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TARGETS OF OPPORTUNITY

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DOING BUSINESS WITH EAST EUROPEAN COUNTRIES: TARGETS OF OPPORTUNITY

Political changes in Eastern Europe have been amazingly fast - with the exception of Albania these countries have held popular elections; some of them now have former dissidents and political opposition leaders as presidents.

After the initial excitement with the successful move toward democracy to the East of Berlin Wall, these countries face serious problems. The most sobering fact is that, compared with the fast and dramatic political changes, reconstruction of former socialist economies will be a long and painful process. More and more obstacles on the road to a free market economy are encountered each day. Ethnic and social tensions in the region rise, along with the level of public disappointment.

Following the mass euphoria and over-optimistic expectations, the pendulum of the public opinion in Western countries is now swinging too far in the opposite direction, taking the position that *changes in Eastern Europe are too slow, even backward, and no significant improvement is to be expected soon.* Such pessimism is no more warranted than the unjustified optimism of a year ago.

As usual, the truth is somewhere between the extremes. Most importantly, <u>developments in the former communist bloc are by and large irreversible</u>. This is not simply a result of good will on the part of *perestroika* inventors and followers, but rather the only sensible economic strategy for these countries. The limits of the old *"socialist model"* have been reached.

THE CHANGE - A MATTER OF SURVIVAL

It would be oversimplified to consider decades of socialism just a tragic error and economic disaster. In fact, until the early 1980's central planning and distribution allowed socialist countries to attain higher growth rates than major developed countries during their most successful periods (*Table 1*).

Table 1 **Gross National Product growth rate**[1]

Country	Period	GNP growth (%)
USSR	1928-83	4.9
USA	1929-84	3.0
UK	1855-84	2.1
Germany	1850-84	2.8
Japan	1874-84	4.5

Involving available underutilized resources, concentrating them on large-scale projects and relying on the mobilization of the population to increase productivity, most of East European countries have grown up from underdeveloped, primarily agricultural to moderately industrialized nations, while the USSR became a superpower. But, despite rapid economic growth, all these countries remained far behind in per capita income (*Table 2*).

Table 2 **Per capita income in 1988**[2]

Country	*Per capita income*
Poland	$1,850*
Hungary	$2,460*
USA	$19,780

*World Bank estimates for 1988

During the last decade all socialist countries have experienced a decrease in the rate of economic growth, stagnation and even decline. Undoubtedly, some external factors have contributed to these problems, but the main reasons were internal, intrinsic for the model itself:

[1]Source: Paul A. Samuelson, William D. Nordhaus, *Economics* (McGraw-Hall, 1985), p. 776.

[2]Source: *Economic Report of the President*, 1990, p. 226.

- **Productivity** dropped down when people realized that promised *"bright future"* had not come closer, especially in comparison with the rest of the world

- New **underutilized resources** were not as widely available, as they used to be at earlier stages of economic development

- Relatively **isolated trade system** of COMECON, with artificial pricing and mutual exchange of poor quality goods, has left these economies far behind the rest of the world

- Absence of any **real owner** in socialist economies led to lack of entrepreneurial incentive and no real accountability of decision-makers.

Recognizing all these drawbacks of the system, most of the former socialist countries attempted systemic repair **to improve the system, keeping the basic principles intact**. However, this became more difficult after the more radical attempt to introduce elements of market economy in Czechoslovakia was forcefully ended by the "allied socialist" forces in 1968" - at that time such reform was considered a serious threat for the socialist bloc.

Similar, but more careful (and not so loud) steps moved forward in Hungary. Joint ventures with Western partners were legalized in 1972, most of the management and pricing decisions were decentralized in 1984, foreign ownership was allowed in 1988. In an attempt to avoid the embarrassing contradiction with basic principles of communist ideology, this was called *"market socialism"*. Other East European countries also attempted some early reforms to improve the socialist economic model. But despite some positive outcomes, the reluctance to allow private property as a normal basis for the free market economy has kept all these efforts strictly limited within the boundaries of the traditional socialist model.

Meanwhile, the spread of *glasnost* (openness) and some relaxation of censorship in East European countries made possible a wide public expression of the popular discontent. The symptoms of the hidden, long repressed disease exploded on the surface in different forms of protest. Facing the threat of being swept out unconditionally, most ruling communist parties started changes themselves, or attempted to gain leading positions in mass popular movements (Romania).

The change in Eastern Europe is a logical consequences of the historic development, it is inevitable, and the authorities in every country must follow this main line of development if they want to retain their grip on power. There is no other way.

