis of the rights of nations to self-determination, or which have decided to create a federation among themselves and through this federation to enter into a confederate treaty with other independent states which have heretofore been republics.

Considering the variety of interests which the republics of present-day SFRY have, and the fact that the range of possibilities of entering into confederate treaties with each other is open, the model offers alternatives for certain solutions ranging from minimum to maximum degrees of realization of mutual interests within the framework of confederate relations. Of course, this framework for the model does not exclude other possibilities which the interested republics may agree to later, during the negotiation phase. The model is an aid to discussion, consultation and the formation of confederate elements around which negotiations could later be undertaken. It should be kept in mind that confederate relations can, in accordance with the confederate treaty and the principles of international law, be amended later by agreement among the member states of the Alliance.

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The analysis of the actual situation and the developmental possibilities in certain areas, and in the entire territory, must answer the question of whether there are reasons for a confederacy, in other words, which interests exist and how the mutual goals are to be achieved. Periodical negotiations and agreements among the representatives of governments and the coordination of their activities can be achieved within the framework of established international cooperation. Therefore, they cannot be considered a confederacy. A confederacy is justified only if her members find lasting interests for a mutual system confirmed by a confederate treaty, one based on reciprocity, a joint decision-making system, the implementation of such decisions by every member state, while at the same time preserving the sovereignty of every member state.

Fundamental Starting Points

--The future Confederation must be an alliance of sovereign states for the purpose of realizing mutual goals.

--It is presupposed that the basic interest of the Confederation shall be economic, to ensure a mutual marketplace. It is also of mutual interest to be included in the European integrative process.

--The Confederation must also guarantee the realization of defense and security interests, in other words, defense from foreign attack, or more precisely, the defense of the borders of all member states.

--The Confederation must ensure the same standards in the protection of human rights of every individual and all ethnic communities.

--The Confederation must contribute to the general strengthening of the international position of the member states in the international community.

--To that end, the member states shall transfer certain authority to the confederate bodies whose decisions shall be executed in accordance with the Confederate Treaty.

--In the Council of Ministers there is to be no outvoting, and all motions, other than procedural, shall be unanimous.

--In order to maintain the cohesion of the Confederation and her stability, the Confederate Court shall have a central position among the bodies with jurisdictions modeled after the Court of the European Community in Luxembourg.

--The Confederation shall have an Executive Committee whose members shall not take directions for their activities from any member states.

--The Confederation may have a representative body which may either have the right to execute decisions or only the right to make suggestions, as prescribed by the Treaty.

--Such a confederation would be an international organization modeled after the European Community.

*

--The confederation must be voluntary and not imposed upon the member states of the Alliance.

--Member states shall realize in the confederate bodies those authorities which they wish to entrust to them and which they will fulfill in a bona fide manner while the confederate agreement is in force, or until a member state secedes from the Alliance.

--In determining the goals of the Confederation it would be valuable to keep in mind the possibility that the Confederation as a whole might be able to obtain membership in the European Community because this is the goal of all her potential member states.

*

--The Confederate Treaty shall consist of a preamble and the following sections: (I) Principles; (II) Membership; (III) Jurisdictions; (IV) Bodies; (V) Financing the Alliance; (VI) The Question of Succession; (VII) Language Use; and (VIII) Provisory and Concluding Provisions.

Preamble

--The Preamble would, along with other functions, reaffirm the moral values of European civilization (modeled after the Statue of the European Council); condemn the hegemonism of one nation over another; confirm the principle of all forms of ownership (except collective), including free enterprise and creativity; reaffirming the belief in mutual economic and social advancement and the solidarity of people; maintaining the security of the Alliance and of member states from external attack as a goal of the Alliance, and the establishment of the Alliance as a contribution to the security and integrative processes of Europe.

--The preamble would especially stress that the union is entered into "on the basis of the inalienable and unspent right of every nation to self-determination, including the right to unite with and separate from other nations and states."

I. PRINCIPLES

In this section the following principles and obligations of the member states in realizing the goals of the Alliance would be confirmed:

1. The principle of mutual acceptance and respect for the basic rights of every member state to existence, independence, equality, international trade and on respect and the principle of non-interference.

2. The obligation that no agreements will be entered into which are directed against the Alliance, or which are in conflict with this Treaty, or which are harmful to other member states.

3. The obligation of mutual defense from foreign attack of the Alliance, and toward that goal the establishment of a system of collective security and mutual defense.

4. The respect and fulfillment of duties toward the European Convention of Human Rights from 1950 and its protocol.

5. The principle of the prohibition of discrimination against the citizens of any member state.

6. The obligation that member states acknowledge and respect the full extent of rights to equal treatment, to cooperation in political decision-making, to language and alphabet, and to the cultural institutions of all the ethnic groups that live in their area.

7. The principle of executing decisions and other individual acts of the organs of the member states in other member states on the basis of reciprocity toward reached agreements.

8. The freedom of movement without examination of passports or other documents in any other member state with the condition that this freedom shall not be abused.

9. The freedom of movement of the work force with no discrimination among the citizens of the member states with regard to employment, benefits, or other work conditions.

10. The freedom of forming enterprises and subsidiaries whose activities shall be governed by the same conditions within the entire territory of the Confederation.

II. MEMBERSHIP

The membership is to be divided into basic members that are parties to the Treaty and those that may later become members. An established democratic parliamentary system of government based on free and secret elections, guaranteed property rights, free enterprise and union membership shall be conditions of membership in the Confederation.

For every new state to become a member, a separate treaty shall be entered into, which will have to be ratified by that state and by every other member state.

A state that obstinately and consistently transgresses the obligations of this Treaty shall be subject to suspension or revocation of membership by the Confederate Court.

III. JURISDICTIONS

1. Economic Relations

This should be the key component of the Confederate Treaty. We list the following possible elements.

1.1 Customs Union

Among member states of the Confederation there would be no customs duty, whereas toward third states there would be mutual customs regulations.

1.2 Mutual market

The territory of the member states of the Confederation would represent a mutual marketplace. In this mutual marketplace there would be free flow of goods, services, capital and the freedom of movement for the work force. With regard to residency and obtaining the right of ownership of real estate, every member state would have the right to take adequate measures for the purpose of protecting its legitimate interests.

The Confederate Treaty would specify the responsibilities of the member states toward the gradual coordination of elements of a joint market with the norms and standards of the European community.

1.3 Monetary Union

Member states, in principle, shall each have their own currencies, and will coordinate monetary policies.

1. Alternative

Member states, in principle each have their own currency, while also having a joint accounting currency.

2. Alternative

Member states would have joint currency, with a central issuing bank.

1.4 Policies of the Basic Infrastructure in the Areas of Commerce, Communications, Energetics and Agriculture

1.4.1. With regard to the basic infrastructure in the areas of commerce, communications, energetics and agriculture.

Members of the Confederation:

--shall coordinate policies.

Alternative

--shall define joint policies.

Financing shall be determined by separate agreement.

1.4.2. The territory of the Confederation shall have coordinated systems in electrocommerce, railway commerce, and in postal and telecommunications.

1.5. Regulations Regarding Competition

Anti trust laws shall be a component of the Confederate Treaty. They shall include regulations regarding competition, the prohibition of dumping, prohibition of preferential treatment when state orders are placed, and state subsidies with regard to those orders.

2. Preservation of the Environment

Joint policies regarding the preservation of the environment shall be an element of the Confederate Treaty. Joint policies for the preservation of the environment shall include:

--joint preventive measures

--joint criteria regarding compensation in the case of a polluted environment.

--other measures in conjunction with a separate treaty.

3.Defense and Security - Armed Forces:

Taking into consideration that every member state has its own armed forces (this element encompasses the period before possible demilitarization):

--on the level of the Confederacy there shall be coordination and cooperation in defensive preparations; these duties may be organized within the framework of the Council of Ministers who coordinate strategic questions, and recommendations of the ministers of defense who shall resolve concrete issues.

--In the case of aggression, the presidents of the member states shall form the joint authority for all confederate armed forces which will guide the defense of the Confederation or one of her components.

--every member state ensures the Confederation an agreed upon portion of her armed forces and ensures the minimum established quantity of devices for defense preparations.

--Every member state shall independently determine the nature of military duty (professional or conscripted armed forces) and shall independently train its soldiers.

--Member states may agree upon a singular organization of certain types or branches of armed forces (i.e. aviation, anti-aircraft defense, navy) and to execute the singular training of the members of the armed forces. To that end, the means for these purposes shall be proportionately shared.

1. Alternative

Other than the armed forces of each member state, in the case of immediate military danger or war, the Confederation may have joint armed forces as a contingent. The commander shall be nominated by agreement by the members of the Confederation.

2. Alternative

In addition to the armed forces of each member state, the

Confederation may have joint armed forces as a contingent. The commander shall be nominated by agreement by the members of the Confederation.

4. International Relations

4.1. Joint Resolution of Specific International Questions

Every member state of the Confederation is a separate subject of international law which independently enters into international agreements. The Confederation enters into international agreements in those areas authorized by the Confederate Treaty which are, by previous agreement, subject to ratification by the member states.

Member states may authorize the Confederation to enter into international agreements for any or all of them, even in areas outside the jurisdictions established in the Confederate Treaty.

4.2 Diplomatic Representation

Member states of the Alliance shall have independent diplomatic, consular, economic, informative and tourist representative bodies in third states, and by agreement may hold joint representations.

Within the scope of the jurisdictions transferred by this Treaty, the Alliance shall maintain diplomatic relations with third states and with responsible intergovernmental organizations.

4.3. Cooperation and Coordination of Foreign Affairs

The Confederate Treaty anticipates that:

--member states shall cooperate in the area of foreign affairs.

1. Alternative

--member states may cooperate in the area of foreign affairs and shall coordinate their international activities.

2. Alternative

-the member states shall establish the principles and the manner of realizing a joint policy of international relations, including the areas of economy, defense and security.

5. Living and Working Conditions for the Population

Within the framework of the Alliance, member states shall agree on measures intended to improve the living and working conditions of the population. Joint funds may be established for that purpose.

6. Scientific and Technical Research & Development

Within the framework of the Alliance, the member states shall agree upon programs for scientific and technical research and development.

*

Note:

This listing of mutual activities is not final. For completion of certain mutual jurisdictions, a comprehensive, supplementary listing will be created which will become an integral part of this Treaty.

IV. INSTITUTIONS OF THE CONFEDERATION

1. The Chief branches of the Confederation shall be the Advisory Parliament, the Council of Ministers, the Executive Committee and the Confederate Court.

a) Advisory Parliament

1. In each member state the citizens shall elect, by direct and secret ballot, the same number (i.e. 50) of representatives to the Advisory Parliament by uniform electoral procedures which shall be confirmed by the Council of Ministers.

Alternative

The parliaments of the member states shall select representatives to the Advisory Parliament by parity.

2. The Advisory Parliament shall have advisory and supervisory authority in accordance with the Confederate Treaty.

Alternative

The Advisory Parliament shall execute its decisions on the basis of the previous consent of the member states. Such decisions would have to be ratified by the member states.

3. Members of the Executive Committee shall participate at the sessions of the Advisory Parliament and shall have the right to debate on their own initiative on behalf of the Executive Committee. The Executive Committee shall answer questions from the Advisory Parliament verbally or in writing.

4. The Council of Ministers shall consult with the Advisory Parliament in accordance with its by-laws.

5. The Advisory Parliament shall discuss the annual report submitted by the Executive Committee. It shall also discuss the proposed budget of the Confederation for each year.

6. The Advisory Parliament may by direct ballot propose a vote of no confidence for the Executive Committee. If the proposed recall is adopted with a two-thirds majority of votes, the members of the Executive Committee shall jointly resign. They shall continue to serve in their capacities until new members of the Executive Committee are elected.

Alternative

The Confederation shall have no Advisory Parliament.

The Council of Ministers

1. The Council of Ministers shall be comprised of one representative per member state in the Alliance. The post of President shall be filled by the members of the Council of Ministers, on a rotational basis, each serving a term of six months in the alphabetical order of the member states.

2. The Council of Ministers shall rule on all matters in this Treaty and its addenda as specified herein. The Council of Ministers may transfer to the Executive Committee the authority to carry out the measures that it enacts. It may also transfer to the Executive Committee the authority to make decisions regarding certain issues. Such authority may be revoked if it is deemed necessary.

Alternative

The Council of Ministers shall carry out the decisions of the Advisory Parliament which are accepted by the member states of the Confederation.

3. The Council of Ministers shall execute its decisions unanimously, except in matters concerning procedure. Abstaining votes would not prevent reaching a valid decision.

4. The Council of Ministers may request that the Executive Committee undertake any type of investigation it may deem necessary for establishing the aims of this Treaty and may request appropriate proposals from the Executive Committee. If the Council of Ministers makes a ruling based on a proposal from the Executive Committee, such a proposal can only be changed by unanimous vote.

5. The Council of Ministers shall be responsible for the duties described in Articles 28, 31, 32 and 54 of the European Convention for the Protection of Human Rights and Basic Human Freedoms in relation to every member state of the Alliance which has not become a member of that Convention.

Alternative

The above authority is deleted.

c) Executive Committee

1. For the survival of the Alliance and the realization of all the goals of this Treaty, the Executive Committee shall be responsible for applying the terms of the Treaty and its addenda, as well as the measures that the governing branches of the Alliance shall execute out, or shall be required to execute, in accordance with this Treaty.

2. The Executive Committee shall make recommendations and convey opinions regarding matters governed by this Treaty and its addenda when it is specifically stipulated or when it is deemed necessary. The Executive Committee shall have the independent authority to rule on matters which have been assigned to the Executive Committee by the Council of Ministers.

3. The Executive Committee shall publish its report on the work of the Alliance annually.

4. The Executive Committee shall be comprised of a certain number of members (i.e. 17) who shall be nominated by the govern-

ments of the member states. They shall have a four-year term of office with the right of reelection. The members of the Executive Committee must be citizens of the member states within the Alliance.

5. The members of the Executive Committee shall perform their duties independently and in the common interest of the Alliance. They shall neither seek nor accept any advice or direction from any government or other body. During their term, the members shall not engage in any other professional activities.

6. The Executive Committee shall execute decisions by majority vote.

7. The Council of Ministers and the Executive Committee shall consult and advise one another and shall establish methods of cooperation.

d) The Confederate Court

1. The Confederate Court shall guarantee respect for the law in the interpretation and enforcement of this Treaty and its addenda.

2. The Confederate Court shall be comprised of fifteen judges chosen from a pool of individuals of the highest moral caliber who fulfill the requirements for the highest position of magistrate, or who are lawyers recognized as consummate professionals in the areas of international, constitutional or administrative law.

3. Judges shall be appointed in cooperation with the governments of the member states of the Alliance for a determined term (i.e. a six-year term.) After their term of office has expired, the judges may be reappointed.

4. Any member state of the Alliance which feels that another member state has not fulfilled its duties in accordance with this Treaty and its addenda may file a grievance with the Confederate Court. Before filing such a grievance with the Confederate Court, the grievance shall be directed to the Executive Committee. The Executive Committee shall then reach a ruling after giving the respective states an opportunity to state their own cases. If the Confederate Court determines that the member state has not fulfilled its obligations, it may undertake the necessary measures, in accordance with the ruling. The Council of Ministers would be responsible for carrying out the ruling.

5. The Confederate Court shall supervise the lawfulness of the acts of the Council of Ministers and of the Executive Committee, except for their recommendations and opinions. The Confederate Court shall be authorized to rule on cases submitted by

member states, the Council of Ministers, or the Executive Committee. In the event of lack of authority, the transgression of crucial rules of order, the violation of the Treaty or of any regulations concerning its implementation, the abuse of authority, not passing a necessary ruling, or not taking necessary action.

6. Every physical and legal entity has the right to submit a grievance to the Confederate Court regarding any previous ruling which affects said entity or any general regulation which affects the entity. A grievance may also be submitted if some body of the Alliance fails to make a necessary ruling.

Alternative

The previous point is to be omitted.

7. A special commission shall be appointed by the Confederate Court which shall perform the duties described in Articles 20 to 37 and in Articles 44 to 48 of the European Convention for the protection of Human Rights and Basic Freedoms of 1950. The Confederate Court shall have full jurisdiction with respect to Articles 38 to 54 of the European Convention for the Protection of Human Rights and Basic Freedoms vis-a-vis every member of the Alliance which has not yet become party to the European Convention.

Alternative

The previous point is omitted.

8. All of the rulings of the Confederate Court, or of its Commission, shall be reached with a majority vote of the judges present. In the case of an even split of votes, the president or whoever is substituting for him shall decide the outcome. A ruling made by the Confederate Court is final with no right to appeal. In the event that there is disagreement in reaching a verdict, the court shall have the right to explain the ruling at the request of each party.

9. The Statute of the Confederate Court is an integral part of this Treaty. The Confederative Court shall write its own by-laws.

Other Bodies

Depending on the nature of the permanent mutual goals, the Confederation shall establish other bodies and organizations. These may include:

--a development bank

--specific funds for accepted projects

--an institute for standardization

--an institute for Weights and Measures and Base Metals.

(All possibilities are to be listed.)

Alternative

A central issuing bank.

3. Location of Confederate Organs

The institutions of the Confederation shall be located in various cities by agreement of all the member states.

