Chapter 8

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THE BONDS OF EXPORTERS FROM EAST EUROPE WITH HOME AND FOREIGN MARKETS

1. The scope of investigation of the exporter's production trade contacts

Long-established production-trade contacts between home and foreign enterprises play a very significant role in the development of international trade, being frequently more important than ordinary commercial contacts between enterprises and undefined markets (the so-called anonymous markets).

The invesigation of production-trade contacts between the organizations can be carried out through the analysis of relationships and bonds. The analysis of relationships will take a higher level of generalization and it has, first of all, to make possible the determination of the level and nature of interactions between the hitherto existing contacts.

Taking into consideration an exporter from a socialist country and a foreign buyer, theree variants of reciprocal relationships can be distinguished, namely: contacts dominated by the exporter, cooperative ones and those dominated by the buyer.

Due to the scope of this study, the centre of gravity will mainly rest on the analysis of technological, financial and organizational bonds between: a) foreign exporters and buyers and b) between exporters and their home trading partners. Each of these types of bonds has different functions, namely: technological bonds — functions of concept preparation and product realization; financial bonds — functions of the flow of money; organizational bonds — the function of shaping organizational structures between a series of trading partners.

The investigation of relationships may not only be referred to the analysis of contacts between the exporter and buyer (between enterprises) but also to the analysis of contacts between the exporter and the Centre understood as the centre of economic authority, especially in the case of the CMEA countries. Furthermore, the above mentioned types

of bonds should be completed with planning bonds between the exporter and the Centre. Their function is determination of plan in accordance with the preferences of the Centre (expressed indirectly and directly).

The aim of this paper is to present — at the background of the different versions of relationships between the exporter and the Centre — two variants of the exporter's bonds with his foreign and home trading partners taking into consideration hithero occuring changes and trends in this field. The presentation will be proceeded by the analysis of the main features of the centrally planned economy and their implications for the exporter's production-trade contacts.

2. The effect of centralization and concentrąton tendencies in East European countries on the nature of the exporter's production-trade contacts

As a rule, in the economy of East European countries there appear two tendencies which, because of their persistence, can be defined as closely linked with the system of centrally planned economy. These are:

— the tendency to maintain centralization of a possibily wide range of economic decisions,

— the tendency to concentrate productive potential.

Such tendencies create the necessity of applying standardize solutions which widen the possibility of maintaining direct management of economic processes by the Centre.

The appearance of conditions for the seller's market on many partial markets of centrally planned economies is another important phenomenon in these considerations. The above mentioned situation considerably limits the motives of economic subjects for export development. These charasteristic features of the economy of East European countries are responsible for the fact that the markets or quasi markets are of stable, clear and integrated character. [1]

Relationships and bonds with the economic Centre, not with other enterprises, are of fundamental and primary importance for the exporting enterprises. Due to market stability the structures of enterprises are of bureaucratic, formal character and their functioning is oriented towards the home market.

Situations of the CMEA markets differ significantly from those observed on the world market which is characterized by:

— changeability and not stability. This results from modifications in foreign policies of various countries, unforseen shifts in world economy, changes in exchange rate, unexpected changes in buyers' demands and the position of competitors, sudden technological changes, etc.,

[1] In this approach the home market should be mainly considered as a certain geographical space isolated by a country's border and being an alternative of foreign markets. This market cannot be considered as an economic category since the market mechanism does not function in the circumstances mentioned above especially in the relations between enterprises which are being discussed.

— complexity and not simplicity. This results in the necessity of selling extremely advanced technological goods as an effect of far bigger requirements of the world market and competition by means of more complex products. Complexity of a product, in turn, requires competent management of strategic character, at many levels of an enterprise,

— diversity but not uniformity. This results from the wide range of buyers representing different countries and regions.

Thus the nature of foreign markets requires, as a rule, differentiated activities on the part of an exporter while the home market offers unified and rigid solutions.