Eastern Europe is a collection of different nations, each of them following its own reform strategy at its own pace. The change is not a straightforward process, some slowdowns and even backward movements are possible, but the main perspective is clear and it is determined: **The commitment to democratization and market-oriented economies is shared throughout the region.**

EASTERN EUROPE ON THE ROAD TO A MARKET ECONOMY

The short experience of recent market-oriented reforms in Eastern Europe shows that the way to a market economy is not an easy freeway. On the contrary, the road is relatively unknown, it is to be discovered in the process, by trial and error. So far, no single country has made the transition from a centrally planned to a market economy.

CREATING BUSINESS INFRASTRUCTURE

Despite significant differences among economists on the necessary concrete steps and their sequence, creating a normal business infrastructure is considered to be one of the highest priorities. This requires establishing a proper legislative basis for business activities. The changes are fundamental and they begin with the Constitution - private property and hiring workers, as well as many other basic rights for any business were either missing or explicitly defined as a crime in these former socialist countries.

Implementing such fundamental **legislative changes** is not an easy process - both technically and politically - especially when attempted in combination with the remains of communist ideology. Simply mentioning *private property* in a draft for the new Constitution caused more than half of the legislators to walk out of the Belorussian parliament last year. The negative image of entrepreneurs and any private initiative, deliberately created for decades, cannot be deleted overnight. In fact, this image is alive and well. It is exploited form time to time by conservatives associating entrepreneurship with the black market to frighten the public.

Creating normal **market structures** as a substitute for the collapsed centralized distribution system is also a difficult task, especially in the Soviet Union. Inconsistency and delay of steps for creation of the market (monetary reform, liberalization of prices, inflation control, etc.) can undermine the whole process, creating public discontent, as well as social and political tension.

The banking system in all socialist countries used to be a government monopoly and was one of the means of centralized control of the economy, even after enterprises were proclaimed independent. Creation of proper commercial banking structures is now under way in Eastern Europe, and this is a promising area for Western investments and expertise.

Transportation and communication facilities in Eastern Europe need significant improvement. Everybody involved in business with these countries should be aware of this fact. Even some basic services taken for granted by Western companies are either not available or are of inferior quality. But this is also an area of recognized opportunities for investment: Canadian Northern Telecom will provide a digital switching telephone network in Hungary, AT&T will help to improve telecommunications in Poland and USSR.

Other **business-related services**, such as legal, consulting and accounting, etc. also need to be developed and many Western companies are already involved in that process.

SOCIAL PROBLEMS

On the way to a market economy, East European countries are also facing serious social problems. After decades of socialism, people get used to free education, health care, pensions, etc., and are reluctant to lose these social benefits.

Introducing a market economy will raise prices to their world market level, after cutting down government subsidies. Living standards will inevitably decline during the first years of reforms. This will be most harmful for low and fixed income groups. Economic reforms will also bring real, as opposed to hidden, unemployment into East European economies. Creating an adequate safety-net of social security and benefits is extremely important. The economic reform in Poland, considered by most experts to be successful, has increased unemployment to about 6%. Although similar levels are found in the USA, in Poland this creates a substantial public discontent.

PRIVATIZATION OF THE ECONOMY

The experience of over 20 years of attempted reforms in Eastern Europe shows that the only way to get someone really involved and exercising ownership functions is to put companies in the hands of real owners -- those whose own fortunes are tied to the company's performance and success (or failure!).

The question now is not whether to privatize (all serious economists and most political leaders are already convinced!) but how to do it in practice. To privatize means that many state enterprises will be looking for new owners.

But who are **the owners** now? This only seems to be an easy question. On the one hand, the basic communist principle is that the economy is a *"property of the whole nation"*. Any member of society has contributed to this property and can claim a fair share of it. On the other hand, in many cases previous owners of nationalized companies have started to appear -- like the famous shoe manufacturer Thomas Bata in Czechoslovakia and many others in former East Germany. The Parliament in Czechoslovakia has already approved a restitution bill to return much of over $10 billion worth of property nationalized after 1948 to its previous owners.

The situation with farm land is even more complicated. In the Soviet Union all lands have been nationalized and are, like everything else, the *"nation's property"*. But in other countries, including Bulgaria, land has never been nationalized. Initially, farmers contributed their land and other production assets to collective farms, formally retaining their property rights. After decades of reforms and integration of these farms, now many people still hold their titles for land which is nonexistent or difficult to find. Solving these legal and technical puzzles will not be easy.