Alternative

The convening of various institutions their activities would at certain times be relocated to various cities. In any case, all the institutions of the Confederation shall enjoy extraterritorial status.

All members of the institutions and employees of the Confederation shall enjoy the appropriate privileges and immunities in accordance with the general principles of international law.

V. FINANCING THE ALLIANCE

1. Every member state shall offer the necessary buildings and office space, and will finance the maintenance and functioning of those joint bodies of the Alliance (The Advisory Parliament, The Council of Ministers, The Executive Committee, The Joint Command, The Military Political Council and so on) which shall be located on its territory.

2. The general and joint expenses of the activities of the Alliance (diplomatic and consular representations, The Joint Command, administrative expenses, etc.), miscellaneous expenses, and those expenses which are agreed to by a consensus of the member states shall be financed by all member states of the Alliance, each state's share being determined by the combination of per capita income (40%), size of state territory (30%), and population (30%).

3. Each member state of the Alliance shall finance the maintenance of that portion of its own armed forces which shall

be placed under the joint command of the Alliance and will finance their military involvement.

Alternative

Each member state would finance its own participation in the institutions of the Confederation. Other expenses shall be financed with specific allocations for every institution or project, or by agreement in the form of participation fees. It shall bye possible to budget for an estimated year. A portion of the participation fee could be allocated according to the following criteria:

--every member state pays an equal fee

--projects in the areas of commerce, communication and energetics, in principle, shall be financed with relation to the portion of the project in the member state.

--for certain issues or institutions, it is possible to provide financing:

a) in relation to the benefit to the member state
b) in relation to the power of the member state

*

To control the income and expenses of the Confederation, an Accounting Department (Financial Court) shall be established.

VI. THE QUESTION OF SUCCESSION

All the problems of succession which arise from the reorganization of the Yugoslav Federation into a confederation, shall be resolved with an agreement based on the generally accepted principles of international law codified by multilateral conventions.

The Confederate Treaty would regulate the principles of succession of states in the case of the cessation of membership of some state in the Confederation.

VII. LANGUAGE USE

The languages of all the member states would officially be used in the bodies and institutions of the Confederation. All of the acts of the bodies the Confederation and the rulings of the Confederate Court shall be published in these languages.

VIII. TRANSITIONAL AND CONCLUDING STIPULATIONS

1. The member states of the Alliance and the parties to this Treaty shall ratify the Treaty and its provisions shall be executed in accordance with their constitutional processes. Instruments of ratification shall be deposited with the government of one of the member states. The Treaty shall enter into force among the states which have ratified it on the day when the ratification instruments have been deposited.

2. After the Treaty has been in force for ten (five?) years, or at any time thereafter, the member states of the Alliance shall, if any of them so requests, consult together for the purpose of reviewing this Treaty or of dissolving the Alliance.

3. Depending on the further development and expansion of European integration, the member states of the Alliance may individually secede from, or jointly dissolve the Alliance on their own initiative, or by the decision of the Council of Ministers and apply for membership in the European Community.

(3)

Aspen Institute Italia

FOREIGN DIRECT INVESTMENT, JOINT VENTURES IN PARTICULAR AMONG THE PENTAGONAL COUNTRIES

written by

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FOREIGN DIRECT INVESTMENT, AND JOINT VENTURES IN PARTICULAR, AMONG 'PENTAGONALE' COUNTRIES

1. Introduction

Although difficult to quantify, the capital requirements of the central and eastern European "economies in transition" are undoubtedly very large. In order to achieve the stated policy aims of economic restructuring, modernization, the creation of a market-oriented system of economic management, and re-integration into the world economy, domestic savings cannot be expected to suffice. In the short term, the austerity measures which are part and parcel of stabilization programmes will add to the constraints on additional capital outlays which already exist after decades of high rates of domestic accumulation combined with a heavy burden of debt-servicing (although Czechoslovakia and Romania are in a more favourable position in this latter regard).

Now that ideological objections to foreign ownership of the "means of production, distribution and exchange" have been swept away by the momentous political, economic and social changes of 1989, foreign direct investment (FDI) is regarded by the authorities in the economies in transition as a means of accelerating the achievement of the policy goals listed above. Legislation and institutions have been put in place with a view to attracting FDI, and directing it towards what several host countries have designated as priority sectors or regions of their economies.

There is still an unsettled debate about the role that FDI can play in restructuring, about the scale and time-frame of foreign investment requirements, and about the absorptive capacity of the capital-importing countries. From the point of view of the potential foreign investor, the attractiveness of the opening-up of new investment opportunities is tempered by many uncertainties surrounding the prospects for political and economic stability in these new destinations for their capital, by the difficulty of assessing prospective rates of return over the medium-term, by unfamiliarity with operating and legislative conditions in these countries, and by doubts about the security of assets and the repatriation of profits. This is a summary, and far from exhaustive list, of the factors which have so far inspired caution in the approach of potential investors to the opportunities now available in the economies in transition. Nor should it be forgotten that the potential investor will always compare prospects and conditions in alternative destinations before committing his funds to any one project or country. Uncharted territory can hold out the promise of high rewards - but possibly also high risks.

The prudence of foreign investors is reflected in the relatively small sums which they have so far committed to projects in central and eastern Europe. The cumulative total of FDI in the European CMEA countries up to end-September 1990 did not exceed USD 5.3 billion, over one-half of which was in the Soviet Union. (USD 3.14 billion) For Yugoslavia, the total invested on the same data was USD 1.2 billion. The <u>average</u> sum invested per project (joint venture or wholly-owned subsidiary) was thus small. This is only a trickle in comparison with the flows of FDI within western European countries and between them, the United States and Japan (See also Section 2 below).

Such caution is understandable in view of the relatively short period during which appropriate legislation admitting FDI has been in place, and the time necessary to identify suitable investment projects and bring negotiations to the point of signature of contracts. Undoubtedly, there has been a quickening of interest on the part of foreign investors in recent months, and a flurry of new investment deals. Moreover the results of a very recent survey (tabulated below) of the investment intentions of large-scale western enterprises in central and eastern Europe over the next five years indicate a growing readiness of western firms to invest in the area.

The most significant findings of the survey may be summarized as follows:

- the preferred destinations of investment are east Germany, followed by the USSR

- the most favoured form of investment is the joint venture

- nearly two-thirds of the responding firms are planning investments and 42% are already investing in the region

- one-third of the respondent firms indicated that they plan to invest, all told, some USD 3.3 billion over the next 5 years (the equivalent of just under USD 15 million each per year).

- the main source of west European investments seems likely to be the Federal Republic of Germany, followed by companies in France, Belgium and the UK

- Japanese firms intend to invest substantially larger sums over the longer term than their west European or North American competitors, and account for about one-third (USD 1 billion) of the investments planned by respondent firms

SURVEY OF INVESTMENT INTENTIONS IN CENTRAL AND EASTERN EUROPE

Countries	Firms surveyed	Firms with EE strategy	Firms planning investment	Proposed investment in USD mn	Firms currently investing	EE target countrie
Finland	2	2	2	11.5	2	USSR,Germany(E)
France & Belgium	17	14	16	830	14	Germany(E),Hungar
Germany	4	2	4	290	3	Germany (E), USSR
Italy	4	1	3	33	2	Germany(E),USSR
Norway	5	5	5	217	4	USSR,Poland
Sweden	2	2	2	n.a.	2	Germany(E),Poland
UK	10	5	9	358	6	Hungary,Germany(E
Canada	15	2	5	1	3	USSR,Hungary
US	39	15	23	332	15	Germany(E),CSFR
Australia	4	1	1	150	0	Hungary,CSFR
Japan	19	n.a.	12	1,004	3	Germany(E)USSR
New Zealand	7	1	1	0.5	0	Germany(E)
Totals	128	50	83	3,227	54	

Source: Corporate Investment Plans for Eastern Europe-A Global Survey, DRT International, 24 Avenue des Arts,B-1040 Brussels. Reproduced in <u>Business Eastern Europe</u>, Vol XIX, No 41-90, 8 October 1990, published by Business International, whose permission to include it here is gratefully acknowledged.

Legend: Germany(E)=former GDR
n.a. =not applicable

Note: The survey concerned firms in all regions of the world which have USD 1 billion or more in assets or annual revenue. There were 128 such firms which responded to the survey of their investment intentions in central and eastern Europe over the next five years.

- Japanese firms have a clear preference for investment in export/import activities, followed by joint ventures, and gave the following reasons for not investing in new projects:

  (i) lack of profitable prospects

  (ii) lack of adequate infrascructure

  (iii) lack of advanced technology

The remainder of this paper takes a closer look at the investment activity of Austria and Italy in the three capital-importing economies in transition of the Pentagonale. As a preface, some consideration is given first to trends in international foreign investment in general and the FDI undertaken by Austria and Italy in particular. This should help to place in perspective the small scale of investible resources so far committed, as well as their potential volume, while bearing in mind the countervailing attractiveness of investments in the post-1992 Single Market.

2. The background: global trends in international flows of foreign direct investment

The 1980s witnessed a resurgence of FDI, although rates of growth have varied widely from year to year. Between 1984 and 1987 worldwide outflows of FDI tripled from USD 41 billion in the former year to USD 140 billion in the latter (at current prices and exchange rates). Even when allowance is made for the declining rate of exchange of the US dollar, the provisional figure ascribed to the value of FDI in 1989 - USD 180 billion - shows the continuing upward trend.

At the same time, major changes have occurred in the geographical origin and destination of worldwide FDI in the general direction of greater balance between capital-exporting and capital-importing regions. Thus, the United States is no longer consistently the world's leading foreign investor as it was in the 1960s and 1970s when its share of total FDI outflows was regularly over 50 per cent. By 1968 both Japan and the United Kingdom had substantially larger FDI outflows than the United States, with France running a close third. Although Japan, with FDI of USD 34 billion in 1988 had become the world's largest foreign investor, the western European countries, taken together, accounted for more foreign direct investment than any other region of the world (approaching USD 100 billion). Significantly, if unsurprisingly, the attractiveness of developing countries as a destination of FDI diminished throughout the 1980s as their external indebtedness increased. As a result, developed countries tended to invest ever more intensively in one another's economies so that their share as hosts of total FDI increased from 73 per cent on average between 1981 and 1983 to 80 per cent in 1984-1988 (with the United States capturing the lion's share of over 50 per cent).

FDI overall and especially in developed countries has shifted towards new service industries. This shift concerns to investment in wholesale trade activities but also in the financial services industries, banking, insurance, etc. The rest of the direct investment in the service sector is generally accounted for by activities such as tourism, advertising and distribution. This shift in FDI reflects the increasing role of the service sector in general. Furthermore, the expanding foreign activities of TNCs in the manufacturing sector, necessitated an increase in support services abroad in the form of finance, insurance and advertising as well as in the machinery and distribution of their goods and services.

The manufacturing sector still attracts sizeable inflows, especially in the chemical, engineering and automobile industries. While these flows are not always easily distinguishable in terms of their distribution between low, medium and high technology activities in their respective industry branches, there is a clear trend for FDI to concentrate in the higher technology branches within these industries e.g. speciality chemicals rather than bulk chemicals. A similar trend towards higher skilled activities is apparent in the services sector as well. Within this sector, information technology, data processing, software industries are also increasingly attracting new FDI flows. At a general level the pattern of FDI currently observable is towards software, skill-, knowledge, and technology-intensive industries.

Future trends in FDI will depend on a large number of factors. These will include host and home country policies which play a considerable role in determining the pattern and flow of investments and other activities of transnational corporations. Nothing is, however, certain. For example, the recently observable increase in FDI outflows will not automatically continue. The fact that FDI among developed countries has become more balanced may mean that there will be less need for firms, as in the preceding two decades, to attempt to 'catch' up on their more established counterparts by undertaking major new FDI projects.

The future industrial pattern and geographical spread of FDI will, too, depend on numerous factors. For the last ten to fifteen years the most influential factor on FDI has been the new technologies, their application to production processes and their contribution to the development of a new range of products. Overall such developments have reduced the attractiveness to foreign investors of cheap labour, offshore locations in some developing countries certain manufacturing industries. The development of new materials, by diminishing the need for certain raw materials, has contributed to the decline in FDI flows to developing countries in the primary sector. The reason why TNCs have been concentrating their investments on developed country markets has also been linked to these new technological developments. Generally speaking, firms have invested in developed country markets because it gives them access to new technologies and allows them to keep abreast of new technological developments; while the broadening of their market base has become the only means for firms in certain industries to afford the very high R and D budgets required to stay in an increasingly technology-driven race.

For the foreseeable future these trends seem likely to continue. If this is the case then investment locations which can provide the correct combination of access to a large market, a highly skilled workforce and advanced computer-driven infrastructures look best placed to attract new FDI flows throughout the 1990s and beyond.

Foreign direct investment by Austria and Italy

Both Austria and Italy have participated actively in the upsurge in outward FDI in recent years. Thus, for Austria, the stock of outward FDI amounted to approximately USD 2.8 billion in 1958 and the cumulative outflow for the years 1981-1988 was USD 1.59 billions, or around three times the comparable figure for the 1971-1980 period.

The regional distribution of Austrian outward FDI in 1982-1988 in percentage terms was as follows:

		EFTA	EC	North America	Others	Total
Austria	82-85	11.3	37.4	37.0	14.3	100.0
	86-88	11.5	41 2	35.9	11.4	100.0

Within the large share of the EC, the Federal Republic of Germany was the favoured destination for Austrian investors, accounting for about 25 per cent of total Austrian nominal capital invested abroad. It is noteworthy from the above figure's that the share of "others" - which includes the central and eastern European countries - has been falling to just over 11 per cent.

For Italy according to the IMF, the stock of capital invested abroad by Italian firms in 1988 (the latest year available) was 29.6 billion SDRs. This represents an almost twofold increase from 1985 when the figure stood at 16.1 billion SDRs. According to the OECD, the cumulative flow of FDI for 1981-1988 of outward FDI was USD 18.8 billions. This amount was much less than the main industrialized countries - e.g. Germany and the United Kingdom - but around 5 times more than for the 1971-1980 period. This rate of increase in FDI stock owned by Italian firms abroad was far higher than for other industrialized countries. Italian annual outward FDI flows were rather constant throughout the 1980s until 1988 when they doubled from the previous year to stand at US$ 5.4 billion.

Offical information on the geographical distribution of Italian FDI is not available, but unofficial estimates for the early part of the 1980s indicate a high concentration of Italian investment actively in other EC countries and in Latin America, with the total share of developing countries being distinctly high in comparison with the outward investment of other industrial countries.

3. Foreign direct investment and the requirements of restructuring

The drive to achieve high rates of growth of industrial output, based on the creation and expansion of industrial capacities in all major branches of production, was the strategic economic policy aim of the central and eastern European countries throughout the postwar period. Since foreign direct investment was ruled out as being ideologically inadmissable (a 'Trojan horse' of capitalist imperialism), the considerable investment requirements of these anbitious and rapid programmes of industrialisation had to be met from domestic accumulation (or from inter-CMFA investment projects, which turned out to be few in number, with the Soviet Union a net importer of capital in exchange for the supply of crude materials).

The social costs of the sacrifice of consumption curtailed by sustained and high rates of accumulation have often been discussed, and must surely be regarded as a contributory factor to the final collapse of the centrally administered system of economic management. The full cummulative social costs of environmental deterioration, caused by investment in high-polluting products and processes, are now recognized as being considerable, although probably unquantifiable.

In the end, the abandonment of decades of investment rates almost twice as high as those in the industrial market economies was caused by their failure to arrest the deterioration in a whole series of economic performance indicators. Growth rates of net material product continued to decline or stagnate; labour productivity gains continued to slow down; the rate of return on invested capital was falling; the products generated by new or expanded capacities were often of poor quality and rarely competitive on international markets; as mentioned above, waste and pollution levels were high; and the scale of the investment effort, combined with lax control of the completion of investment projects once started, resulted in the unproductive immobilisation of construction equipment, materials and plant, dispersed over a large number of uncompleted projects.

A further weakness of investment policy was the limitation, imposed by scarcity of convertible currency, on imports of capital goods from developed market economies. Some of the foreign debt incurred by Hungary, for instance, was used to fund or equip factories whose production was destined principally for the "soft" requirements of CMEA markets. The diversion of such goods - whose technological, safety, environmental or other features do not match international standards - is, consequently, one of the problems facing policy-makers in these countries. By the same token, there are ample opportunities for foreign investors to participate in upgrading these factories to reach internationally competitive standards.

Another problem (and, as a corollary, opportunity for foreign investors) has been caused for countries such as Czechoslovakia and Hungary by the ageing of their capital assets. This has occurred partly as a result of the squeeze on investment - already referred to above - imposed by the convertible currrency restraint. Thus, in Hungary, the share of accumulation in net material product (NMP) used fell from 25-28 per cent in the mid-1970's to 10-12 per cent by the end of the 1980's. As a result, Hungary's capital stock became more and more obsolete, as illustrated by the following figures. In Hungarian industry the share of assets less than five years old declined from 41 per cent in 1975 (and 1980) to 25 per cent in 1988. (Moreover, even this obsolescent capital stock was poorly maintained, so that its productive efficiency was further reduced.) In Czechoslovakia a similar, though less pronounced, process of ageing capital stock occurred, the corresponding proportion of assets less than five years old falling from 32 per cent in 1980 to 23 per centin 1988.