Moreover, the nature of a product (with the exception of homogenous commodities) hinders the unification of direct management of exporting enterprises by the Centre. It should be pointed out here that the tendency for direct management of trade exchange by the Centre grows parallelly to the share of homogenous products (raw materials) in the exchange of goods with abroad. [2] When export of raw materials does not cover import requirement of a country under a limited access to credits and worsening terms of trade, then there arises the necessity to develop more and more diversified exports. Such a situation gives rise to serious conflicts. They result from the existing organizational and financial bonds and also from the exporter's planning bonds with the home market (and, first of all, with the Centre). This is the result of their inadequacy in the face of the required bonds of the exporter with foreign markets (buyers, trading-partners) which are determined by the above mentioned changeability, complexity and diversity of those markets.

Taking into account what has already been said, one said, one can state that tendencies towards centralization a and in the economy of East European countries lead to unquestionable domination of the Centre in its relationships with enterprises. It should be added that the above mentioned need for differentiated and flexible exporter's bonds must also take into account the progressive concentration on the world market, the characteristic symptom of which is the development of big multinational enterprises as well as the increasing state interventionism. Only such background gives rise to the basic question: what system of relationships and bonds with the home and foreign market should characterize the exporter to allow him to carry out his activities effectively and, simultaneously, to maintain the strategic coordination and leading role of the Centre in economic processes.

Historically, two stages can be differentiated in the development of socialist countries:

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[2] Investigations proved that the potential susceptibility of various branches to concentration and centralization is differentiated. An attempt to ascribe various versions of relationships between an enterprise and the Centre to different groups of commodities can be found in: K. Fonfara, Variants of the functioning of foreign trade enterprises, Foreign Trade 6/1981, pp. 13—17 and K. Fonfara, J. Schroeder, Economics of a Foreign Trade Enterprise. Mimeographed School Lectures. Academy of Economics Poznań 1984, pp. 22—31. [Warianty funkcjonowania przedsiębiorstw handlu Zagranicznego, Handel Zagraniczny s. 13—17 i K. Fonfara, J. Schroeder, Ekonomika przedsibiorstwa handlu zagranicznego. Skrypty uczelniane. Akademia Ekonomiczna w Poznaniu, Poznań 1984, s. 22—31].

— the first stage is characterized by extensive development and investment priorites given to heavy industry; exports are seen as the source of necessary imports and they comprise mainly raw materials and semifinished products,
— the second stage is characterized by intensive development in which the necessity of concentrating significant investment in processing and light industres as well as in services is perceived; exports are considered as one of the vital factors of development, which requires proper formation of their structure (highly processed and technologically advanced products).

As far as the centralistic tendencies at the first stage are justified, among others, by the possibilities of direct controlling of foreign trade exchange by the Centre, at the second stage there appears an objective necessity to decentralize economic decisions. The transition from the frist to the second stage of socialist countries development requires substantial changes in the exporter's bonds with the home market in order to create appropriate bonds with the foreign market.

Thus the relationship between the exporter (a manufacturing enterprise) and the Centre can potentially be of the following character:
a) dominated by the Centre (centralized variant):

Centre ——————> exporter)

or

b) cooperative (based on self-dependence of an enterprises:

Centre <——————> exporter)

In each of these variants the character, type and scope of the exporter's bonds with home and foreign markets, will take a different shape.

3. Exporter's bonds in the Centre — dominated (centralized) variant (variant I)

In the variant dominated by the Centre, planning bonds between the Centre and the exporter will directly determine its activities and also its organizational and financial bonds with other subjects of the home and foreign market. Particularly, the organizational and financial bonds as well as technological bonds of the exporter with the home market will be of unified and obligatory character [3] This refers both to the bonds with other manufacturing enterprises and enterprises which facilitate the flow of goods (insurance companies, forwarding firms, financing companies etc.) On the other hand, direct bonds of manufacturing enterprises with the foreign market will be limited to a large extent by a typical of this variant principle of obligatory use of brokerage of domestic foreign trade units which are speciallized links appointed to serve the trade exchange with abroad. As a rule, only these links posses[s] the concession for carrying of foreign trade. All branch offices, foreign partnership representations are established and hierarchically connected with specialized links of foreign trade. In this case productive enter-