In order to provide proper protection against corruption and abuse during the process of privatization, most East European countries have established special government agencies for managing government property and privatization.

But let us see who are **the potential buyers**? After decades of paying workers only part of their earnings, retaining the rest for centralized investments, personal savings cannot be considered a substantial investment potential. In fact, these are primarily "forced" savings for future purchases of unavailable consumer goods, not a real savings for investment purposes. There are some exotic exceptions - affluent sport stars, actors, writers, artists, etc.[3] - but they cannot change substantially the whole balance.

Other potential sources are *"dirty money"* from the black market and corruption -- for that reason in most countries any substantial investor must provide legal proof of the source of investment funds.

In practice, all these "domestic" sources combined cannot provide enough pent-up demand for privatization. Different *Employee Stock Ownership Plans* are widely discussed

[3]Former tennis pro Ilie Nastase has invested $14 million in the first private bank in Romania.

and are likely to be implemented by most East European countries. This may well have a positive social effect as a form of fair distribution of property.

Transferring company shares to pension funds, educational and municipal institutions, previously funded by the state budget will have three positive effects: it will provide reasonable concentration of ownership for efficient management, financial resources for these institutions and even some reduction of taxes paid by companies for these purposes.

Finally, all East European countries are eager to attract foreign investors -- not purely as a financial source, but also to provide a valuable inflow of modern technology and management expertise.

The next tough question is how to determine **the price** of an enterprise, built and operated in the artificial economic environment with government subsidies, planned prices and no real market either for production or supplies. Any economic evaluation of the past performance and profitability is unrealiable, and opportunity analysis of possible future development is extremely difficult as many elements of the economic environment are transitional and volatile.

After all, the right price should be the one both buyer and seller agree on. But how they can meet each other? Where is **the market?**

Among the instruments destroyed by the planned economy were capital markets (stock exchanges, investment banks). Now they are being restored -- the first Stock exchange in Eastern Europe was opened a year ago in Budapest (Hungary), other countries are also moving in that direction. But for now, typically no regular forum exists where buyers and sellers can exchange their bids and asks. And the need to privatize is now! So, private placements, buyouts, Employee Stock Ownership Plans and state auctions are likely to be the main means of privatization in the early 1990s. These are good opportunities for American investors.

OPENING DOORS TO THE WEST

Offering enterprises for sale is just one aspect of the "open door" policy. The key problem is how to make these offers attractive. But let us see first why most East European countries are so eager to attract foreign investors. Two complementary sets of goals can be recognized at the macroeconomic (governmental) and microeconomic (commercial) level.

Governments want to satisfy urgent domestic needs for production supplies, health care and consumer products. Attracting advanced technology, equipment and management expertise, as well as additional material and financial resources is crucial for restructuring of the national economy. Expanding export-oriented production capacity is also a major consideration.

At company management level a joint-venture with a foreign partner is a way to obtain independence from the parent company or government. Attracting direct investments and creating export-oriented production facilities as a stable source for future development reduces dependence on government subsidies and hard currency grants and loans. The domestic company can also benefit from the foreign partner's assets: reputation, established markets for production, management and technology know-how.

In order to attract foreign investors, most East European countries have undertaken significant steps to create legal basis for doing business and to regularize foreign investment and ownership.

Previously state controlled foreign trade and investments are now being decentralized and direct contacts between partners (without government intermediaries) are allowed. Favorable regulations for profit repatriation and reduced tax rates are also substantial factors.[4]

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[4]In Bulgaria the corporate tax rate for joint ventures with foreign partners is 30%, while the usual rate for domestic companies is 50%.

The most attractive areas for Western companies include:

- Communications and transportation infrastructure
- Environment protection equipment
- Health care products, equipment and technologies
- Construction technology and equipment
- Consumer goods production (esp. food processing and packaging)
- Computer hardware and software[5]
- Business-related infrastructure and services
- Tourism-related infrastructure and equipment.

These industries have substantial growth potential, and some of them are critical for the reconstruction of East European economies.

Western nations are also supportive of moves towards democracy and market economy in the former communist bloc. Some East European countries have already joined international financial structures like the *International Monetary Fund* and *World Bank* and are getting their first loans, others are awaiting approval of their applications. A special multilateral project -- *European Bank for Reconstruction and Development* -- is designed to assist Eastern Europe in the transition to the market economy. Western governments have lifted many restrictions on trade with Eastern Europe, granting Most Favored Nation status and extending various assistance programs and preferential treatment to most countries in the region.