Tables 4 and 5 show the comparative distribution of current investment and fixed assets in Czechoslovakia and Hungary in the 1980's. It is against this background that domestic policies of redirecting investment have to be viewed (for example, correcting the excessive investment effort in the energy sector in Hungary in recent years, when it has absorbed as much as 40 per cent of total capital outlays in industry). This is also the structural context within which foreign investors will be selecting branches and projects.

4. Scale and distribution of Austrian and Italian investments in Czechoslovakia, Hungary and Yugoslavia

It is important to recall, at the outset, that Yugoslavia (1967) and Hungary (1972) were pioneers, amongst the countries of central and eastern Europe, in introducing legislation permitting FDI in the form of joint ventures. Although their regulations have been amended several times in the direction of liberalization (to render conditions for their foreign investor more attractive), the cumulative effect over almost twenty years of enabling legislation has been to give these two countries a head start over

Czechoslovakia, where FDI has been permitted for less than two years. (For the sake of completeness it should be added that Roumania was also, in its fashion, a pioneer in this respect, having admitted FDI in joint ventures since 1971; but since no significant improvements were introduced in Romania until March 1990, that country was until recently host to only 9 joint ventures with western partners, only 5 of these ventures having been still operational at the beginning of this year.)

For that reason, the larger number of joint ventures in Hungary and Yugoslavia should not be interpreted as reflecting the greater attractiveness of these two economies (or their relevant legislation - but see also the discussion in Section 5 of their respective FDI/JV regulations) as a destination for foreign investors. It is the result, rather, of the earlier presence of the two former countries in the international market for FBI, and a 'catch-up' effect is likely to occur in Czechoslovakia, although there will obviously be strong competition between Czechoslovakia and other central and east European destinations for FDI - notably, in neighbouring Poland and the former GDR territories.

At the beginning of this year (i.e. on 1 January 1990) the total number of FDI projects (wholly-owned subsidiaries and joint ventures, as the case may be) was as follows:-

Czechoslovakia	80
Hungary	about 1000
Yugoslavia	750.

These numbers have increased significantly in the past nine months (e.g. to 3082 in Yugoslavia by 1 October 1990), but accurate and up-to-date data - particularly on the sums of capital invested by the foreign partner - are difficult to obtain. There is obviously a case for setting up arrangements for the regular collection and dissemination of such information, which is useful - indeed, indispensible - for potential foreign investors, and policy-makers, alike.

The available data for Austrian and Italian investments in Czechoslovia, Hungary and Yugoslavia are brought together in Table 1. For purposes of comparison data on the investments of these two countries, taken separately, are shown alongside their investments in Poland and the Soviet Union in Tables 2 and 3.

Austria has over three times more investment projects in Hungary (174 projects) than in any other central and eastern European country. Indeed, it has more investment projects in that country than in all the other European CMEA countries combined. Czechoslovakia was lagging far behind at the beginning of this year as a destination for Austrian investment projects with only 19 investment projects and a total sum invested by the Austrian partners of only USD 11.7 million. The average size of the Austrian investment in each project was thus just under USD 1 million. By contrast, the average sum invested by Austrian partners in the 53 investment projects in the Soviet Union was USD 1.5 million (to give a total of USD 72.2 million at the official monthly average exchange rates), while it was much larger in Hungary, where the average sum invested in 168 projects , whose capitalisation is known, was USD 540,000.

Nonetheless, with 19 out of the total of 80 foreign investment projects in Czechoslovakia, Austria was a major foreign partner, accounting for 24 per cent of the total number of projects and 11per cent of the total inflow of FDI.

Turning to Hungary, there too Austria is an important partner, participating in 28 per cent of the total number of FDI projects and contributing 20 per cent of the total foreign capital invested in joint ventures and wholly-owned subsidiaries domiciled in that country.

The pattern of Italian investments in central and eastern Europe is in several respects significantly different (see Table 3). Engaging in a much smaller number of FDI projects in these countries (107 as compared with 303 for Austria), Italian investors' favoured destination is the Soviet Union (where it has 53 projects, the same number as Austria) but its average investment - though still small by any broader international standard - is almost twice as large as that of Austria. By contrast, Italy is not particularly active in Hungary (19 projects, compared to 174 for Austria), but very strongly present in Yugoslavia where it is reportedly engaged in one-third of the 302 foreign investment projects concluded in the first ten and a half months of 1989. Poland ranks second on the scale of interest of Italian investors (33 projects), who had at the beginning of this year committed themselves to only 2 projects in Czechoslovakia.

Total Italian investments at the beginning of this year in the four host countries identified in Table 3 amounted to USD 152 million, as against a comparable amount of USD 190 million for Austria. In Hungary, Austria had committed about USD 95 million, while Italy had only about one-fourth (USD 24 million) of that sum. Clearly, Austria is much the more active investor in the region both in total and, in particular, in _per capita_ terms.

Bearing in mind the disparities and gaps in the data presented above, it is nonetheless of some interest to combine the information on FDI for Austria and Italy to see what picture emerges (see Table 1). At the beginning of 1990 there were 21 foreign investment projects involving Austrian and Italian firms in Czechoslovakia and 193 such projects in Hungary. The bulk of these, in both cases, were accounted for by Austria (19 and 174 respectively), with Italy participating in 2 and 19 projects, respectively. Looked at from the perspective of the host countries, Austria provides 20 per cent of the total foreign capital invested in joint ventures and wholly foreign-owned subsidiaries operating in Hungary, as against a share of only 5 per cent for Italy.

The share of Czechoslovakia is around 6 per cent and that of Hungary about 57 per cent in total Austrian investment activity in the four countries listed in Tables 2 and 3, as measured by the number of projects. The corresponding shares of these countries in the total Austrian capital committed were 10 per cent and 50 per cent. Taken together these two countries are host to 64 per cent of Austrian investment projects in the region and 20 per cent of Italian joint ventures in the four countries. Jointly, Austria and Italy account for 26 per cent of FDI projects in Czechoslovakia and 31 per cent of those in Hungary.

What sector of activity or branches of industry have so far been preferred by foreign investors when establishing joint ventures, or setting up wholly owned subsidiaries in Czechoslovakia and Hungary? In Czechoslovakia, Austrian investments have been directed mainly towards hotel construction and operation; the management of health spas; wood-processing; and business and personal services. Manufacturing investments are conspicuous if not by their absence then at least by their scarcity, only a few joint ventures for the manufacture of air-conditioning equipment, triple-glazed windows, wooden chalets and some photographic materials and equipment having so far been launched. The two joint ventures involving Italian partners engage in food-processing and the installation of agricultural equipment.

In Hungary, the largest Austrian investment projects are in the production of building materials, metal products, computer equipment, business services and tourism. The main Italian investment activities in Hungary are in the manufacture of textiles, food-processing, and the manufacture of chemicals and insulating materials. A joint Austro-Italian company - A B Generali - engages in insurance in Hungary. Italy's Banca Commerciale Italiana participates, together with French, German and Japanese financial institutions, in the Central European International Bank Ltd. Also in Hungary, the Italian Instituto Bancario San Paolo di Torino has established the Inter-Europa Bank Ltd.

Detailed data on foreign investments in Yugoslavia, which constitutes the third predominantly capital-importing member of the "pentagonale" group of countries, are not available. However, the total number of foreign investments in Yugoslavia is known to have grown from 368 in January 1989 to an estimated 3100 as on 1 October 1990. According to the Belgrade Institute of Economics, during the first nine months of this year, 2332 foreign investment projects were registered. Of these, 423 or 18 per cent were wholly foreign-owned subsidiaries. The cumulative value of foreign investment which did not exceed 300 mn USD by the beginning of last year, more than doubled during 1989 and amounted to 700 mn USD by the year end. By the end of the third quarter this year, the cumulative value of foreign investment in Yugoslavia reached 1163.7 mn USD.

Very little is known about the origin of foreign partners of companies affiliated with enterprises abroad. As noted earlier, the total number of joint venture agreements concluded in the first ten and a half months of 1989 (302), 98 or 33 per cent had foreign partners from Italy. During the first nine months of this year the bulk of the foreign investment was from the EEC countries, in particular, the German Federal Republic and Italy, but also from Austria and the United States.

5. The Czech and Slovak Laws on Foreign Investment in comparison with the regulations in force elsewhere in eastern Europe

In the light of the changes which came into force on 1 May 1990 in the Law on enterprises with foreign participation, the question arises whether these represent a more favourable legal regime in the Czech and Slovak Federal Republic for foreign investors.

The following can be considered as favourable measures for foreign investors:

- the possibility of 100 per cent foreign ownership has been established

- approval procedures have been simplified and centralized within one clearly defined state agency, the Ministry of Finance

- ventures with private Czech and Slovak citizens have been legalized

- the number of special funds has been reduced

On the other hand, the following legal requirements can be seen as less attractive for foreign investors:

- a new obligation to sell a part of foreign currency earnings to the Federal Republic's State Bank

- the new Law offers no fiscal incentives to foreign investors (the existing fiscal regime for foreign joint ventures is treated under a separate law on taxation which fixes income tax at 40 per cent and tax or remitted dividends at 25 per cent for foreign joint ventures)

- the new Law still retains Section 7, para. 1 which makes approval of a joint venture conditional on whether the activities of the enterprise 'correspond with the interests of the Czech and Slovak economy' and whether it generates sufficient financial resources in the Federal Republic and in foreign currency

- the new Law makes the permission of the Federal Republic State Bank necessary in order to open foreign currency accounts with foreign banks.

It has to be stressed that the Law itself does not address all issues concerning the activities and establishment of enterprises with foreign participation in the Federal Republic. An assessment of the whole investment regime in the country would also have to take into account the tax system which, is treated separately and which will be reformed so as to encourage new foreign investments. Moreover, the Government is in the process of concluding a number of treaties with investor countries which will avoid double taxation. According to press reports, the new obligation on firms to sell a part of the foreign exchange earnings to a state bank may be removed if and when the Government introduces the internal convertibility of the Federal Republic's currency.

In comparison with other east European countries the Czech and Slovak Federal Republic has not until recently been particularly successful in attracting foreign investment. How far the new legal provisions which came into force on 1 May 1990 will now succeed in attracting new foreign investment will depend to some extent on how foreign investors perceive their legislation in comparison with that prevailing elsewhere in eastern Europe. The most important aspects of these laws for all countries in eastern Europe are laid out in the accompanying Table.

In Czecho-Slovakia (as in Romania), the new changes have simplified the approval and registration procedures for joint ventures and fully-owned, foreign affiliates. The power to approve joint ventures has been devolved to the Ministry of Finance which has now clearly been assigned responsibility for granting approval.

Yet, as shown in the accompanying comparative tabulation of joint venture provisions, some countries of eastern Europe have moved much further and, in fact, are beginning to adopt the current practices of developed western countries in granting foreign firms the automatic right of establishment. For example, under Hungarian legislation, Government approval is only necessary if a company is fully or majority foreign-owned.

Even in cases where approval is necessary, as in Poland, the country has established a special Foreign Investment Agency to deal with all requests by foreign investors. Such agencies, as they are constituted in developed and developing countries, have proved helpful to foreign investors, who have often been discouraged from entering a particular country by the difficulty of identifying the appropriate ministry or ministries where official authorization for their investments can be given.

Foreign investors have often complained about the amount of 'paperwork' which has to be prepared and submitted in east European countries and the length of time it takes to get their proposed venture approved. In this respect the Czech and Slovak Federal Republic's new legislation abolishes the requirement of the foreign partner to provide a feasibility study. Under the Soviet legislation too, various documents have to be produced. Nevertheless, the new Czech and Slovak laws cut down on the time between the lodging of a request and its approval/rejection to just 2 months and this is the same, more or less, for other countries of eastern Europe.

As regards full control by foreign investors over their affiliates, the new legislation in the Czech and Slovak Federal Republic (also in Romania) now grants foreign investors full ownership rights. With the passing of this new legislation in Romania and the Czech and Slovak Federal Republic, full foreign ownership of equity has now become widespread legal practice in eastern Europe. The laws of the Soviet Union in force up to October 1990 do not explicitly permit the full foreign ownership of corporate assets, even though they nowhere prohibit it. In the Soviet laws it is assumed that a domestic partner will own some share of the enterprise's equity.

The level of taxation applicable to a joint venture or on a fully-owned foreign affiliate can be an important consideration for a foreign investor choosing a particular country, especially if the enterprise concerned is small with limited resources. In both cases the new legislation does not affect the rate of tax. Romania's rate therefore remains at 30 per cent, the same as in Bulgaria and in the Soviet Union (if enterprises are foreign-majority owned). The rate is higher in the Czech and Slovak Federal Republic at 40 per cent, the same as in Poland and Hungary.

The use of fiscal incentives to attract new investment is widely used in eastern Europe. Poland offers an initial 3-year tax holiday to new foreign investors, a longer holiday than any other country in eastern Europe. In Romania, a joint venture is now exempted from tax on profits for a grace period of two years and may receive a further tax reduction on profits of 50 per cent for the following 3 years. In contrast, the new legislation in the Czech and Slovak Federal Republic offers no automatic fiscal incentives although there does remain, under the still valid provision of the previous law, the possibility of applying for reduction or exemption from taxation for a period of 2 years. Neither Romania nor the Czech and Slovak Federal Republic offers special incentives to promote investment in certain geographical areas (as does the Soviet Union) or in certain industries (as do Poland, Hungary, Bulgaria and the USSR).

Another aspect of joint venture legislation which is important to the foreign investor is the extent to which he is able to remit the profits he earns to his country of origin. The scarcity of convertible currency in east European countries has given rise to various laws in these countries which restrict, to differing degrees, the rights of foreign investors to take profits out of the country.

In the Czech and Slovak Federal Republic, as noted above, a company is now obliged to sell a part of its foreign currency proceeds (a separate law determines that this amount shall be 30 per cent) to the State. Thereafter, profits may be transferred abroad, but only from the convertible currency resources of the joint venture itself. In Romania, under its new legislation, while the transfer abroad of the foreign partner's share of hard currency profits must come from the foreign currency resources of the joint venture, the company is not obliged first to sell a portion of these proceeds to the State. Moreover, 8 per cent of the foreign partner's share in local currency profits may also be transferred abroad and may be exchanged for foreign currency by the Romanian Bank for Foreign Trade, if such payment cannot be made by the company's foreign currency account. In Poland the foreign investor is entitled not only to transfer his share of foreign currency profits of the company, but also 15 per cent of his share of local currency profits - almost double the amount permitted in Romania - which he may exchange for convertible currency at the foreign exchange bank. In Hungary, the foreign partner's share of the profits of the company (the law makes no distinction between convertible and local currency profits) may be transferred abroad, but only in the currency of the original investment and only from the foreign exchange resources of the company itself.

To conclude, Romania has clearly widened the scope of foreign business activity in its country and improved the investment climate from a legal point of view, but in comparison with the investment regimes existing in other countries of eastern Europe, has not moved quite as far in streamlining its approval procedure. In the Czech and Slovak Federal Republic, an overall assessment may be premature in view of the fact that its legislation may change further as a result of economic reform measures. Foreign investors will, however, no doubt note the lack of any automatic investment incentives and the new restrictions on profit remittances in the new legislation.