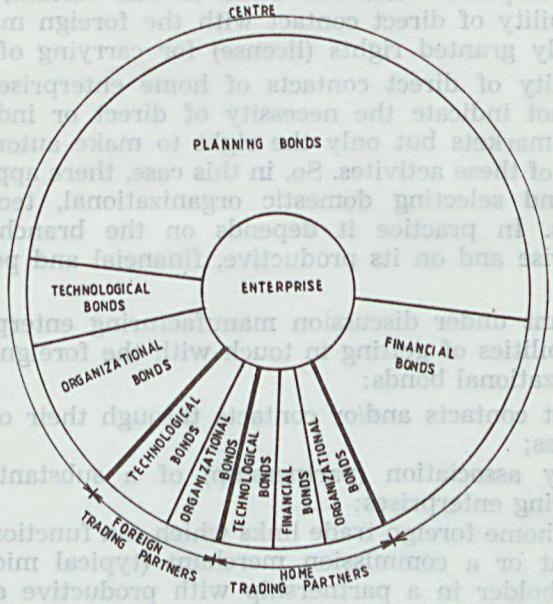
[3] The unification of bonds indicates the tendency towards their standardization by the Centre irrespectively of branch specificity of the particular exporter. In practice one variant of exporter's bonds with the home market becomes obligatory.

prises are isolated from foreign markets, the more so that still another link integrating their activity may appear here. This is the so called obligatory association.

Financial, organizational and planning bonds between specialized foreign trade enterprises (home middleman) and manufacturing enterprises are defined by the monopsonistic or/and monopolistic position of the former ones. Manufacturing enterprises sell their products to the monopsonistic middlemen (in accordance with his order or planning directives), and in extreme case this puts an end to their participation in trade exchange with abroad. They must also use his brokerage as a obligatory commission merchant. Thus, in the first variant, a manufacturnig enterprise does not have any vital influence on organizational and financial bonds with home trading partners. Under circumstances in which the exporter's activity is forced administratively in the absence of any significant economy justification for export development, technological bonds do not fulfil their functions. In particular, little care is observed in an enterprise for the quality of production. Besides, there is no autonomy in developing co-operation with other domestic and foreign enterprises. Thus, the enterprise from the very assumption does not have any influence on determination of its optimal share in particular export undertaking.

Considering the division of exporting enterprise bonds into its bonds with the Centre, home and foreign trading partners, one can observe that they are determined by planning bonds between this enterprise and the Centre as well as with the Centre's supporting units (foreign trade enterprises) (see Fig. 1).

The structure of bonds of an exporting enterprise *)
(Variant I)



*) The figure has the object character and illustrate generally the relative importance of the given kind of bonds within the whole net of the exporter's bonds.

4. Exporter's bonds in the cooperative variant, based on independence of enterprises (variant II)

In the co-operative variant the bonds of an exporting enterprise are shaped by means of its objective and subjective needs connected with the goals of microeconomic activities.

In this variant the financial and planning bonds are of basic importance for the relationships between enterprises and the Centre. The financial bonds comprising as it has been mentioned — the flow of money between the buyer and exporter are determined, in this case, by a number of economic instruments of the Centre which either limits or increases the actual fund obtained by the exporer. Tax rates, interest rate, rate of exchange etc. should be mentioned among these instruments. Thus, planning bonds between enterpises and the Centre do not serve the flow of planning directives any longer; they provide information on strategic and tactical intentions of the Centre in a given period. Enterprises, for the sake of own interest, should take this information into consideration while determing the directions for their activities. The functioning of finacial as well as planning bonds should result in harmonization of the goal of enterprises with the objectives of the Centre. It should prevent conflicts and the conversion of relationships and bonds into a system presented in variant I.

From the observations made so far it is evident that in variant II the bonds of an enterprise with other subjects of the home market as well as with the foreign market are created in accordance with its goals. Hence, the enterprise can develop bonds with foreign markets autonomously, undertaking export operations in view of their effect on its financial result which should automatically determine the enterprise's wage fund, development fund etc. Thus, in this variant, all enterprises have the possibility of direct contact with the foreign markets and this means commonly granted rights (license) for carrying of foreign trade.

The possibility of direct contacts of home enterprises with foreign markets does not indicate the necessity of direct or individual actions on the foreign markets but only the right to make autonomic decisions as to the forms of these activites. So, in this case, there appears a problem of designing and selecting domestic organizational, technological and financial bonds. In practice it depends on the branch specificity of a given enterprise and on its productive, financial and personnel potentialities.