BUSINESS OPPORTUNITIES IN EASTERN EUROPE

East European countries desperately need Western help to reconstruct their economies, and international organizations and governments to adopt special programs to

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[5]The Soviet Union alone has an estimated total demand for 20 million personal computers within the next decade.

support them. However, it is wrong to assume that this is primarily a kind of charitable activity. Political support, relaxation of restrictions and favorable treatment can create a hospitable environment. But for Western businesses to come, something else is essential: competitive advantages.

COMPETITIVE ADVANTAGES

First of all, East European countries and USSR are a huge **market**. With a total population of 370 million people, it is a larger market than the European Community (325 million). And, unlike the EC, this market is anything but saturated. With common shortages of virtually all products -- from basic consumer goods to sophisticated high technology -- there is a substantial unmatched demand for imports.

East European countries are also very attractive **low-cost manufacturing sites**, with an additional specific advantage: **location**. As the year 1992 comes closer, the last is getting more and more important. Eastern Europe has a potential to become an important foothold of U.S. companies adjacent to the United Europe in the West and to the huge untapped Soviet market to the East.

FORMS OF BUSINESS OPERATIONS

Export to East European countries is the most simple and easy form of business activity for most Western companies in the beginning. It allows a company to start small, get fast results and explore expanding market opportunities. This is also a low risk and low cost approach, especially in commission agreements, where exporter bears no fixed costs at all, paying only a percent of sales to local agents. Export opportunities exist in virtually every area, and high-tech industries are expected to be very successful. For example, it is estimated that East European countries will invest $15 billion in upgrading their communications networks. The World Bank, the new European Bank for

Reconstruction and Development, and the European Community all have declared telecommunications a top priority.[6]

Exporting to East European countries requires adaptation of products to local market requirements (standards, documentation) and other adjustments, which increase with complexity of the product. High-tech equipment also requires service and maintenance facilities close to the customer. Usually, a local agent or partner is used to assist with both the technical and bureaucratic aspects of the deal.

The most difficult part of export activities in Eastern Europe is the payment. Countries in the region are heavily indebted and direct payment in hard currency is difficult to secure. As a rule, it is possible only for high-priority supplies (food, health care products and equipment) purchased under direct government supervision. For the majority of exports, Western companies and their local agents must get involved in currency switching, countertrade or other additional operations, which sometimes complicate the main deal beyond acceptable limits in time and expense.

A popular form of business activity in Eastern Europe is **licensing** --transfer of technology and know-how to a local partner. The Western Company is not directly involved in production, no investment is exposed to risks in the region and the licence agreement provides a stable flow of royalty payments, relatively independent from a real outcome of the venture. The negative side of such agreements is relatively low profits and the risk for company's prestige and trademark in case of inferior quality product manufactured by the licensee.

Overseas production is the most advanced form of business involvement abroad, with potential for good long-term return on investment, but also with higher risk in the changing business environment in Eastern Europe. Producing locally can utilize many of

[6]Source: *International Management* (*UK*) (*Europe Edition*), Vol: 45, Iss: 9, October 1990, pp. 62-64.

specific advantages in the region. The relatively cheap and well qualified labor force[7] is one of the first considerations, especially for labor-intensive production. Many West European companies already have a long tradition of using this advantage in clothing, shoe and other light industries.

In extreme cases all the equipment and materials are imported, but usually local resources can be used. In fact, the most promising opportunities for Western investors are in the areas where a combination of local resources with imported technology and know-how can deliver a competitive product.

A production site close to the market allows flexibility and fast response to changing requirements, which is difficult to obtain when the product is being made thousands of miles away. And as the year 1992 comes closer, having a production facility close to the biggest market in the world -- United Europe -- for many American companies is a much more important consideration than bleak expectations of profits during first years.

In many cases, Western investors can benefit from existing production capacity already in place. Improved by better technology, these facilities can start producing competitive products in a relatively short time. One such widely publicized deal is with Hungarian lighting equipment manufacturer *Tungsram*, where *General Electric* has invested $150 million for the controlling stake in this previously state-owned company. The target -- 10% of the European market.

Compared with other forms of operations, joint ventures provide substantial advantages, but they are also a serious long-term financial and commercial commitment in the region with relatively higher risk. Such a commitment requires precise economic analysis, careful selection of the partner and, last but not least, patience -- it usually takes several years to get the first profits from investment in overseas production.

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[7]The average wage rate of a skilled worker in Eastern Europe is estimated to be 5 to 10 times less than in the USA.