Foreign Investment Legislation in the countries of
Eastern Europe and the USSR

Country	Approval/Registration	Foreign Equity Legislation	Taxation
BULGARIA	Permission required from state body only if foreign equity exceeds 49% (for ltd. liability companies) or 20% (for joint-stock companies); no feasibility study required	No set limit	50% (30% if foreign equity exceeds 49% & 5 m BGL in convertible currency or 50 m transferrable SUR) tax on income from dividends, shares, fees royalties is 15% (10% on dividends if foreign equity exceeds 49%)
CZECH & - SLOVAK FEDERAL REPUBLIC	Request may be made by either partner; approval required from Ministry of Finance, in agreement with Ministry of Finance, Price & Wages in the respective republic; approval within 2 months; no feasibility study required	Wholly foreign-owned companies allowed	1) No specified tax for joint ventures; 2) Income/profits tax is 40 %; 3) Tax on remitted dividends is 25%
GERMANY - (EAST)	Requirements: feasibility study, draft of status, opinion of trade union org.,approval of special executive committee (after consulting with committee of experts & state organs); joint venture approval must be in national/regional economic interests	20-49%; exceptions; foreign equity may be allowed to exceed 49% for SME's or if it is in the national interest	No specific tax regime for joint ventures
HUNGARY -	Joint approval of Ministries of Finance & of Trade required only if company is majority or fully foreign-owned; approvalwithin 3 months; no feasibility study required	Wholly foreign-owned companies permitted	40% up to 3 m forints, 50% if over 3 m forints; 20% tax allowance if foreign statutory capital is 20 % or more of total capital or 5 m forints
POLAND -	Permit & feasibility study approval within 2 months; Foreign Investment Agency has been established	Wholly foreign-owned companies permitted	40% tax on income/profits; 3 year tax holiday to encourage investment; dividends may be paid in PLZ or hard currency & are subject to 30% taxation
ROMANIA -	Approval required from appropriate ministry & from Ministries of Trade, Finance & National Economy; approval within 3 months; registration fee of $500; feasibility study required	Wholly foreign-owned companies permitted	30% on income/profits; profits exempted from taxes for 2 years from first showing of taxable income; possible further 3-year 50% tax diminution
SOVIET - UNION	Feasibility study & draft foundation documents required (to be submitted by Soviet partner); approval required from respective superior administrative organs; registration required with Ministry of Finance	Wholly foreign-owned companies not explicitly prohibited but wording implies a Soviet partner	30% tax on profits/ income; initial 2 year tax-free period from moment when profits are declared; foreign profits transferred abroad are taxed 20%

Foreign Investment Legislation in the countries of
Eastern Europe and the USSR (continued)

Incentives	Repatriation of profits
Tax exempt for 5 yrs in FTZs, then 20% tax; profits of foreign majority-owned company & of subsidiary foreign company are tax free for 5 years when operating in high-tech areas; raw/prime materials & equipment for production for export are customs free when imported by foreign partner	Profits earned in foreign currency may be transferred abroad as well as profits in BGL earned "from economic activity by contract with the relevant state authority"
Possible application for reduction of or exemption from taxation for a maximum of 2 yrs; contributions in kind to joint ventures by foreigners are customs free	Part of foreign currency receipts must be offered to State Bank for sale; salaries & profits of foreign employees/executives may be transferred abroad from hard currency resources of the joint venture
May offer fiscal incentives to encourage high-tech, high quality consumer goods/ services, exports or environmental protection; foreign contributions in kind to the joint ventures are customs free	Part of hard currency earnings must be sold to the government; remaining profits/salaries may be transferred abroad, including GDR marks transferred as hard currency
Tax cut (60% for 5 yrs, then 40% if statutory capital exceeds 25 m HUF, if foreign share is 30% or more & if over 1/2 of sales is from product or hotel built by joint ventures; further cut (100% for 5 yrs, then 60%) if all of the above requirements are met, plus joint venture is operating in a designated sector; foreign contributions in kind to joint venture are customs free	Foreigners are free to transfer profits abroad in currency in which the investment was made; foreign executive/employees may repatriate 50% of after-tax income in currency of domicile country
6 yrs tax holiday for special sectors; no special incentives for export; all property/ machinery imported within first 3 yrs is customs free	Transfer abroad allowed of (a)surplus of export revenues over expenses plus (b) 15% of profits earned in Polish currency (may be converted to hard currency)
Tax on profits reinvested is reduced by 50%; no differential tax rates to attract foreign investment into specific sectors; foreign contributions in kind to joint ventures are customs free	Profits in hard currency may be transferred abroad; maximum of 8% of after-tax profits of foreigners earned in ROL may be transferred abroad in hard currency
3 yrs tax free period plus 10% income tax for joint ventures in Far East Economic Region; reductions or exemptions from withholding tax on profits due to foreign partner in certain sectors (medical, consumer or high-tech goods) goods); minimal or no customs duties on imports of goods for joint venture production; preferential customs regime for foreign employees of the joint venture	Unutilized portion of foreign employees' pay may be transferred abroad in foreign currency; foreign partner may transfer abroad from foreign currency resources of the joint venture his share of profits

Legend: SME's : Small and Medium-sized enterprises
FTZ : Free Economic Zone
BGL: Bulgarian leva
HUF: Hungarian foring
SUR: Soviet rouble
PLZ: Polish zloty
ROL: Romanian lei

Turning to a quantitative assessment of experience of FDI in central and eastern Europe there are unfortunately, too few data yet available on the operating results of joint ventures to allow even an approximate assessment of their effects on domestic economic activity or export performance. Indeed, when reviewing any of the statistics provided in this text it has to be borne in mind that only about 10 per cent of the JVs registered in the Soviet Union, for example, are actually operational. This is true, in particular, of JVs in the manufacturing sector, where there are inevitably longer lead-times between registration and start-up. Nevertheless, it is precisely in manufacturing that the difficulties of the interface between the operation of the joint venture and the domestic supply network are likely to be most acute.

Western investors complain of the poor quality of imports provided from domestic sources, irregular deliveries, complex and obscure local legislation - especially as regards taxation and ownership (lack of adequate investment protection guarantees in some countries) accounting rules, and procedures for repatriating assets in the event of bankruptcy. Above all, criticism has been directed at the requirement (notably in the Soviet Union) that the foreign partner's profits must be obtained from the joint venture's earnings in convertible currencies. This means, in the manufacturing sector, that the joint venture must be capable of producing goods of a price and quality which are competitive on western markets. In the view of these critics, this approach ignores the fact that part of the JVs production is substituting for imports and should therefore be permitted to share in the resultant foreign exchange savings.

6. <u>Privatization and Foreign Direct Investment</u>

In the discussion of the means by which the system of predominantly state-owned industry, subject to central planning, can be dismantled and replaced by the market mechanism, pride of place has been given to the pivotal role of privatisation. It is widely (though not universally) believed that a system of privately-owned profit-oriented enterprises will produce a wider range of goods of better quality, corresponding more closely to consumer demand, while at the same time reducing the waste (especially of energy and raw materials) and inefficiency often associated with state-owned enterprises. In addition to these gains in allocative efficiency, privatization is expected also to encourage better maintenance of capital stock, since private owners are more likely to pursue policies preserving or enhancing the value of their firm's productive assets. (The superior maintenance of privately owned dwellings over the public housing stock is a case in point.)

Put differently, the debate does not centre on "why privatize" as much as it does on "how to privatize and what to privatize". These questions, in turn, are sustained under the still more difficult issue of deciding "when", in the context of measures to achieve macro-economic stabilization and a sequence of institution-building innovations (e.g. a commercial banking system <u>plus</u> supervising bodies), without which markets cannot function smoothly and efficiently.

As a commentator, reviewing in the "Financial Times" (13 September 1990) Professor Kornai's latest book entitled "The Road to a Free Economy", observed: "in every university library there are whole rooms full of learned books on the transition from capitalism to socialism. Until recently it had hardly occurred to anyone to write about a move the other way". The gap is now being filled quite rapidly, as national and international institutions turn their attentions to a whole series of practical issues surrounding the drafting and implementation of privatization legislation.

Some of these issues, such as principles and procedures of valuation, or the mandate of institutions responsible for the sale (or flotation of shares) of previously state-owned enterprises, are largely of a technical-economic nature. Others concern the creation of supporting infrastructural institutions such as a stock exchange and capital market. Cutting across both sets of issues are such policy decisions as which enterprises to privatize first - the profitable or unprofitable - and what proportion of the emerging private sector should be vested in foreign ownership. These are controversial and potentially divisive matters, as can be seen from early reactions to privatization practices and policy intentions in Hungary, Poland, Czechoslovakia and Romania.

In the following observations, for the sake of brevity, only the issue of the role of foreign investment in privatization is considered.

The reasons why central and eastern European countries seek foreign participation in the purchase of formerly state-owned enterprises are very similar to those for wishing to attract FDI for the establishment of new productive capacities and other enterprises. In summary, these aims are

(a) to lighten the burden of indebtedness (particularly in Hungary and Yugoslavia amongst the Pentagonal member countries) by attracting a new inflow of convertible currency

b) to raise productivity by the introduction of modern western technology, know-how, and management and marketing skills

(c) to bring standards of quality, safety, environmental acceptability and competitiveness closer to those prevailing on international markets, thereby generating new flows of exports, winning larger shares of foreign markets and increasing convertible currency revenue

(d) to augment the total amount of capital available to modernise the obsolescent infrastructural and production structures associated with the ageing capital stock noted earlier.

Given the strength of these motives, it comes as no surprise that the central and eastern European countries have been vying amongst themselves to introduce and progressively amend legislation designed to attract foreign investors. For the latter, the question is then one of deciding why to invest in these countries at all when there are many alternative destinations for investible funds, where the operating environment is more familiar, rates of return less uncertain, and conditions of repatriation of profits and assets more secure. These uncertainties are, moreover, compounded by near-recessionary economic trends in many of the countries of central and eastern Europe, and doubts about the prospects of the austerity or stabilization programmes being undertaken. It must surely be the combination of such uncertainties which accounts for the caution which has so far characterised the response of foreign investors who have, in general, limited the amounts of capital committed to the economies in transition to sums which are small by national or international standards.

Nonetheless, foreign investors who take a medium to long-term view (which is not always the case) of prospective rates of return should not be insensitive to the following advantages of central and eastern European destinations for their funds:

(a) labour-costs are lower in these countries than elsewhere in Europe, and hence comparatively attractive, even when allowance is made for distinctly lower average productivity (which would be expected to rise when supported by imported modern equipment under efficient management)

(b) levels of education and training of the labour force compare favourably with those in western Europe

(c) complementary intermediate industrial imputs are readily available from domestic sources, thanks to the policy of comprehensive industrialization pursued over several decades. In branches such as heavy engineering, metal-processing and basic chemicals, the deficiencies noted earlier as deriving from obsolescent technology and poor quality control are less serious than in finished manufactures. Availability of such imports can add to the value of foreign investments in labour- and skill-intensive branches of manufacturing, chosen because of advantages (a) and (b) above.

(d) prospective domestic-market growth if current programmes of stabilization and reform succeed. The most obvious source of growth of the internal market is the 'catch-up' pressure of pent-up demand for the volume and range of consumer goods enjoyed by households and enterprises in western Europe. Automobiles are a case in point - hence GM's current negotiations, and the bids by Volkswagen and Renault/Volvo to acquire car-manufacturing capacity in Czechoslovakia; so are most items of modern business and household equipment such as photo-copiers and telefax installations. Satisfaction of this latent demand - the fruit of decades of consumer austerity - will call for increased output and capacity along the whole suppply chain, to include modern food-processing, retailing and ancillary services. These include telecommunications, and transport and distribution facilities.

(e) the prospective growth of foreign demand for nationally-located services. Tourism, but also health and sports facilities (e.g. spas and ski-lifts), is the prime example where existing hotel and recreation infrastructure will have to be expanded to meet the upsurge in western demand to visit the societies in transition.

Finally, there is the question of the most suitable forms of foreign investment, once the preferred branch, product group or plant has been identified, using the type of criteria discussed above, refined by more specific accounting data. In making the choice the foreign investor will have to assess the degree of control, accessibility and transparency offered by each form.

(a) Joint Ventures

So far this has proved to be the most popular form of FDI, partly because legislation in central and eastern Europe gave preference to it until recently. It has to be recalled, however, that in business relations between enterprises in developed market economies, joint ventures are frequently a transitional form of relationship, which often culminates either in the partners going their separate ways or one or the other assuming (by merger or acquisition) complete control of the venture as a wholly-owned subsidiary.

(b) Establishment of wholly-owned subsidiaries

This is now possible in all central and eastern European countries (with some implicit limitations, likely soon to be removed, in the Soviet Union and Romania). It offers the advantage of total control of the operation of the investment project, but the disadvantage of not having local partners possessing the "know-how and know-who" which facilitate the interface with surviving allocative ministries and local authorities.

(c) Outright purchase, or acquisition of a controlling interest, in existing enterprises

This is permitted in Hungary and - with some qualifications - in Yugoslavia. There have been several well-reported cases - notably, the General Electric investment in Tungsram, or the sale of the Lingarhotel chain. This form of FDI is likely to increase in scale as the process of privatization by means of the conversion of state-owned enterprises (SOE's) into joint-stock companies gathers pace.

(d) Portfolio investments

A number of investment funds have been set up over the past eighteen months, some of which focus on particular countries - notably, Hungary, followed by Poland - others which take the whole set of economies in transition as the target-region for their investments.

* * *

TABLE 1. Austrian and Italian Foreign Investment in capital-importing "pentagonale" countries

as on 1 January, 1990

	CSFR		Hungary		Yugoslavia		Total (3 countries)	
	number	mn USD	number	mn USD	number	mn USD	number	mn USD
Austria	19	11.7	174	94.4	...	...	193	106.1
Italy	2	...	19	24.3	...	...	21	...
Total	21	11.7	193	118.7	...	...	214	130.4
Memo item:								
Total Foreign Investments	80	108.8	615	485.3	750	700.0	...	...
Austrian Investments (%)	23.8	10.8	28.3	19.5	...	...	...	...
Italian Investments (%)	2.5	...	3.1	5.0	...	...	...	...

Note: In addition, 35 Austrian and 22 Italian firms were engaged in multi-party joint ventures, that is those which involve Western partners from two or more countries

Source: ECE Data Base on Joint Ventures

Table 2. Austrian Foreign Investment in Eastern Europe and the USSR,

as on 1 January, 1990

Host country	Statutory capital			Number
	Total	Foreign		
	mn national currency		mn USD	
Czechoslovakia	288.8	123.4	11.7	19
Hungary	10130.9	5111.4	94.4	174
Poland	17053.8	6034.2	4.8	57
USSR 1)	142.9	45.5	72.2	53
Total 4 countries	...	...	183.1	303
Memo item:				
Total Foreign Investments (4 countries)	...	...	2318.9	2542
Per cent of Austrian Foreign Investments	...	...	7.9	11.9

1) as on 1 October 1989

Note: In addition, 35 Austrian firms were engaged in multi-party joint ventures, that is those which involve Western partners from two or more countries

Source: ECE Data Base on Joint Ventures

Table 3. Italian Foreign Investment in Eastern Europe and the USSR,

as on 1 January, 1990

Host country	Statutory capital			Number
	Total	Foreign		
	mn national currency		mn USD	
Czechoslovakia	...	...	...	2
Hungary	3555.2	912.6	24.3	19
Poland	9677.8	4137.1	2.8	33
USSR 1)	227.7	77.2	124.9	53
Total 4 countries	...	...	152.0	107
Memo item:				
Total Foreign Investments (4 countries)	...	...	2318.9	2542
Per cent of Italian Foreign Investments	...	...	6.6	4.2

1) as on 1 October 1989

Note: In addition, 22 Italian firms were engaged in multi-party joint ventures, that is those which involve Western partners from two or more countries

Source: ECE Data Base on Joint Ventures

TABLE 4

Industrial investment by major branches
(Percentage shares)

		Czechoslovakia			Hungary		
		1980	1985	1988	1980	1985	1988
1.	Energy	16.4	15.1	14.6	19.8	20.7	15.5
2.	Fuel	13.4	14.1	11.7	14.2	22.0	20.5
3.	Metallurgy	9.6	8.4	7.2	12.0	5.7	4.9
4.	Engineering	23.6	27.4	29.9	17.0	12.1	12.7
5.	Chemicals	7.2	7.2	10.7	11.2	17.4	20 0
6.	Constr. materials	4.6	3.7	2.7	4.9	4.1	4.0
7.	Wood and paper	8.9	4.4	4.2	1.6	2.6	1.6
8.	Textiles	3.8	3.8	4.1	2.4	2.0	2.2
9.	Other light ind.	3.7	4.7	4.6	3.1	1.5	2.8
10.	Food	7.4	9.2	9.2	12.5	11.3	15.0
11.	Other branches	1.4	1.9	1.3	1.2	0.5	0.7
	Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: ECE secretariat Common Database, derived from national statistics.

ID. 2198c

TABLE 5

Industrial fixed assets by major branches
(Percentage shares)

		Czechoslovakia			Hungary		
		1980	1985	1988	1980	1985	1987
1.	Energy	13.5	14.7	15.9	13.4	15.0	16.7
2.	Fuel	10.8	10.8	10.6	9.4	10.7	11.2
3.	Metallurgy	14.2	13.5	12.5	10.5	10.3	9.9
4.	Engineering	22.3	22.6	23.5	18.9	18.4	17.6
5.	Chemicals	11.1	10.9	10.3	16.1	15.8	16.0
6.	Constr. materials	5.7	5.2	5.0	6.6	5.9	5.6
7.	Wood and paper	4.9	5.7	5.4	2.4	2.3	2.1
8.	Textiles	4.8	4.4	4.3	3.8	3.0	2.7
9.	Other light ind.	4.2	3.9	4.0	5.2	5.0	4.9
10.	Food	7.6	7.3	7.4	12.0	12.1	12.0
11.	Other branches	1.0	0.9	1.1	1.6	1.5	1.4
	Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: ECE secretariat Common Database, derived from national statistics.

ID. 2198c

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EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

Paper prepared by EBRD
on the occasion of the Conference

COOPERATION IN THE ADRIATIC-DANUBE REGION

Vienna
October 14 - 16, 1990

INTRODUCTION

The European Bank for Reconstruction and Development (ERBD) has been established to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in the Central and Eastern European countries committed to and applying principles of multi-party initiative in the Central and Eastern European countries committed to and applying principles of multi-party democracy, rule of law, respect for human rights, and market economics.

On May 20, 1990, forty countries spanning six continents together with two European institutions pledged a total of 10 billion ecus ($12 billion) for the formation of EBRD. Mr. Jacques Attali, Special Advisor to French President François Mitterand, was designated to become President of the European Bank for Reconstruction and Development.

To respond to its unique mandate, the European Bank for Reconstruction and Development will be an unprecedented blend of merchant bank and development bank. Aggressive in its approach to financing projects and fluid in its organization, EBRD will be flexible to respond to the ever-changing needs of the marketplace.