In the variant under discussion manufacturing enterprises have the following possibilities of getting in touch with the foreign markets based on home organizational bonds:

1. independent contacts and/or contacts through their own foreign representatives;
2. a voluntary association (partnership) of a substantial number of manufacturing enterprises;
3. specialized home foreign trade links which can function as:
   a) an agent or a commission merchant (typical middleman links),
   b) a shareholder in a partnership with productive enterprises,
   c) a wholesaler,
   d) a consulting firm dealing with market and financial information, etc.

Fig. 2

ORGANIZATIONAL BONDS OF ENTERPRISES IN EXSPORT OF EXEMPLARY PRODUCTS ACCORDING TO CHOSEN CHARACTERISTICS

Exported product	Chosen features of the product	Possible organizational bonds
bulk commodities	— strategic character	manufacturing enterprise → specialized trade link (commission merchant, agent) → foreign market
	— dispersed production	manufacturing enterprise → specialized trade link (wholesaler) → foreign market
machinery and appliances	— necessity of direct contact of the producer with buyers	manufacturing enterprise → foreign market or association of manufacturing enterpries → foreign market
skilled labour force	— small range of export activities not requiring substantial funds	manufacturing enterprise → foreign market
turn-key objects	— necessity of engaging big capital funds and personnel	association of manufacturing enterprises → foreign market or association of manufacturing enterprises and specialized trade links → foreign market
consumption goods	— a large deconcentration of consumer durables production	manufacturing enterprise → specialized trade link (agent, commissian merchant — wholesaler) → foreign market
	— small series of consumption luxury goods	manufacturing enterprise → foreign market

Flexible diversified character of enterprise bonds with the home trading partners and also the nature of bonds with the Centre permit their better adjustment to the specificity of the product exported and to the specificity of the buyer as well. Taking into consideration, e.g. organizational bonds and selected features of some produts, one can make an attempt to ascribe various organizational bonds to enterprises of different branches (compare fig. 2).

Differentiation of home organizational bonds may also occur within the given enterprise. Thus the realization of three foreign contracts, taken as an example, may occur in the context of these bonds in the following way:

contract 1 a manufacturing enterprise → foreign market (utilization of branch offices),

contract 2 a manufacturing enterprise as the shareholder of a partnership of enterprises → foreign market (utilization of branch offices of the partnership and/or branch offices of the shareholders,

contract 3 manufacturing enterprise → specialized home foreign trade link → foreign market utilization of branch offices of specialized home foreign trade link and/or branch offices of the manufacturing enterprise).

In the variant under discussion manufacturing enterprises have the opportunity of direct contacts with other home links (besides selling links) which facilitate the flow of goods (services) to their buyers. This becomes especially important and necessary when manufacturing enterprises do not exploit specialized home foreign trade links in their organizational bonds. Such a situation occurs in the above presented contracts 1 and 2.

Foreign organizational bonds, being a continuation of home bonds are, as a rule, a reflection of the exporter's tendency to meet the buyer's preferences in this scope and to consider the specificity of goods as well as its own productive, financial and personnel potentialities mentioned above. Possibilities of direct linkage of organizational, productive and financial potential of exporter and buyer (or exporter and other co-exporters) exist here as bonds based on joint venture or consortium. It becomes necessary to utilize intermediary foreign links such as an agent, a wholesaler or a retailer. The development of organizational bonds with foreign trading partners by exporting firms as well as attempts to adjust the given version of organizational bonds to the defined forms in advance is not always possible. The final shape of organizational bonds may depend on factors upon which the enterprise has not any significant influence.[4] Nevertheless, the character of turn-key objects or export of machinary and appliances define the utilization of such forms of organizational bonds as consortium or joint venture. However, in export of consumer goods it is possible to engage an agent or wholesaler or to establish direct bonds with the buyer. The above mentioned may be also attributed to bulk and capital goods.