No single form of business operations can be perfect for all situations. In fact, most Western companies use some combination of them. Exporting is the easiest activity to start with, giving immediate profit and exploring market opportunities. Licensing is often used along with other forms to secure a stable flow of royalty payments from the very beginning of the deal, before such overseas production is capable of generating substantial profits.

EAST EUROPEAN SPECIFIC PROBLEM AREAS

Dealing with Eastern Europe is quite different from usual international business with other developed countries. Most of the specific difficulties result from underdeveloped financial systems, restricting the variety of techniques available and often requiring an innovative approach.

Local currency inconvertibility is the major problem for any business with East European countries. Direct payment in hard currency is almost impossible to arrange, with a few exceptions for some high-priority areas like baby food or health care products and supplies. In most cases, however, efforts to get final payment in hard currency become an important part of the deal itself. Several techniques can be used:

Countertrade is one popular way to avoid currency problems, which has been used for years. Basically, the idea is a return back in ages to the natural exchange. Advantages: total independence from any currency volatility, simple and reliable. The problem is to find appropriate local product for countertrade. One widely publicized example is the exchange of *PEPSI* concentrate for *Stolichnaya vodka* from USSR. Unfortunately, East European countries do not have many competitive domestic products to match increasing demand for imported materials and equipment. Scarcity of virtually everything in some countries and tightening government control over exports makes countertrade an increasingly difficult method to use in most cases.

Currency switching is similar to countertrade, but instead of goods, partners exchange directly different currencies. The natural base for these operations is the substantial difference between official and real exchange rates.[8] To start any business in, say, the Soviet Union, a Western company must cover from the very beginning its local expenses (rents, wages and salaries, supplies, etc.) before it has generated enough local revenue. The straightforward way is to exchange hard currency at state-controlled official exchange rate, which is unacceptably low. If another Western company is already doing successful business there and has the opposite problem -- how to convert local currency revenues into hard currency, both companies can solve their problems, exchanging currencies directly at a mutually acceptable rate. This is only a simplified outline, actual procedures are more complicated and very often on the fringe of legality.

Countertrade and currency switching are the few techniques used to avoid inconvertibility problems in simple export operations. Some additional opportunities are related to local producing, when at least part of expenses are paid in local currency and, instead of searching for an appropriate produce for export, it can be produced. Buyback agreements include obligation by a Western partner to accept part of the production as a payment from a joint venture. This approach is usually favored by East European authorities as a way to supply necessary goods for the local market.

Instead of trying to convert profit into hard currency, another widely used approach is to invest locally. Sometimes **investing** is used simply as a temporary storage for profit, waiting for better opportunity to convert it into hard currency in the future. But investing locally has some additional advantages. Currently in East European countries virtually everything is underpriced. Opening the economy will inevitably raise prices to the world-wide level, and local investors will gain from reevaluation of assets.

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[8]In the USSR the black market exchange rate is over 20 Roubles for $1, while the official rate is Rbl 1.68/$1 and so-called "visitor rate" is about Rbl 6/$1.

Some restrictions apply to acquiring property by foreigners, but many prospective areas exist (for example, in hotels and tourism-related services). And, of course, profit can be reinvested in the expansion of the primary local business.

Most of East European countries are undertaking (or at least planning) steps toward convertibility of local currencies as an essential element of market-oriented reforms. While different groups of experts still argue as to which way to achieve convertibility, some governments have already taken steps. In December 1989 Poland introduced *"internal convertibility," devaluating Zloty* by 50% and allowing unlimited purchase of hard currency by enterprises to pay for imports. Fixed at Zl 9,500/$1, the exchange rate was higher than the black market price of the dollar. The Polish National Bank, backed by $1 billion stabilization fund provided by Western nations, withstood the initial dollar-buying rush and the local currency was stabilized. Combined with other elements of a comprehensive market-oriented plan, the currency reform helped the Polish economy to show the first signs of recovery from its deepest postwar crisis. Some of East European countries are watching carefully this experiment and are preparing to implement it, while others (like USSR) has suspended even discussion of the issue.

But, sooner or later, local currency convertibility will come to Eastern Europe. For Western investors it can bring additional advantages: devaluation of local currency makes overseas production and exporting more profitable (the dollar value of local expenses decreases, as long as devaluation is greater than inflation rate -- a ratio which any government will try to maintain).

Taxes and regulations are very important considerations in doing business with East European countries. Most of the governments' activity to attract foreign investors is concentrated in this area. Many countries offer lower tax rates for companies with foreign ownership, tax holiday during first years of operation and exemptions for some high-priority industries. In addition, American investors can claim foreign tax credit for taxes paid abroad, it they exceed the applicable corporate tax rate in the USA.