OBJECTIVES

To foster this transition to market-oriented economies and to promote private and entrepreneurial initiative, EBRD shall assist its recipient members to implement structural and sectoral economic reforms, including demonopolization, decentralization, and privatization, to help their economies become fully integrated into the international economy. Thus, the European Bank for Reconstruction and Development aims to:

*work with members to establish and foster the rapid growth of the private sector with emphasis on small and medium-sized enterprises

*identify investment opportunities and assist in bringing together the capital, management, and technology necessary to establish and finance efficient, competitive enterprises

*catalyze foreign capital to complement investment financed out of domestic savings; part of this will be acheived by attracting foreign direct investment in the region through joint ventures or other arrangements with businesses of all sizes, including multi-national corporations

*foster productive investment in infrastructures which directly leads to support of private and entrepreneurial initiative, thereby enhancing the competitive environment and raising productivity, the standard of living, and labor conditions in countries of operations

*stimulate and encourage the development of capital markets, essential to the transition to a market-based economy as well as accelerating development

*advise on regulatory and financial restructuring, privatization, and project preparation *leverage its own resources by keeping its investments to a reasonable proportion of project financing or investment and encouraging investment from other sources, both public and private; this would lead to a range of financing activities from direct investment to private placements and underwriting securities issued by East European and USSR clients

*promote regional trade and economic integration by supporting sound and economically viable projects in more than one member country

*promote environmentally sound and sustainable development in the full range of its activities

To achieve these ends, a minimum of 60% of the Bank's funds (both the total as well as on a country-by-country basis) will be dedicated to private sector enterprises. The remaining maximum of 40% will be dedicated to government infrastructure projects supporting private sector development.

MEMBERSHIP
In general, membership to the Bank is open to European countries, International Monetary Fund members, the European Economic Community, and the European Investment Bank. (Please refer to last page for a listing of member donor and recipient countries.)

FINANCING INSTRUMENTS
The European Bank for Reconstruction and Development will offer a full range of financial services and instruments to projects in recipient countries. While concessionary funding will not be provided, EBRD will provide both equity and debt financing on commercial terms. According to EBRD's charter, up to 30% of its subscribed capital may be dedicated to equity infusions. However, the Bank will neither seek to obtain a controlling interest in enterprises nor assume direct responsiblitiy for managing enterprises.

The Bank shall charge, in addition to interest, a commission of loans made or participated in as part of its ordinary operations. In guaranteeing a loan as part of its ordinary operations, or in underwriting the sale of securities, the Bank shall also charge fees to provide compensation for its risks.

FUNDING
The initial total aggregate subscribed capital of the Bank will be ten billion ecus, the paid-in-capital being three billion ecus. Each of the forty-two members of EBRD have thus pledged 30% of its subscription fee as paid-in-capital to be paid annually in five equal installments.

METHODS OF OPERATION
The Bank will carry out its funding operations by:

*making, or cofinancing together with multilateral institutions, commercial banks or other interested sources, or participating in, loans to private sector enterprises, loans to any state-owned enterprise operating competitively and moving to participation in the market-oriented economy, and loans to any state-owned enterprise to facilitate transition to private ownership and control, in particular to facilitate or enhance the participation of private and/or foreign capital in such enterprises

*investing in the equity capital of private sector enterprises

*investing in the equity capital of any state-owned enterprise operating competitively and moving to participation in the market-oriented economy, and investment in the equity capital of any state-owned enterprise to facilitate transition to private ownership and control; in particular to facilitate or enhance the participation of private and/or foreign capital in such enterprises

*underwriting, where other means of finance are not appropriate, the equity issue of securities by both private sector enterprises and such state-owned enterprises referred to above

*facilitating access to domestic and international capital by private sector enterprises or by other enterprises referred to above for the ends mentioned, through the provision of guarantees, where other means of financing are not appropriate, and through financial advice and from other forms of assistance

*deploying special funds resources

*making or participating in loans and providing technical assistance for the reconstruction or development of infrastructure, including environmental programs, necessary for private sector development and the transition to a market-oriented economy

APPROACH TO BANKING
EBRD will create a wholly new bank model, fusing principles of development banking and merchant banking. Three features surrounding EBRD's creation call for a novel approach to banking:

*specific regional focus on eight countries
*unusual mandate to develop the private sector
*need for speed and flexibility in responding to this unprecedented and significant historical development

EBRD will thus be characterized as:

Unique and Unprecedented
Unlike such existing models of development banking as the World Bank or the IFC which cover hundreds of countries all over the world needing the most basic aid for infrastructure and economic development, EBRD will concentrate on a limited region of countries already having in place infrastructures and development economies. With the twist of developing free market economies, EBRD will take from merchant banks their critical ability to respond to the ever-changing requirements of the private sector marketplace. Furthermore, the unforeseen rapidity at which

events in Eastern Europe transpired has put speed of reactions by the "West" at an absolute premium in continuing the progress in Eastern Europe and the USSR.

As a result of its unique positioning, EBRD will start with a fresh slate, with no preconceived notions regarding its philosophy, products, or modus perandi. It will continuously evaluate and evolve itself in defining and addressing its unique niche.

Focussed on the Private Sector
EBRD will be client-driven with its clients being enterprises and governments in not only its eight countries of operations but also the private sector in all other member countries. Unlike some existing development banks, EBRD wants to become the partner of choice for the private sector. EBRD will therefore operate as an integral part of the world's private sector and not simply as a passive bystander.

Flexible and Responsive
The pace of change in Eastern Europe has been extraordinarily fast. Therefore, the pace of EBRD must be extraordinarily fast. As a client-driven institution, EBRD must adapt itself to the pace of change in the private sector. Like a merchant bank, EBRD will respond to these ever-changing market conditions within Eastern Europe and the USSR with new products, new systems, new ideas, and new solutions.

International
What happens in Eatern Europe and in the USSR is of vital interest and concern to the entire world. EBRD's forty member countries span the globe, and the Bank's progress will address the ideals and objectives outlined by this international body. To meet his end, EBRD will encourage the sharing of experiences from all countries, and its staff will be drawn from professionals from all over the globe.

Profit-Oriented
As the Bank will not provide concessionary funds, EBRD will support only those operations which will ultimately be able to turn a profit and reflect a true exemplar of a private enterprise operating in a free market economy. Hence, threshold criteria for EBRD's participation will be financial viability.

CURRENT STATUS
The Bank is actively exploring financing opportunities currently needed in the market place and seeks communication with those institutions and individuals with specific, viable projects of ideas. Formal commitments for funding will be made once the Bank's treaty is officially ratified by its members, which is expected by March 31, 1991.

LIST OF MEMBER COUNTRIES

<u>European Community Countries</u>
Belgium
Denmark
France
Federal Republic of Germany
Greece
Ireland
Italy
Luxembourg
Netherlands
Portugal
Spain
United Kingdom

<u>European Community Institutions</u>
European Economic Community
European Investment Bank

<u>Countries of Operations</u>
Bulgaria
Czechoslovakia
German Democratic Republic
Hungary
Poland
Romania
Union of Soviet Socialist Republics
Yugoslavia

<u>Other European Countries</u>
Austria
Cyprus
Finland
Iceland
Israel
Liechtenstein
Malta
Norway
Sweden
Switzerland
Turkey

<u>Other Non-European Countries</u>
Australia
Canada
Egypt
Japan
Republic of Korea
Mexico
Morocco
New Zealand
United States of America

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Aspen Institute Italia

THE DUNAMONT COMPANY
A MAJOR ITALIAN COMPANY AND THE FIRST CAPITAL - INTENSIVE JOINT VENTURE IN HUNGARY

Paper presented by MONTEDIPE (ENIMONT GROUP)
on the occasion of the Conference

COOPERATION IN THE ADRIATIC-DANUBE REGION

Vienna
October 14 - 16, 1990

Summarizing in just a few minutes a 4-year experience and relationship with Hungary allowed me to relive some pivotal moments and I must say that, in the context of my extensive experiences abroad, it has been a unique and definitely positive one at that.
At this conference, however, rather than hearing about the many positive aspects such as the unstinting cooperation received from our partners, the highly professional nature of the personnel selected, the willingness to integrate with and learn new techniques and methods as well as the will to change, I think people would rather hear about the uncertainties, difficulties and differences we encountered. I would therefore like to apologize to the Hungarian delegation present today if what I am about to say will mainly underscore the hurdles to overcome rather than the level of understanding reached.

In order to provide an overall picture of the context within which the project was drawn up, its size and the nature of the agreements, it is best to premise:

"WHAT IS DUNAMONT"

(show transparencies)

NOW THAT WE KNOW WHAT DUNAMONT IS, WE SHALL EXAMINE THE PREMISES ACCORDING TO WHICH IT WAS POSSIBLE TO REACH OPERATIONAL STATUS.

THE PREMISES

It took about three years for the team of partners to reach the situation shown in the trasparencies. This first aspect should be borne in mind, although I believe that nowdays the foundations have been laid to allow for a much shorter time frame. That is to say:

- The structures involved have become attuned to the existing problems.

- The new laws and regulations have been understood and implemented.

- Scores of joint ventures have been started up and the knowledge base, the institutions, the intergovernmental agreements necessary to facilitate such ventures have come into being.

- Internal political forces are aware of the difficulties and are actively seeking to bring the infrastructure up to date.

The length of time needed to fully establish Dunamont was partly tied to the complexity of the project, the high level of technology used, the time necessary to complete construction and the sheer size of the outlay. Each of these aspects had to be agreed on by all the parties involved.

As far as Montedison was concerned, this was an act of faith in a future characterized by sweeping changes, such as:

- increased productivity
- economic integration
- growth in consumption
- currency convertibility
- inflation control
- appropriate monetary and fiscal policies
- improvements in education, research, infrastructure, safety and environmental control.
- reaching of a social consensus
- rising entrepreneurial drive
- business ethics, etc.

These aspects had to be carefully evaluated. Therefore, both we and the other party had to effect choices with great care and after double-checking them.

The long lead times required by our Hungarian counterpart were due to lack of knowledge, continuous changes in the legislation, the need for constant oversight and approval of negotiations on the part of local authorities and the newness of this endeavor which rightly compelled them to examine issues more carefully than would be expected from a partner more accustomed to this type of business.

The idea of a joint venture originated from exchanges between DKV General Manager Mr. Raatosi and Montedipe President Mr. Mattiussi. From the Hungarian point of view the project was motivated by the wish to integrate downstream by producing monomers and polymers in order to utilize some raw materials available from refineries.

Two different approaches developed out of a different way of looking at investments. For this very reason, we realized that we had found the right partner, one that accepted and defended our proposals with local authorities as if they were their own.

HUNGARIAN OUTLOOK

TO BUILD SEVERAL PLANTS, WITH LARGE CAPACITIES, DEPENDENT ON EXPORTS IN ORDER TO UTILIZE TO THE UTMOST AVALIABLE RAW MATERIALS.

INTERNAL CONSUMPTION AND GROWTH RATES WERE NOT TAKEN INTO CONSIDERATION AND WERE ONLY MARGINALLY KNOWN.

THE MARKETING OF PRODUCTS WAS NOT THEIR RESPONSIBILITY, THE TASK BEING ASSIGNED TO MARKETING COMPANIES.

MONTEDIPE OUTLOOK

TO GIVE PRIORITY, WITHIN THE PROJECT, TO THE PROPER SIZING OF PRODUCTION CAPACITIES IN THE NEW PLANTS, FULLY EXPLOITING ALL THE COMPETITIVE ADVANTAGE STEMMING FROM THE LOCATION OF THE ENTERPRISE WHILE ENVISIONING AN INTERNAL DEMAND EQUAL TO AT LEAST 50% OF A BUDGET-SIZED PLANT.

TO CAREFULLY EVALUATE POTENTIAL MARKET GROWTH RATES AND TO COMPARE THEM WITH THOSE OF WESTERN COUNTRIES, AS WELL AS IMMEDIATELY UNDERTAKING POSSIBLE APPLICATIONS-RELATED PROMOTIONAL ACTIVITIES.

TO MARKET OWN PRODUCTION DIRECTLY BOTH ON THE DOMESTIC MARKET AND FOR EXPORT, FOLLOWING INDEPENDENTLY-DEFINED MARKETING POLICIES.

TO PROCURE RAW MATERIALS DIRECTLY.

STAGES OF THE PROJECT

Meeting of top Montedipe/DKV managers	Early 1986	
Establishment of task force	April 1986	
Agreement on a feasibility study for 45 KT/year of IR PST and 20 KT/year of PST foam	February 1987	
Signing of letter of intent	March 15, 1988	
Agreement between the two parties	June 17, 1988	First outalys on behalf of Dunamont on the part of DKV and Montedipe
Authorization by decree of the Hungarian Finance Ministry. "Turn-key" offer by an engineering firm	September 1988	
Charter meeting for Dunamont	December 5, 1988	
Approval of Dunamont art. of association by Finance Ministry	December 22, 1988	
Registration of Dunamont	Gen./Feb. 1989	

CARRYING OUT THE PROJECT

A task force was established in April of 1986 with the purpose of confucting the preliminary studies, obtaining the necessary authorizations, chartering the company and negotiating contracts between the two parties as well as others involved.

Amongst the two partners (DKV and MONTEDIPE), the latter bore the main responsibility for preparing the feasibility study based on Western financial criteria, drawing up the AGREEMENT BETWEEN THE TWO PARTIES which would define the committment and relationship between the partners, the contracts and the articles of association. DKV was mainly in charge of guaranteeing compliance with local legislation and preparing the Hungarian version of the texts to be submitted to their authorities in order to receive all necessary authorizations. The task force was also aided by the other partners, Chemolimpex and IFC, who made their contribution felt throughout the negotiation process. Specifically they provided both commercial (Chemolimpex) and financial backing (IFC). IFC offered its services as focal point for the process and coordinated the granting of financing necessary for the project.
Montedipe, on the strength of its relationship with them, brought into the fray some Italian banks which might be interested in financing the project. The final agreement envisons that Monte dei Paschi di Siena will join IFC in providing hard-currency financing. From the start, the leading provider of financing for local needs, which also belonged to the team as auditors, was Budapest Bank.

The Montedipe team consisted mainly of four people:

Myself and a colleague of mine followed the negotiations;
An expert on contracts, to write and discuss the texts;
A comptroller, who followed the financial aspect.

Naturally, our team made use of the company's infrastructure and in-house experts as deemed necessary on a case-by-case basis. Additionally, we availed ourselves of a lawyer, who in turn chose a Hungarian colleague to ensure a correct interpretation of local legislation.

The Hungarian delegation was made up of several people, a good portion of whom almost never took part directly in team discussions.
The language barrier was greatly felt, since only a small portion of the delegation spoke English and even those members preferred to used an interpreter.
The negotiation and discussion of agreements was thus continuously interrupted by internal consultations on the part of delegation members during which we were unable to contribute to the discussion.

In February of 1987, the team reached an agreement on the preliminary feasibility study that described a plan for a joint stock company, the purpose of which was to build a plant and successively to produce and market impact-resistant polystyrene at a rate of 45,000 tons/year and polystyrene foam at a rate of 20,000 tons/year. The plan was submitted to the management of the companies involved as well as to the Hungarian Ministry of Finance together with the applications for authorization.

Montedipe specifically emphasized a series of aspects with regards to which a clearly defined position should have been adopted by the authorities in charge. The project was subject to receiving certain responses, such as:

- Guaranteed approval of licence and know-how purchases.
- Guaranteed 5-year tax exemption, as set forth by existing legislation.
- Guaranteed taxation level of 20% on joint-venture profits.
- Guaranteed granting of all import licences necessary to production.
- Granting of extentions on the payment of import duties on machinery and materials.
- Exemption from import duties on engineering outlays.
- Free convertibility of dividends and part of the salaries received by any members of our staff relocated abroad.

Having received the go-ahead to continue working, on the basis of the results of the preliminary feasibility study, the parties involved perfected a series of agreements which, on March 15, 1988, culminated in the signing of a letter of intent. Said letter established the basic principles underlying the joint venture and the agreements that governed the contribution of the parties (criteria used to determine the price of raw materials supplied by the partners, valuation of the property, criteria for supply of utilities services, agency mandates, licensing costs, cost of services rendered by DKV and Montedipe, etc.). In the months that followed, this allowed the team to reach a final AGREEMENT BETWEEN PARTIES, to draft a final version of the FEASIBILITY STUDY as well as other contracts and to identify the type of financing for the joint venture.

THE AGREEMENT BETWEEN PARTIES was signed on June 17, 1988.

The sealing of this agreement, made possible the submission to the Ministry of Finance of the applications for authorization for the establishment of the company in compliance with existing laws. The authorization was issued by decree N. 37.784/1988, granted in September of 1988.

In the meantime, the parties received the "turn-key" offer for the construction of the plant from a consortium formed by the Tecnimont engineering concern and DKV. They negotiated the terms and in the course of a lively final meeting set down the definitive "scope of work" and related remuneration.

On 5-12-1988, the charter meeting for Dunamont was held and the ARTICLES OF ASSOCIATION and the contribution in-kind of 55,000 sq. meters of land by DKV were approved. At the same time, the BOARD OF DIRECTORS and the BOARD OF STATUTORY AUDITORS were formed and a PRESIDENT and MANAGING DIRECTOR were appointed.
On that date, Dunamont signed binding agreements with the financing party which, however, would only legally take effect after the company was registered with the court so that the related contracts were kept in custody by the Hungarian National Bank. A response satisfactory to all parties was also received concerning those critical aspects mentioned previously.