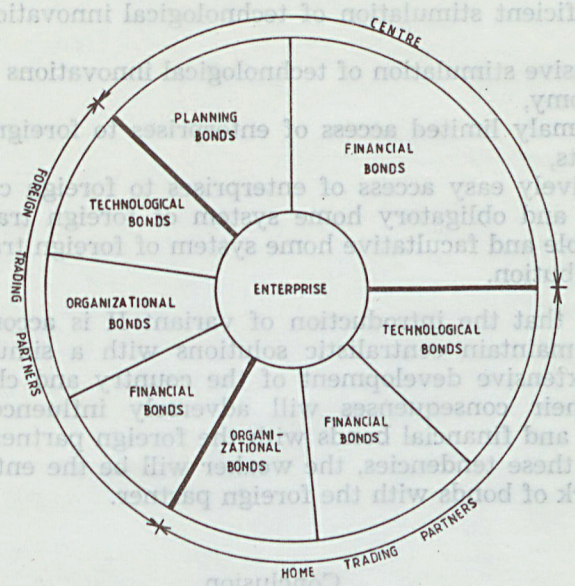
[4] Organizational bonds may be defined by specific requirements of a given foreign market or by a stronger foreign trading partner as regards economic-technical potential.

A modification of the nature of enterprise's bonds with the Centre and transformation of their role means a shift of considerable responsibility from the Centre to an enterprise for the efficient functioning of its bonds with the home and foreign trade partners independently of the fact whether this enterprise functions on foreign market directly or indirectly (compare Fig. 3). However, the above mentioned facultative, differentiated and flexible character of enterprise bonds cannot always be carried out equally which is proved by the planning of organization bonds. When studying the interaction of the distinguished types of bonds, one can define their hierarchy as well as their possible ways and impact.

Figure 3

The structure of bonds of an exporting enterprise *)

(Variant II)



*) The figure has the object character and illustrate generally the relative importance of the given kind of bonds within the whole net of the exporter's bonds.

For example, flexible and differentiated formation of organizational bonds defines the changeability of technological bonds and, consequently, the financial ones, both with home and foreign trading partners. However, it should be stressed that the final shape of bonds will depend on the role which the enterprise will play in the relationship with foreign trading partners. Thus, it will depend on the attitude which the enterprise can assume in the network of bonds. So far as the dicussed variant is characteristic of an active enterprise role in the home network bonds, this role may depend on several limiting or strengthening tendencies in the foreign networks bonds. The appearance of such tendencies may be linked both with the way of introducing the described principles in variant 2 and with the current level of development of the investigated

economy.[5] Taking into account the process of implementing variant 2, the following tendencies and phenomena should be considered during the process of analysing and planning the bonds of an enterprise with the foreign market:

a. maintaining an extensive development of economy,
b. activation of intensive economic development,
c. chronic persistence of foreign debts,
d. appearance of transitory periods of foreign indebtness or its absence,
e. maintaining or return of centralistic solutions,
f. decisive introduction of decentralistic solutions.

The metioned tendencies can then give rise to new consequences in the behaviour of the Centre and enterprises, causing in particular:

a_1. insufficient stimulation of technological innovations by the Centre,
b_1. intensive stimulation of technological innovations by the economy,
c_1. extremaly limited access of enterprises to foreign currency credits,
d_1. relatively easy access of enterprises to foreign currency credits,
e_1. rigid and obligatory home system of foreign trade distribution,
f_1. flexible and facultative home system of foreign trade distribution.

Assuming that the introduction of variant II is accompanied by the tendency to maintain centralistic solutions with a simultaneous maintenance of extensive development of the country and chronic economic indebtness their consequenses will adversely influence formation of technological and financial bonds with the foreign partners. The stronger the effect of these tendencies, the weaker will be the enterprise position in the network of bonds with the foreign partner.

Conclusion

The aim of the paper was not to appraise above presented variants of bonds between the exporter and his home and foreign markets. Nevertheless it is evident that the East European countries try to realize or at least they declare the desire to develop the exporter's bonds according to the variant II. Till now only Hungary has succeeded in this respect. The introduction of this variant in Poland within the economic reform meets with a lot od substantial obstacles. The level of the development of the East European economies, their heterogeneity and complexity will lead objectively to variant II although the transition form the variant I can last even a long time.

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[5] The lack of consequences can be taken into account when introducing variant II. This should be connected with the mentioned tendency in the economy of socialist countries, rather towards the centralization and concentration than to deconcentration. The transition of variant II can be accompanied by the lack of vital functional and structural changes on certain levels of economy mainly at the Centre level.