Accounting practices in Eastern Europe differ from those in the United States, and taxable income is usually higher, due to lower depreciation rates and fewer tax-deductible expenses allowed.

In Europe, the *value-added tax* (V.A.T.) is widely used, and it is likely to be adopted by most East European countries. This system allows governments to differentiate tax rates between product groups, according to economic strategy preferences, and favors exports (unlike corporate tax, V.A.T. is returned for exported goods). But for foreign investors a V.A.T. system has one major drawback: this tax is *in proportion to activity* (sales), not to profits (as corporate tax is). Value-added tax should be paid regardless of the profit (if any). Thus a corporate tax system keeps weak businesses afloat, automatically reducing their tax burden, while a V.A.T. system helps them to die faster. This is a very important consideration for new ventures, which usually do not generate profit during first years of operation.

Regulations regarding foreign business activities differ from country to country, but the most common are:

- Restriction of foreign ownership to less than 50% (now abandoned in some countries)
- Intangible assets (know-how, etc.) usually are not valued as a contribution of foreign investors, only tangible assets are counted
- Restrictions on repatriation of earnings (In Poland, foreigners can repatriate their share of after-tax profit after the cost of all hard currency imports is covered. If the production is sold locally, only 15% of profits can be converted into hard currency.)

BUSINESS RISKS IN EASTERN EUROPE

Needless to say, although attractive in many aspects, Eastern Europe is a risky place to do business.

Besides inconvertibility problems already discussed, a common threat is possibility of a sudden and substantial **local currency devaluation**. The use of countertrade arrangements eliminates currency and the relevant risk. When stable payments (like royalties) will be made in the future, the common practice is to denominate them in hard currency, even if they will be paid in local currency, thus eliminating devaluation losses. any possible effort should be made to reduce holding of local currency, converting it into inventory, making advance payments for future imports, etc.

Labor uncertainty is other major problem in Eastern Europe. Workers are usually high skilled and well educated, but their discipline, incentive and quality-consciousness are far from Western standards. Unions can sometimes play a negative role, undermining economic reforms by unacceptable demands for immediate improvement (wage increases, price controls, etc.). The power of unions in some East European countries allows them to block any unpopular government action, even when it is the only way out of the economic crisis.

Social and political risks must also be acknowledged. The hard times are still ahead for East European countries. Restructuring of the economy will be a painful process, especially in the beginning and for some groups of population. Demolishing the old centralized system with still no proper market environment to replace it causes serious problems -- the situation in the Soviet Union is an impressive example. The lack of noticeable improvement in living conditions can slow down reforms and even provoke retreat (martial law, conservative overturn, etc.), based on popular discontent. The key problem for any East European country is to get the nation behind the government efforts and supportive of market-oriented reforms, considering inevitable hardships as a contribution for a better future. It is not easy, but is still possible.

Besides careful evaluation of risks before going into business, insurance can also be used to deal with uncertainty. For example, the *Overseas Private Investment Corporation* has already extended its activities to cover East European countries and now offers

political risk insurance (against currency inconvertibility, expropriation and political violence), project financing and information services for investors.

THE BOTTOM LINE

Eastern Europe is a region with unfolding business opportunities. Attractive in many aspects, it is still a difficult and risky place to deal with, and some recent developments have raised fears that dangerous backlash and retreat from reforms are possible. But as a general line of development, the commitment to democratization and market-oriented economy is irreversible. Conservative forces can delay the process, make it more difficulty and painful, but they cannot stop it. The year 1991 has very little in common with 1968 or 1956.

Doing business with East European countries is not easy. It requires a long-term commitment, patience and careful study of regional specifics. Keeping track of frequent changes and developments is an extremely difficult part of the work. Many big companies are already making the scene in Eastern Europe, others are still weighing *pros* and *cons* of going there. But the wait-and-see tactic may lead to losing of opportunities to more decisive competitors.

Going East is not a kind of charitable activity, it is business, one of many opportunities to choose from. Dealing with Eastern Europe requires bigger than usual portion of courage, but there is a good potential for a substantial reward. For those who are intimidated by the political turmoil in some parts of the region, it is worth remembering, that Armand Hammer started his 70-year successful business with the Soviet Union in the early twenties. Uncertainty now is in no way greater than during the Civil War in Russia. He was bullish on the future, and he won.

Ilia Fartounov
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