The Ministry of Finance approved the articles of association on 22-12-1988.

The formal submission of a request for registration was taken care of with the Ministry of Industry on 31-1-1989 and the company was registered 15 days later. Court registration lag-times, unfortunately, have become longer lately.

Throughout this period (June 1988 to February 1989) the main shareholders shouldered the burden of daily expenses for the preparation of the initial engineering stages as well as the cost of supporting the company which had no staff of its own yet.

Only after being registered was the company able to:

- finally draw from the paid-up capital, until then frozen by the bank to which it was paid,
- sign the other contracts,
- put into action the contracts already signed at the time of the charter meeting.

WHERE DO WE STAND NOW

(Show tape)

SOME DIFFICULT MOMENTS AND UNFORSEEN PROBLEMS

- WHEN THE BANK, 12 HOURS BEFORE THE SIGNATURE CERIMONY FOR THE AGREEMENTS, REQUESTED A COMMISSION IN ORDER TO ISSUE A GUARANTEE ON LOANS. THE COMMISSION HAD NEVER BEEN MENTIONED BEFORE IN ANY OF THE MANY DISCUSSIONS.

- WHEN WE WERE TOLD THAT THE "TURN-KEY" CONTRACT, AS FAR AS THE FOREIGN CURRENCY PORTION WAS CONCERNED, WOULD BE SUBJECT TO A 1% IMPORT DUTY.

- THE MARKETING COMPANY DEMANDED A COMMISSION ON THE VALUE OF THE MACHINERY IMPORTED.

- THE CUSTOMS DUTIES AND LEVIES WERE NOT FULLY KNOWN UNTIL AFTER THE TRANSACTION WAS PERFECTED

- SOME ASPECTS OF THE LICENSES WHICH WERE HELD TO BE EXEMPT FROM IMPORT DUTIES WERE, HOWEVER, SUBJECT TO CUSTOMS DUTIES AND STATISTICAL LEVIES AMOUNTING TO 5/7%. THE IMPORTATION OF MATERIALS WAS ALSO SUBJECT TO UNFORSEEN STATISTICAL LEVIES.

- SINCE LAWS AND REGULATIONS ARE CONSTANTLY CHANGING, THE GOVERNMENT OFFICES RESONSIBLE FOR THEM WEREN'T VERY SURE ON HOW TO BEHAVE AND, LACKING INSTRUCTIONS TO THE CONTRARY, FOLLOWED THEIR PREVIOUS COURSE OF ACTION.

- BANKS DO NOT COMPLY WITH DEADLINES OR INSTRUCTIONS GIVEN TO THEM, THEY DO NOT PROVIDE REQUESTED INFORMATION, THE TIME REQUIRED TO RECEIVE AN ANSWER IS EXTREMELY LONG AND THEY EXPECT TO BE ABLE TO CHARGE COMMISSIONS THEY HAVEN'T MENTIONED IN AGREEMENTS.

- IT IS DIFFICULT TO FIND A PLACE AMONGST AND TAKE THE PLACE OF POWERFUL MARKETING COMPANIES IN THE BUREAUCRATIC PROCESS. AT TIMES, WE HAD TO WAIT FOR MONTHS FOR AN IMPORT LICENSE, WITH THE CONSEQUENCE THAT WE THUS HAD ZERO-RETURN CAPITAL FROZEN UP IN THE BANK. WE ALSO HAD TO WAIT WEEKS FOR SOME LETTERS OF CREDIT AND OBTAINED THEM WHEN THEY HAD PRACTICALLY ALREADY EXPIRED.

- COMECON PRICES DO NOT FOLLOW ANY SORT OF ECONOMIC OR MARKET LOGIC. QUALITY-CONTROL AND TOXICITY CONTROL AGENCIES ARE STRICT, BUT ONLY WITH IMPORTS FROM THE WEST.

- None of these problems is unsurmountable but they do entail delays, loss of opportunities, friction and unforseen costs.

If I may make so bold as to give my Hungarian friends a piece of advice, I would like to say that opportunities for cooperation with the West will grow at the same rate at which it will be possible to speed up banking reform, to effectively liberalize internal and external marketing and to simplify and make clear bureaucratic processes and customs procedures.

WHAT HAS TAKEN PLACE IN THE MEANTIME AT THE LEGAL, REGULATORY AND LOCAL LEVEL:

IT IS UNNECESSARY TO REMARK ON THE SOCIO-POLITICAL CHANGES WHICH ARE A MATTER OF PUBLIC RECORD. THE ASPECTS THAT ARE, INSTEAD, OF GREATER INTEREST TO ENTERPRISES ARE AS FOLLOWS:

- A NEW COMPANY ACT WAS PASSED

- VALUE-ADDED TAX WAS INTRODUCED

- AN INCOME TAX SYSTEM WAS INTRODUCED

- SALARIES INCREASED BY ABOUT 25% PER YEAR SINCE 1988

- THE OFFICIAL FORINT / DEUTSCHE MARK EXCHANGE RATE WENT FROM 29 FORINT/D.MARK TO 38 FORINT/D.MARK (AUGUST 1990)

- INTEREST RATES ON LOANS ROSE FROM FROM 12-18% TO 30-35%

- IMPORT LICENSES ARE NO LONGER REQUIRED ON MANY PRODUCTS

To conclude, I would like to reaffirm my company's satisfaction with its choice, the great willingness to cooperate on the part of all the enterprises we came in contact with, the strong will to change in a socially stimulating and culturally refined environment.

I BELIEVE THAT THOSE RESTAURANTEURS WHO HOSTED US AFTER WE CAME OUT OF EXHAUSTING MEETINGS CONSISTING OF MANY HOURS OF DISCUSSION DESERVE TO BE THANKED. HUNGARIAN AND ITALIAN CUISINE PROBABLY HELPED US SETTLE MATTERS IN THE FACE OF UNCOMPROMISING STANCES FROM BOTH SIDES AND TO IRON OUT OUR DIFFERENCES.
WE WILL NOT SOON FORGET THE PATIENCE, SENSE OF FAIR PLAY AND AMICABILITY OF ALL INVOLVED. THE CONCRETE RESULT OF THAT IS A WINNING COMBINATION THAT, TO OUR MUTUAL SURPRISE, HAS SHOWN A COMMONALITY OF VIEWS UNTHINKABLE AT THE START.

THE FACTS

On the 17th June 1988 in Budapest, Montedipe signed an agreement with seven partners to set up a joint venture in the form of a joint-stock company in Hungary: "Dunamont Polisztirolgyarto RT".

The initial aims of the new company were to:

A) Produce and sell polystyrene.

B) Develop this important plastic material and its applications on the domestic market.

C) Export a share equal to 50% of the production capacity.

THE HUNGARIAN PARTNERS

	SHARES
D.K.V	35%
CHEMOLIMPEX	4%
NITROKEMIA	1%
CHEMOKOMPLEX	1%
BUDAPEST BANK RT	8%
HUNGARIAN FOREIGN TRADE BANK	1%
TOTAL	50%

THE WESTERN PARTNERS

	SHARES
MONTEDIPE	35%
INTERNATIONAL FINANCE CO.	15%
TOTAL	50%

PROFILE OF THE PARTNERS

D.K.V. (DUNAI KOOLAJIPARI VALLALAT)

D.K.V. is the key Hungarian partner.

As a company it manages a refinery, interested in joining the venture downstream in order to exploit its own raw materials (benzol), diversify its products and acquire advanced know-how and technologies.

D.K.V. approached Montedipe in 1986 to set out its project for the production of monomer styrene and its potential derivatives (polystyrene - ABS - SAN).

The D.K.V. strategy appealed to Montedipe who then drew up and proposed a preliminary project, accepted by the partner, and which led, not without a certain amount of difficulty, to the setting up of Dunamont.

SOME INDUSTRIAL FACTS ABOUT OUR KEY PARTNER

REFINING CAPACITY	7,500	KT
OF WHICH: LOCAL CRUDE	2,000	KT
IMPORTED CRUDE	5,500	KT
EMPLOYEES	3,000	

MAIN PRODUCTS

REFORMING GASOLINE	1,200	KT
NAPHTHA	700	KT
AROMATIC COMPOUNDS (including Benzol 120)	300	KT
MALEIC ANHYDRIDE	10	KT
LUBRICATING OILS	240	KT
FUEL	1,000	KT
BITUMEN	540	KT

CHEMOLIMPEX

Chemolimpex is a trading company with whom the Montedison Group has for years kept up trade relations for the buying and selling of raw materials and chemical products.

Known to both partners, it has contributed its commercial experience and will guarantee Dunamont flows of primary raw materials and marketing of the Dunamont products in the COMECON countries.

NITROKEMIA

Nitrokemia is the major Hungarian consumer of foamable polystyrene. It has token shareholdings (1%) with the intention of involving and spurring the relevant market downstream.

CHEMOKOMPLEX

Chemokomplex is a trading company mainly concerned with importing and exporting plant and equipment. Here too is a company whose presence is symbolic.

Chemokomplex is involved in the implementation phase to ensure the correct management as regards the importation of materials and machinery.

BUDAPEST BANK RT

A Hungarian merchant bank.

It will fund Dunamont RT for that part of the investment in local currency. The loan amounts to 1,500 million forints.

HUNGARIAN FOREIGN TRADE BANK

A bank which deals with export-related transactions.

It is to manage the inflows coming from loans and from the Dunamont share capital in foreign currency.

I.F.C.

(INTERNATIONAL FINANCE CORPORATION)

Originated from the World Bank.

Concerned with encouraging industrial development in Hungary by setting up joint ventures with western partners, and with forming the bases for a future stock market.

MONTEDIPE

Formerly a Montedison company, for whom it managed the petrochemical and plastics (with the exception of polypropylene) activities, in 1989 it became part of Enimont and is currently the leading company in the area of business "materials".

It is one of the major European producers of polystyrene and copolymers, occupying a prominent position both as regards process technologies and for the range and quality of its products.

THE PROJECT

A production line for 45 KT/year of shock-resistant polystyrene.
Continuous-mass process.
Montedipe technology.

A production line for 20 KT/year of foamable polystyrene.
Suspension process.
Montedipe technology.

Annexed facilities: laboratory - stocks of bulk liquids and solids - warehouses - mechanical workshop - offices.

THE PRINCIPAL AGREEMENTS BETWEEN THE PARTNERS AND THE JOINT VENTURE

Agreement to supply benzol/styrene to guarantee raw material requirements.

Trade agreement with Montedipe and Chemolimpex to market those products intended for export.

Agreement with IFC and Budapest Bank for the granting of loans to fund the scheme.

THE INVESTMENT

The total investment, including the financial costs for the two years of construction and the initial working capital, is the equivalent of 152 million DM.

TARGETS AND DEADLINES FIXED BY THE JOINT VENTURE

Dec. 88:	Setting up of the company.
March 89:	Start of excavation and civil engineering works.
Nov. 89:	Start of erection operations.
Nov. 90:	End of erection operations. Start of commissioning.
March 91:	Start-up of shock-resistant polystyrene plant.
May 91:	Start-up of foamable polystyrene plant.
Sept. 90/June 91:	Premarketing activity.

THE SETTING

GEOGRAPHICAL LOCATION

SURFACE AREA

	SQUARE METRES
D.K.V. refinery	5,013,062
Dunamont	55,000
Area available for future extensions	10,000

MARKETING

The premarketing phase is planned for September 1990 to June 1991.

Action:

Training of commercial and technical assistance staff.

Distribution on the domestic market of products supplied by Montedipe.

The feasibility study provides for the marketing of Dunamont products under normal operating conditions on:

the domestic market	50%
western markets	35%
the COMECON markets	15%

TRADEMARKS

In addition to the licence for technology and know-how, Montedipe has also granted licences for the right to use trademarks whereby the products are to be marketed under the same name as the materials manufactured in the Montedipe plants in Western Europe.

MAIN PROFITABILITY INDICES OF THE SCHEME AS ANTICIPATED BY THE FEASIBILITY STUDY

	IN MILLIONS OF DM		
	1991	1995	1999
Turnover forecasted	55.1	147.3	147.3
Contribution margin	16.7	48.3	48.3
Gross operating profit	9.3	41.1	41.3
Net profit	-3.0	20.8	26.1

Internal rate of return	20.5% after tax
Shareholder rate of return	23.3% after tax

WHAT THIS AGREEMENT REPRESENTS FOR MONTEDIPE

COMMITMENTS

EQUITY PAYMENT	outlay of 18,480,000 DM
KNOW-HOW LICENCES	granting of a licence for 15 years and operational technical back-up
TRAINING	training of Dunamont staff for the equivalent of 54 man-months
MANAGEMENT BACK-UP	during the implementation phase, for the equivalent of 290 man-months
MANAGEMENT	under normal operating conditions Montedipe undertakes to cover with group personnel the positions of managing director, management controller and marketing manager.

THE BOARD OF DUNAMONT RT

The board is composed of eight members of whom

4 are Hungarian
4 are from the West
(including 3 from Montedipe)

The chairman is Hungarian.

The managing director is from Montedipe.

TURNKEY CONSTRUCTION OF THE PLANT BY A TECNIMONT - D.K.V. CONSORTIUM

The role of D.K.V. in the consortium is to deal with:

the civil engineering works
assembly and supplies of local products

The role of Tecnimont, engineering company relied upon by Montedipe, is to provide:

basic engineering
detailed engineering
import supplies
executive coordination

(6)

Aspen Institute Italia

THE PENTAGONAL INITIATIVE:
A PROJECT TO OVERCOME FORTY-FIVE YEARS OF
DIVISION IN THE ADRIATIC-DANUBE REGION

Background Paper
for the Conference

COOPERATION IN THE ADRIATIC-DANUBE REGION

Vienna
October 14 - 16, 1990

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1) On November 12th, 1989, the Deputy Prime Ministers and Ministers of Foreign Affairs of Austria, Hungary, Italy and Yugoslavia met in Vienna and signed a joint declaration in which they stated the intention of the four countries to cooperate in several fields (annex 1).

This, which was the official starting point of the present Pentagonal initiative, was the first implementation of an idea born in bilateral contacts which had taken place in the preceding spring between the Deputy Prime Ministers of Italy, Gianni de Michelis, of Hungary, Peter Medgyessy and of Austria, Alois Mock.

The rationale behind the idea was that the rapid course of events was creating an institutional void in Eastern Europe and that there was a need to fill this void until a new European architecture had time to develop and provide sufficient guarantees of integration of former Eastern and Central European nations in a wider European context.

The institutional framework which had guaranteed stability in Eastern Europe was at the time rapidly disintegrating: the Warsaw Pact appeared more and more empty of operational content, and the the first signs of the present crisis of CMEA (1) were already apparent.

It was already clear that the emerging Eastern and Central European countries tended towards democratic institutions and towards market economy, and that they would aim at integration in the Western European political and economic institutions. But it was also apparent at the moment that, for many reasons, the fullfillment of this goal would take a longer time than wished by many of its proponents: on one side a certain measure of economic and political "convergence" with EEC standards should be attained by the countries concerned before they could be included in European institutions, on the other the European Community itself was (and still is) engaged in a delicate process of further integration between its existing members.

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(1) The Council for Mutual Economic Assistance is the multilateral economic organisation of socialist countries. It is also known as COMECON.

At that moment, in fact, Hungary was still ruled by the HSWP (2). Free elections had taken place only in Poland, but with strong limitations that did not exclude the PUWP from political power (3). The democratic groundswell that we have witnessed in the GDR and in Czechoslovakia was in its first stages. The movement towards democratization and economic reform that we have since witnessed was only beginning, its pace could not be foreseen, and there was much uncertainty, both on the international framework and on its possible internal repercussions.

The Quadrangular Initiative (as it was called at the beginning) was thus devised as an instrument to help fill the existing institutional void during a transitional period. It was to be a means to facilitate the integration of Hungary and Yugoslavia in the European political and economic framework. But in the same time, on a political level, it was also intended to give to the people of the countries concerned the evidence of an immediate and positive response to the courageous reforms that were then beginning to be devised and implemented, in a climate of political and economic uncertainty.

These were the essential reasons for an initiative that for the first time saw the cooperation between a neutral country belonging to EFTA (Austria), a member of the Warsaw Pact and CMEA (Hungary), a country belonging to NATO and to the European Community (Italy) and a non aligned country (Yugoslavia).

2) The initial declaration stated that the Initiative "would remain open in the future to new participants". Czechoslovakia, just before its first democratic elections expressed its interest to join and its participation was accepted in May 1990; the group acquired then its present name of Pentagonal Initiative.

As a matter of fact other countries of the area have expressed interest in joining the Initiative but the member countries seem to think for the time being that there is strong merit in maintaining the present formation. Nevertheless they have repeatedly expressed their willingness to cooperate with neighboring countries on specific projects, or with other existing or future regional organizations.

The geographical scope of the initiative is thus purposely limited: it comprises the region of the Adriatic and of the Danube (4). The five countries concerned feel that, without prejudice of the common objective of the creation of a new European architecture, they are able and willing to immediately give a contribution to this same objective, acting on a regional basis.

(2) The Hungarian Socialist Workers Party.
(3) The Polish United Workers Party.
(4) As a matter of fact the initiative is also called the Adriatic-Danubian Initiative.

3) This limitation does not negate the validity of regional cooperation in other areas of the East-West divide. On the contrary it is felt that regional cooperation on similar lines could give a positive contribution in other parts of Europe. This principle was recognized by the Summit of the seven most industrialized countries held in Houston in July 1990 (5).

As a matter of fact the second half of the present year has seen the birth of the Baltic initiative that seems to develop similar concepts around the common interest of northern European countries to protect the marine environment of the Baltic sea.

Cooperation between the two groupings is therefore a possible alternative to the enlargement of present membership. Cooperation with other such organisations, perhaps with the Balcanic Conference, is also a possibility.

4) If these were the main aims of the Initiative, its contents were defined in terms of rebuilding the normal links between the participating countries that had been largely suppressed by a generation of political division.

Thus, from the first meeting, it was decided that common work should be undertaken, by specific Working Groups, in the fields of:

- transport
- telecommunications
- environment
- small and medium size enterprises
- culture and tourism.

The aim of this work was to coordinate the activities of the countries concerned, arriving where possible at common solutions in the five sectors selected, increasing homogeneity and rebuilding physical, economic and cultural links. The Initiative is not in itself an initiative of financial assistance but of coordination; financial and technical assistance will certainly be needed to implement projects, and will be sought on the bilateral and multilateral level.

It was purposely decided not to create permanent structures, such as a Secretariat.

Instead it was decided to leave to the rotating Presidency of the Initiative the task to coordinate the political and general developments of the initiative, and to entrust

(5) The Houston communique welcomes regional cooperation in Europe stating that it "will make a positive contribution to economic progress and stability in Europe".

to each participating country the responsibility of specific Working Groups (6).

5) The Pentagonal initiative is now one year old. It has been a year of rapid and complex developments on the European scene, and also a year in which the countries of the Pentagonal Initiative have made a consistent effort to launch their cooperation under the leadership of Hungary which has held the Presidency until the 30th of June 1990, when it was succeeded by Italy.

A first appraisal of the results obtained is thus possible.

The general aims of the Initiative have been further defined in a series of meetings at a political level: the Vice Prime Ministers have met in Vienna on May the 27th; the Foreign Ministers in Vienna on May the 20th and again in Venice on August the 1st.In these meetings a program of work was step by step developed, which is to be carried out by the working groups, under the supervision of national coordinators.

This program of work has been approved by the Heads of Government which have met in Venice on the 1st of August, and is now to be implemented.

New Working Groups were created for scientific research, information, energy and migrations.

Political cooperation was not provided for by the initial Budapest declaration. But the above meetings in Budapest, Vienna and Venice at political level have started the development of common work on political issues, that has now become a permanent feature of the Initiative.

The Summit meeting in Venice marks the end of the first phase of the initiative: from now on its aims and operative machinery are well defined, and it has a program of work to implement.

Foreign Ministers will meet again several times in the next twelve months and Heads of Governments and will convene again, in July 1991, in Dubrovnik, when Yugoslavia will take on the Presidency.

6) The program of work prepared by the Working groups and approved by the Venice Summit is attached to the present paper (annex 2).

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(6) Presently Italy coordinates the Working Groups on transport and scientificc research, while Austria is responsible for environment and information, Yugoslavia for telecommunications, Hungary for medium and small size enterprises and migrations, Czechoslovakia for culture, tourism and energy.

It provides not only for guidelines to be commonly followed in the various sectors, but it also contains a number of specific projects which the five countries have agreed to develop together.

The development and strenghtening of the communications (highways, railways, sea and air traffic) and of telecommunications in the area is of particular political and economic relevance. The same can be said for cooperation in the fields of environment, culture, scientific research, and tourism. A particular challenge will be posed in the field of small and medium size enterprises, where success in developing cooperation between the five countries will depend on the pace of economic reforms. The newly constituted Working Groups on energy, information and migrations, which are now beginning their activity, also hold promise.

To implement this program, two problems have to be faced:

a) As regards financing, many of the smaller projects can be implemented counting on national funds or on bilateral financing.

Nevertheless many of the larger projects, especially in the field of infrastrucure, will need vast amounts of financial resources, clearly beyond the reach of the interested countries. These are more suited for multilateral financing, for instance by the World Bank, the European Investment Bank, the newly created European Bank for Reconstruction and Development (EBRD) or United Nations Organisations. A determined effort has to be made to involve those Institutions.

b) All work cannot be carried on by central Governments: especially in the phase of implementation, local Authorities will often have to be involved, according to the specific constitutional setup of each of the member countries concerned. This is a field in which one will want to take carefully into account the delicate constitutional, political and ethnic problems connected with the division of powers in the area.

Both of these aims have been indicated in the document approved in Venice. In particular it has been agreed that all the five countries will support projects to be financed through multilateral Institutions, even when they concern only two or three of them.

7) Political cooperation has developed pragmatically, within the limits of its compatibility with the existing commitments of the member countries, although it had not been provided for in the Budapest document, and has not been institutionalized since.

Starting from their meeting in Vienna, the Foreign Ministers have decided to hold periodical consultations between the five countries. Consultations have also taken place between their Ambassadors in several capitasl (by instance in the United Nations, Washington, Paris, and others).

Experts meetings have also taken place on specific topics, in particular on questions relating to CSCE and Council of Europe.

The first result was a common proposal on the rights of minorities, tabled in June at the CSCE meeting on the Human Dimension in Copenhagen. Consultations are in progress in Vienna in the CSCE context, in view of the CSCE Summit to be held at the end of the year in Paris.

Consultations are also taking place in Vienna about the possible role of the Council of Europe (only Italy and Austria are members) in the process of "rapprochement" of the three other member countries to European Institutions.

The political document adopted at the Venice Summit (annex 3) provides also for cooperation between the Parliaments of the five countries, and for involvement in Pentagonal activities of local Authorities as well as of the existing Interregional Associations (Alpe Adria, Arge Alp, Danubian Community and Lower Adriatic Community).

* * *

With regards to the initial document approved in Budapest in the month of november of last year, the Pentagonal Initiative has shown a rapid development. Not only it has widened to include Czechoslovakia, but its Working Groups have produced substantial work, new areas of cooperation have been agreed, and cooperation has begun in the political field.

The main challenge the five countries face now is that to implement the decisions they have taken and to break new ground with the common projects and activities they have agreed to carry on.

The benefits that will accrue will anyhow go further than the sum of railways, environment, research or cultural projects they will jointly succeed in implementing. There will also be the non measurable effect of giving to their peoples the proof that they belong again to a common political, economic and cultural area, and that this process will shorten the time required for their full participation to European Institutions.

If this will be achieved it will be a local, but important, contribution to the future European architecture.

ANNEX I

JOINT DECLARATION

Dr. Alois Mock, Minister for Foreign Affairs of the Republic of Austria, Dr. Gyula Horn, Minister for Foreign Affairs of the Republic of Hungary, Gianni De Michelis, Minister for Foreign Affairs of Republic of Italy and Budimir Loncar, Minister for Foreign Affairs of the Socialist Federal Republic of Yugoslavia held talks in Budapest on 11 November 1989. During the talks they declared the readiness of their Governments to strenghthen good-neighbourly relations and to develop manifold co-operation between their respective countries.

By developing quadrilateral co-operation in this part of Europe they seek to contribute in a new way to further improving the atmosphere in Europe and strenghthening the process of CSCE. By widening co-operation among themselves and making constructive initiatives they wish to promote the process of greater unity of Europe, and to strenghten joint responsibility for the future of Europe.

Relaying on the already established high level of good-neighbourly and friendly relations, including the brigde-building role of the national minorities, they wish to encourage quadrilateral co-operation in different spheres of social and economic life, having in mind the cultural and historical heritages of the four countries.

The four Governments attachh great importance to ec onomic and scientific-technical relations as well as co-operation in the fields of energy, industry, environmental protection, transport, tourism, culture, education, information and other fields of common interest. They also emphasized the significance of co-operation between their respective frontier regions.

They agreed that the active participation, together with their respective Governments, of social factors, organizations and individuals in the development of quadrilateral co-operation should be encouraged. They considered it a task of their Governments to create a good political atmosphere and solid frameworks for wide-ranging co-operation.

Starting from 1990 they will promote their co-operation by means of annual meeting at high political level. Working groups on specific subjects will carry out the preparation of such meetings.

Positive and far reaching transformations on our Continent and in international relations in general, as well as further development of democracy and human rights also create favourable conditions for the development of co-operation among the four countries, which by their activities wish to strenghthen and support these processes.

The four Governments are firmly resolved to deepen the Helsinki process and to develop its results already achieved. Therefore they will further stimulate all-European co-operation and promote the work of the fora concerned with it. By strenghthening relations among themselves the four countries wish to contribute to the success of various forms of regional co-operation such as the Alps-Adria Working Community and others.

Guided by the new spirit prevailing in Europe and inspired by the closeness of their views, the four sides consider that the development of subregional, regional and inter-regional co-operation could significantly contribute to the gradual creation of a common economic area on our continent.

The four Governments lay the groundwork for a co-operation of new quality in an effort to concurrently further the improvement of the relations in Europe.

Meeting of the Deputy Prime-ministers of Austria, Hungary, Italy, Yugoslavia in Budapest, 12.11.1989.

1. In the spirit of the Joint Declaration of the four countries, Péter Medgyessy, Deputy Prime-Minister of the Republic of Hungary, Josef Riegler, Vice-Chancellor of the Republic of Austria, Aleksandar Mitrovic, Vice-President of the Federal Executive Council of the Socialist Federal Republic of Yugoslavia and Claudio Martelli, Deputy Prime-Minister of the Republic of Italy met on 12 November 1989 and exchanged views on the development of closer co-operation in the fields mentioned in the Declaration. Particular attention was given to transport, communication, environmental protection, culture, as well as cooperation in developing small and medium size enterprises.

2. It is the understanding of the representatives of the initiating four countries that the co-operation will be open in the future to new participants, and shall be extended to new themes and topics they agree upon.

3. To this end periodic meetings at different levels may be held, and joint working groups established to study and carry out various co-operation projects.

4. The following annex is a summary of proposals raised at the first round of exchange of ideas.

ANNEX

I. Economic Cooperation

1. Economic Policy Issues

a) Discussions on world economy and on international financial processes, as well as on their impact on national economies;

b) Study of issues pertaining to the settig up of the European Single Market in 1992.

2. Industrial and agricultural cooperation

a) Promotion of investments and joint ventures, in the field of production both for internal markets and for export;

b) Transfer of managerial skills, through vocational training courses in the agricultural, industrial and financial fields;

c) Transfer of organizational and operational skills in the fields of financial, insurance and export promotion services.

d) Promotion of the intensive cooperation between small and medium size enterprises.

3. Trade

Creation in the Adriatic sea ports of warehouses in free areas for exports and imports of the four Countries, so as to facilitate the movement of goods in transit, in accordance with the laws and regulations in force (notably within the EEC).

They will convey the significance and the results of their co-operation to respective countries of close association in the international arena.

4. Energy

a) The implementation of joint initiatives for the production and transfer of energy and energy sources, as well as for the development of the necessary plants and distribution networks;

b) Analysis of the energy requirement of the region.

c) Transport of natural gas and electric power.

II. Transports

1. Sea and river ports and traffic

a) Rationalisation of the use of sea and river ports by the States concerned. Connected to it the organisation of combined transport routes and related services on water and land.

2. Railways and highways

a) Study of the possibility of unifying the present systems of electrification of railway lines.

b) Development of the railway network in the region by identifying general priorities (for example the improvement of the transport capacity accross the Brenner-pass for roll on and roll off traffic and the doubling of the Trieste-Pontebba and Tarvisio-Udine-Cervignano lines, and construction and modernization of the Vienna-Budapest-Belgrade railway line).

c) Development of highway networks. (A complementary motorway line as a conjunction between Italy and Hungary via Yugoslavia, the link Trieste-Ljubjana via Gorizia, the route between Vienna and Belgrade through Budapest, Sentilj-Zagreb)

3. Transit

Cooperation with regard to reducing the negative implications and effects of road transport.

4. Air Transport

Cooperation in the field of air transport on various levels.

III. Scientific and Technical Cooperation

1. To provide a new momentum to the existing cooperation of Yugoslavia and Hungary to Eureka projects, by promoting the necessary initiatives aimed at developing the participation of Third Countries.

2. To exploit similar opportunities existing within CERN.

3. To establish a cooperation in the field of telecommunications (management of international telecommunications traffic, industrial cooperation, formulation of rules; use of frequencies, improvement of postal services).

4. Audiovisual sector: study of the possible forms of cooperation, taking into consideration the special interest and the promising developments of this sector.

5. Space sector: study of cooperation initiatives within the European Space Agency, especially with reference to scientific programmes or programmes of interest for developing the telecommunications field.

IV. Cooperation in case of disasters

Four party discussions, with a view to establishing a close cooperation for the prevention of disasters and, in the event of accidents, for implementing the most rapid and effective intervention measures.

V. Environmental Protection

1. Realization of a multi-function information system, of a general nature, for carrying out the environmental control and management of the territory, with a specialized sector for the Alps region, particularly with regard to nuclear power plants.

2. Realization of a monitoring programme extended to include one or more river basins, to control urban, industrial and agricultural pollution, as well as the protection of forests.

3. Elaboration of a climatological model covering the area of the cooperating Countries, based on the monitoring and survey of marine (Adriatic sea) and athmospheric environment. Common measures to curb different kinds of toxic emmissions.

VI. Exhibitions

1. Examination of the modalities for a four-party cooperation in view of the organization of the World Vienna-Budapest Expo, and of Venice "EXPO 2000".

2. Cooperation in the organisation of trade fares in the region.

VII. Tourism

1. Establishment of official contacts among the four Countries' governmental bodies competent for tourism.

2. Cooperation aimed at improving touristic infrastructures.

3. Possibility of cooperation on organizing the 1996 Winter Olympic Games (Tarvisio, Villach, Kranjska Gora).

VIII. Information

1. Encouragement of the cooperation of mass media of the four countries.

2. Encouragement of cooperation in the establishment of broadcasting and TV stations either public or, where the national legislation allows, non-public, on a non-discriminatory basis.

IX. Culture and education and youth exchange

1. Encouragement of joint research between universities and institutes on topics of common interest.

2. Exchange of lectures and establisment of joint research institutes.

3. Promotion of the teaching, on a broader basis, of all the langueges spoken in the four Countries.

4. Promotion of the exchange of youth among the four Countries.

X.

Where-ever possible, the use of national legislative instruments aiming at implementing such initiatives regarding areas object of the quadrilateral cooperation.

ANNEX II

PENTAGONALE

**

PENTAGONAL INITIATIVE
Program of Work
(1990-92)

Since their constitution in the Budapest meeting of November 1989, the technical working groups of the Pentagonal Initiative and the respective sub-groups have repeatedly met and agreed both on specific projects to be presently implemented, and on future programs of common action.

The result of their work is the following:

I) Transport.

The Working Group agreed about measures to be adopted and priorities to be followed in the fields of land, air as well as maritime and inland waterway transport, due regard being paid to the environmental aspects.

1) Road Transport

The five countries have agreed on the priority of four main corridors, on which specific projects have been selected for implementation (details on the projects to be undertaken in each corridor have been agreed by the Working Group in its meeting in Trieste - July 16th, 1990):

a) Trieste - Lubjana - Budapest.

b) Vienna - Budapest - Belgrade.

c) Linz - Graz - Zagreb - Adriatic Sea.

d) Prague - Budapest - Zagreb - Rijeka.

The five Countries also agreed to study possible connections between the Czechoslovakian and the Austrian transportation systems.

All plans for motorway construction will be in harmony with agreements reached in the framework of international organizations, as well with Trans-Europe Motorway (TEM) project.

The Group has also approved a common statement on dangerous goods transport.

Common work on road transport will continue with a view to initiate the implementation of the above projects and to prepare new projects on the same priority corridors.

2) Railway Transport

The five countries have agreed on the priority of six principal corridors, on which specific projects have been selected for prompt implementation. The Working Group has already adopted a standard technical sheet to be used for the operational follow-up of the projects, including maps showing all the technical data concerning the outstanding works (lines, n. of tracks, estimated costs and functional data, operational characteristics, etc.) (details on the projects to be undertaken in each corridor have been agreed by the Working Group in its meeting in Trieste - July 16th, 1990).

a) Vienna - Tarvisio - Trieste - Venice.

b) Trieste - Lubiana - Budapest

c) Vienna- Budapest - Belgrade

d) Verona - Innsbruck - Munich - Prague.

e) Linz - Graz - Zagreb - Adriatic Sea

f) Prague - Budapest - Zagreb - Rjieka

The Group also agreed about the introduction of container trains, first of all between Budapest and Trieste (lines Vienna - Trieste and Budapest - Zagreb - Trieste).

Common work on railway transport will continue with a view to initiate the implementation of the above projects and prepare new projects on the same priority corridors.

3) Air Transport

The group has carried out an in-depth exam of projects in the fields of:

a) interregional air transport;

b) education and training of commercial pilots;

c) cooperation and harmonization of the procedures among ATC centers; (this should result, inter alia, in the reduction of congestion and bottlenecks, namely in the Klagenfurt-Villach area)

d) creation of a common ATC training center;

e) cooperation in the area of airports.

The discussions will continue with a view to select, on a priority basis, the most suitable projects to be implemented in the shortest term.

Positive decisions have already been taken by Italy in the field of simplifying decisions on overflight authorizations.

4) Maritime and Inland Waterways

The group has agreed on the following main guidelines with a view to defining a common program to be implemented in the very next future:

a) co-operation among North Adriatic ports of Italy and Jugoslavia in order to attract and increase goods flows between members, and with other countries;

b) connection of the railway network through ferryboat services;

c) harmonization of regulations in the field of maritime and inland waterway transport;

d) co-operation in the field of sea-borne tourism through harmonization and simplification of respective regulations.

The participants have also agreed to study co-operation in the Danube basin within the system of the Rhine-Main-Danube canals.

II) Telecommunications.

The Working Group has completed a priority program of co-operation in the Telecommunications field. Ad hoc subcommittees have been given the mandate to define the projects already identified.

At the sub committe level, some of the member countries have approved the following projects:

a) Fiber optic regional network (CEBIN). The project will provide a fiber optic cable network communication system across the participating countries, with the possibility of further integration with the existing and planned European and worldwide fiber optic network (*).

b) Regional satellite system. The project will build up an advanced transmission system linking the participating countries, with possible extension to other neighbouring countries. The system is to be used for multifunctional communications purposes as well as for scientific purposes (earth remote sensing, etc.) (*).

The following projects are still under consideration:

- Creation of five "Service Centers" to let users from the member countries access a wide variety of advanced telecom services(*)

- Education and training programs on technical and marketing subjects(*)

- Radiomobile service (900 Mhz)(*)

Common work on telecommunications will continue to finalize approval of the above projects and start their implementation.

III) Environment.

The working group has approved a common declaration on environment in its meeting in Vienna on March 27-29th, outlining a policy of co-operation in the fields of:

- Harmonization of environmental monitoring and data systems;

- Waste management;

- Nuclear safety;

- International Parks.

The Group has also created six sub-Groups on:

a) harmonization of environmental monitoring and data systems, b) waste management, c) nuclear safety, d) international natural parks; e) cooperation in disaster relief; f) environment and energy.

The following projects have been approved:

a) Harmonization of environmental monitoring and data systems: a test system for a data center is being introduced by the Austrian Federal Environment Office. The definite decision on the legal basis of this system shall be taken after August 6, 1990. It is foreseen that this data system shall co-operate with the Regional Environment Center for Central and Eastern Europe which is being established at Budapest with United States assistance. An agreement between the Italian Ministry for Environment and IIASA in Austria has already been signed to provide the methodological basis for the project.

b) Creation of international natural parks of Tarvisio (Italy, Austria and Yugoslavia) and Neusiedl (Austria and Hungary). The planning of the international park in the Neusiedler See area has reached an advanced stage. The same can be said about the practical preparations. At the moment, the necessary land lease contracts are being finalized.

The project of the park in the Tarvis Alps is still being studied.

The following projects are under consideration:

- Development of co-ordinated activities in the field of research, collection and disposal of waste. The permanent Working sub-group on Waste Management shall meet on or around October 26, 1990. This meeting shall deal with practical problems of hazardous waste as well as with other similar problems.

- Safeguarding of the river basin of Isonzo-Soca. This is an experimental project which could stand as basis for future similar programs.

- Conclusion of agreements for the exchange of information in case of nuclear accidents or emergencies and related questions.

- co-operation in the field of disaster relief and assistance and prevention of natural and man made disasters, including the possibility of the conclusion of relevant agreements is presently being considered.

The sub-Group on Environment and Energy has drafted conclusions on close co-operation in the field of energy from the point of view of both conservation and clean energy technologies. The establishment of a clearing agency for the exchange of information in these fields is under consideration.

Common work will continue in the sector of environment with a view of initiating the implementation of the agreed projects and the development of the projects still under consideration.

IV) Small and Medium size Enterprises.

The Group has agreed that continued stress to be put on co-operation in the field of small and medium size enterprises the Working Group will in future deal also with other, more general problems of economic co-operation, namely questions of the reconversion of industrial infrastructure.

The Group has agreed:

a) to hold in Budapest, in the second half of 1991, a Pentagonal Initiative Exhibition and seminar focused on the areas of cooperation where common initiatives are being carried out, and which should also provide an important occasion of communication between participating countries in all fields;

b) to establish and develop a real time information network system to provide small and medium size enterprises with a practical tool for receiving updated information about general and specific topics (economic, technical, legal or administrative) concerning the industrial sector in the five countries;

c) to develop professional educational and training programs in sectors now being selected;

d) to develop an in-depth study on harmonization of technical rules and regulations;

It was also agreed that each participating country inform the others about the existing and foreseeable resources in favour of co-operation in the field of small and medium size enterprises.

They will contact the different banking associations existing in the five countries in order to study the organization of one or more meetings to develop a co-operation among relevant banking institutions.

Common work will continue in the sector of small and medium enterprises with a view to initiate the implementation of the agreed projects, and to develop the projects still under consideration.

V) Scientific and Technological Research.

The Group on Science and Tecnology has focused its work on concrete items also on the basis of existing bilateral co-operation, bearing in mind the connection between scientific co-operation and technological development, while giving special attention to projects which contribute to the modernization of enterprises and promote the rational use of energy. A determined effort to facilitate Czechoslovakia, Hungary and Yugoslavia in joining significant European technological Organizations and Programmes, such as EUTELSAT, CERN, ESA and COST, is already under way.

The following projects have been agreed upon among the interested countries and are to be developed in the next months (*):

- Seminars / Workshops:

- 3 CNR (Italian National Research Council) seminars on R&D projects, aimed at making scientific and technological results immediately avalaible for industry and public administration.

- 3 Ministry of University and Research seminars on Eureka procedures and projects.

- 3 ENEA (Italian Committee for Nuclear and Renewable Energy) seminars on the following topics: transfer of new technologies to traditional productions mainly directed to small and medium sized enterprises; Energy management on different energy sources and energy saving; nuclear and industrial safety in production processes.

- Stages for Researchers:

- 6 stages at INFN (Italian Institute for Nuclear Physics) on nuclear and subnuclear physics.

- 25 stages for young researchers at Synchrotron Trieste, to be trained at the construction both of the Synchrotron machine and of the related highly sophisticated instrumentation.

- 10 stages at ICS Trieste (International Center for Theoretical Physics) for training on superconductivity, chemistry and computer science.

- 10 stages at Italian research stations for industry on alimentary preserves, oils and greases, papers and textiles.

- 5 stages at ASI (Italian Space Agency) centers for training on space sciences.

- 2 stages at ESA/ESRIN for training on scientific and technological information systems related to space activities.

- Applied research projects: participation in the construction of R&D Facilities:

- ICS Trieste: Setting up of an Advanced Instrumentation Laboratory for Molecular Sciences.

- ENEL (Italian Electric Energy Board): Constitution of a Centre for the Development and Control of Materials to be used in thermo-electric power stations.

- Trieste Synchrotron: Realization of laboratories for research activities on: Beamlines Cristallography; Fluorescence Spectroscopy; Small Angle Scattering.

A review meeting to verify agreed projects will be held in Budapest at the end of November 1990.

VI) Culture and Tourism.

The Working Group on culture and tourism has identified the following projects to be implemented by the interested countries:

a) "1992: the Year of Baroque Art in Central Europe", (in conjunction with the UNESCO program "Itineraries of the Baroque"); (*)

b) The publishing of the first issue of the Pentagonal magazine "European Traveller" (promoted by the ad interim President of Hungary Arpad Goncz, prominent writers and their colleagues in the other countries) will be published in November. It will focus on the questions of economy, culture, commerce, trade and tourism. On this occasion a seminar will be held in the autumn of 1990, in co-operation between the magazine European Traveller and the magazine "Mitteleuropa" (published monthly in Italy) which is focused on the aforesaid and other subjects; (*)

c) Theater Festival of the Pentagonal Countries in Cividale del Friuli. A general director has already been appointed; the guest art directors will be appointed, every year, by one of the five countries; (*)

d) Presentation of modern artists of the Pentagonal countries. Such an exhibition should be prepared by experts of the participating countries and presented on a yearly basis by rotation in the Pentagonal countries;

e) "Stop the drugs in schools". The program, set up by the UNSDRI (United Nations International Crime and Justice Research Institute), is an educational drug abuse prevention program to be implemented in the high schools of member countries; (*)

f) Inter-university cooperation in the fields of economics, finance, environment, agro-industry and others, through the creation of an ad hoc Institute, which shall have two branches (one in Udine and one in Castelfranco Veneto). The Scientific Committee on inter-university cooperation held its first meeting to coordinate activities; (*)

g) Inter-university Cooperation: language centres. It is intended to promote the knowledge of slavic and Finno-Ugrian languages; (*)

h) Multi-media musical Festival in Trieste. The first edition is scheduled to take place in the summer 1992 at the Teatro Verdi in Trieste; (*)

i) Extension of the "International Baccalaureat" educational system, already implemented by the "Collegio del Mondo Unito" of Duino (Trieste), in order to facilitate international mobility of students; (*)

k) presentation of contemporary composers of Pentagonal countries, who, apart from the main stream of contemporary music, are working in a personal style, typical of their respective country, within the framework of a symposium, a round table discussion, a musical performance or a combination of the three. Relevance should be made to twentieth century composers like Haba, Jancek, Bartok, Busoni and the second "Wiener Schule";

l) Youth exchanges. The program drawn up at the Pordenone Convention last April is being implemented.It was also agreed to organize a Pentagonal youth meeting at Burg Schlaining, Burgenland, Austria; (*)

m) Setting up of a research and documentation Centre on Eastern European countries to be housed in the former Illyrico- Hungarian Centre in Bologna. The Centre will serve as a reference point for teachers and students dealing with economic and legal subjects; (*)

n) Terminological glossary of market economy and market economy management. Bocconi University in Milan shall prepare a terminological glossary to be used in university management and specialization courses and by managers and enterprises; (*)

With regard to Tourism, the Group recognized the significant importance of this sector for the economies of the five countries and the need to join efforts in order to promote tourism without jeopardising the physical and cultural environment.

It was deemed desirable to establish a Committee to carry out a feasibility study on the monitoring of touristic flows in the Pentagonal region and their trends and patterns in particular on the occasion of special events like the Year of the Baroque Art or the Vienna-Budapest Expo. The feasibility study should aim at elaborating concrete proposals to safeguard art cities and distribute the touristic flows over a wider area.

The assistence of the UNESCO Regional Office for Science and Technology in Europe (ROSTE), which has experience in this field, will be sought.

VII) Information.

The Group has already discussed and agreed a number of possible initiatives, focusing in particular on the following ones:

a) to hold periodically, in the five Countries, meetings on foreign policy with the partecipation of major columnists belonging both to printed and electronic media;

b) to increase the cooperation among news agencies of the five Countries, with 1) the creation of a regular news item on the pentagonal activities and on bilateral events between the five countries; 2) technological exchanges, transfer of know-how, etc. These matters will be discussed at a press seminar to be hosted in Trieste (october 15-16th, 1990) by Italian news agency ANSA.

c) to hold on regular basis, (once or more a year) video conferences of the five Ministries of Foreign Affairs, or other members of Government, who will deal with matters of common interest to member countries. The competent Authorities will encourage their main TV stations to make use of these events in order to reach as large an audience as possible.

d) to establish a Pentagonal TV-magazine built on contributions by the five countries, starting through the exchange of programs for minorities.

The group proposed to the relevant authorities, in order to improve the working conditions for foreign correspondents, to grant them credentials inside the pentagonal countries, even in the absence of permits of permanent residence.

* * *

Financing

The technical description sheets indicate financial sources for projects, where already agreed.

Financing of the other projects and activities will be sought through:

- public budget funds;

- existing and additional bilateral financing;

- financing to be requested to International Financing Institutions;

- through self financing, when the nature of the projects warrants it.

* * *

Future developments

Furthermore the five participating countries have agreed:

- to formalize ongoing cooperation in the field of scientific and technological research by creating a specific Working Group, co-ordinated by Italy, dealing with these issues, as decided in the meeting of Vice Prime Ministers held in Vienna on may 27th, 1990;

- to formally constitute the Working Group on Information, as decided in the meeting of Vice Prime Ministers held in Vienna on may 27th, 1990, co-ordinated by Austria;

- to formally constitute a new Working Group on Energy (especially production and transportation) co-ordinated by Czechoslovakia. This Group will give priority to the question of natural gas and crude oil supplies to the Pentagonal region by pipeline;

- to formally constitute a new Working Group on Migrations, co-ordinated by Hungary;

- that the list of projects might be further enlarged in subsequent meetings of the working Groups.

- to present jointly to International Financial Institutions requests for the financing of any agreed project that may require international financial support, even when it involves only some of the participating countries;

- to call upon the their different regions which are already engaged in projects of mutual cooperation to intensify these activities on the basis of the declaration of Millstatt of June 1988.

(*) A technical description sheet has been already drafted and shall be finalized by the Working Group in the shortest term.

ANNEX III

PENTAGONALE

Venice, 1st August 1990

POLICY DOCUMENT
ON THE PENTAGONAL INITIATIVE

1. **Reasons for the establishment of the Pentagonal Initiative:**

- The Pentagonal Initiative is a new form of co-operation for promoting joint efforts, taking into consideration the emergence of a new era in Europe. It is a follow-up to the former quadrilateral co-operation, established in Budapest on 10 and 11 November 1989 between Italy, Austria, Yugoslavia and Hungary. It assumed the pentagonal form in Vienna on 20 May 1990 with the accession of Czechoslovakia.
- This co-operation takes into account the following:

  A) The established tradition of co-operation between the five countries and their mutual bilateral co-operation;

  B) the major changes which have occurred in east-west relations and the changes with respect to all relevant factors in Europe, which are of a positive and historic character;

  C) The revolutionary changes that took place recently in the central and eastern European countries, especially Hungary and Czechoslovakia.

2. **Objectives pursued by the Pentagonal Initiative:**

- The Pentagonal Initiative is a contribution towards creating security and stability for the change-over from the old to the new order, particularly through:

A) establishing and strengthening mutually beneficial partnership structures based on the shared values of parliamentary democracy and human rights.

B) co-operating on specific matters between a number of eastern-central European countries, taking advantage of their complementarity and contiguity;

C) beginning to work, within its geographically defined limits, on a solution to the problems of national, ethnic, religious and linguistic minorities within existing borders, while awaiting a broader codification of such matters within the framework of the Helsinki process and the Council of Europe;

D) contributing towards the consolidation of democratic institutions and economic recovery and development.

E) promoting a general participation in the construction of a new Europe, a process that has been accelerated following the democratic changes and in particular the free elections held in some of the member States;

F) establishing ties with other existing regional groupings.

3. <u>Characteristics of the group</u>:

- The Pentagonal Initiative is a component of a much broader European architecture. In this context, the five participating countries recognize the essential role of the CSCE in setting up a lasting order of peace, security, justice and co-operation in Europe and they attach special importance to the activity of the European Community and other European organizations.
- The Pentagonal Initiative therefore represents a level of co-operation, which will be helpful in bringing those member countries not yet participating in or candidates to the EC closer to the European Community.

- The Pentagonal Initiative is geographically circumscribed; it covers the eastern-central European area, which gives it compactness and globality of common interests; other neighbouring States, be it at government or regional level, could also be involved in specific initiatives, particularly those dealing with the environment; at the same time, encouragement must be given to the creation of other regional associations to the north and the south-east, with which profitable co-operation relations can be instituted.

4. **Identification of the individual spheres of co-operation**:

- The Pentagonal Initiative has no rigid institutional structures, and is designed to be flexible and pragmatic. The various projects can be carried out by all or by some of the participants.
- The Pentagonal Initiative must make allowances for the extremely fast-moving events in Europe, and therefore needs continually to update its tools and objectives in order to keep pace with a general situation in a state of constant development.
- The Pentagonal Initiative concentrates on the implementation of concrete, action-oriented projects of common interest to the five participating countries, especially in the field of transport, environmental protection, energy issues, co-operation between small and medium-sized enterprises, scientific and technological co-operation, information and telecommunications as well as education, culture and tourism.
- The Pentagonal Initiative also foresees a regular exchange of views between the five member States on matters of a political nature and of common interest.

Wherever possible, joint initiatives will be carried out within the latitude permitted by the international obligations of each member State in this respect.

5. **<u>Interparliamentary and non-governmental co-operation</u>:**

- The Governments of the five member States favour the participation of parlamentarians in the Pentagonal Initiative. To this end contact will be made with the Presidents of the Parliaments in order to outline the objectives of the Pentagonal Initiative and ensure the support of the Parliaments for such endeavours.
- The Governments of the five member States also support contacts between non-governmental organizations and institutions of the five countries.

6. **<u>Conclusions</u>:**

- The Governments of the five member States note with deep satisfaction the Statement of the G 7 Summit in Houston, which welcomed recent regional co-operation initiatives in central and eastern Europe, that will make a positive contribution to economic progress and stability in the region.
- The Governments of the five member States also wish to send a message to all CSCE member countries, underlining the fact that the Summit of the Pentagonal Initiative takes place on 1 August 1990, exactly on the 15th Anniversary of the Helsinki Final Act, in order to stress the specific relationship existing between such a form of subregional co-operation and the CSCE process as a whole.