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Cooperation in the liberalization of Soviet-Western trade? A transaction-cost analysis of Soviet joint ventures with the West

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COOPERATION IN THE LIBERALIZATION OF SOVIET–WESTERN TRADE?
A TRANSACTION–COST ANALYSIS OF SOVIET JOINT VENTURES WITH THE WEST

A Dissertation

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in

The Department of Political Science

by

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"The Will is a sure guide to some of the many roads leading from purpose."

T.E. Lawrence

"There comes a time when all the cosmic tumblers have clicked into place and the universe opens up for a few seconds to show you what's possible."

Ray Kinsella
"Field of Dreams"
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ABSTRACT

This study employs the method of transaction-cost analysis - the price of doing business between economic and political agents - to the study of Soviet-Western political economy (particularly Soviet joint ventures with the West). Its purpose is to determine: (1) if Soviet foreign economic policy in the Gorbachev era has reduced the transaction costs to Western firms engaging in joint ventures with the Soviet Union when compared to previous Western business options (e.g., co-production, licensing, turn-key projects), and (2) if the reduction is sufficient to encourage joint ventures to become a mechanism of greater cooperation and liberalization in Soviet-Western political economy and the international political economy (IPE).

Survey data collected from 518 Western firms doing business in the Soviet Union supports the theoretical assumptions of the transaction-cost literature. Empirical analysis of the data demonstrates that the decision by a Western firm to engage or not engage in a joint venture is directly influenced by that firm's perception of the level of transaction costs that would be incurred in such a venture. The study demonstrates that transaction-cost analysis provides greater empirical verisimilitude than any other existing IPE model for the study of Soviet-Western political economy.
By his own admission, Soviet President Mikhail Gorbachev acknowledges that the Stalinist extensive economic model has outlived its usefulness in the Soviet Union. Totalitarian taut planning, Gorbachev says, may have hastened industrialization in the 1930s and mobilization in the 1940s, but has become the "braking mechanism" of the Soviet economy in the postwar era of global interdependence and technological change (Gorbachev 1987:47). The Soviet economy, which grew at an annual 10 percent rate in the 1950s, has slowed to approximately a one percent annual growth rate in 1989 (Tedstrom 1990:2). In an effort to halt and reverse this economic slowdown, Gorbachev has embarked upon a program that calls for the restructuring of existing institutions, investment priorities, labor incentives, prices, and foreign trade practices in the Soviet Union. The reason for the radical restructuring program is simple: the Soviet economic slowdown has placed the Soviet Union at the risk of being permanently cast as a second-rate economic and political power or what Jan Winecki (1989) calls a Permanently Developing Country (PDC) in the international system. A concerted effort to reform the domestic economy of the Soviet Union and improve its economic and political relations with the West is in order to avoid the PDC label.
In September 1986, Gorbachev introduced legislation that reorganized the foreign trade structure of the Soviet Union with the goal of facilitating greater Soviet-Western economic cooperation. After a year in which the pace of reform in the Soviet foreign trade system failed to meet Gorbachev's expectations, the foreign trade bureaucracy was reorganized and new legislation was issued with the hope of strengthening Soviet economic ties with the West. In January 1987, after a period of approximately 60 years during which Western firms were prohibited from owning an equity interest in domestic Soviet firms, the Soviet Union issued an edict entitled "On the Procedures Governing the Creation, on USSR Territory, and the Activities of Joint Enterprises with the Participation of Soviet Organizations and Firms of Capitalist and Developing Countries" (Foreign Trade 1987; ICC 1989). The primary objective of the edict is found in the first paragraph:

The resolution is aimed at further developing trade, economic, scientific, and technical cooperation with the capitalist, and developing countries on a stable and mutually advantageous basis.

This is a timely and important research topic because Soviet joint ventures with the West are considered the cornerstone of Gorbachev's foreign economic policy as he attempts to reorganize the Soviet foreign trade system and to integrate the Soviet Union into the international political economy (IPE). The study will employ the concept of "transaction-cost analysis" -- the price of doing
business between economic and political agents -- to the study of Soviet joint ventures with the West to determine: (1) if Soviet foreign economic policy in the Gorbachev era has reduced the transaction costs to Western firms engaging in foreign economic relations with the Soviet Union when compared to previous Western business options in the Soviet Union (e.g., co-production, licensing, turn-key projects), and (2) if the reduction is sufficient to encourage joint ventures to become a mechanism of greater cooperation and liberalization in Soviet-Western economic and political relations.

Currently, the literature on economic and political cooperation in international trade (including Soviet-Western trade issues) in the IPE subfield of international politics is found within the context of three dominant theories: hegemonic stability theory, regime theory, and the theory of reciprocal cooperation. The problem with approaching Soviet-Western trade from these mainstream IPE theoretical frameworks is that they are designed specifically for the study of political and economic relations between nations with well established, functioning free market economies. Attempting to apply only these theories to Soviet-Western economic and political relations is somewhat problematic because the Soviet Union has yet to establish a functioning free market economy. In an effort to overcome the deficiencies of
these theories in explaining Soviet-Western economic and political relations exclusively within the context of the existing IPE theories, this study attempts to integrate a relatively new theoretical framework to bear on the problem of Soviet-Western trade to determine if Soviet joint ventures have the potential to significantly effect Soviet-Western economic and political relations. Efforts to provide an analytic and systematic explanation of Soviet foreign economic policy and its impact on Soviet-Western economic and political relations have become increasingly important as major changes regularly occur in the international system that make the IPE more competitive and interdependent. Transaction-cost analysis provides the basis for not only examining the amount of overall trade between the Soviet Union and the West in joint venture arrangements, but can also explain the nature and impact of these trading relationships.

The transaction-cost analysis developed in this study will refine and expand the transaction-cost frameworks currently employed in the study of international politics and economics. The basic foundation for transaction-cost analysis in the study of international politics is found within the political economy literature, particularly literature on international regimes (see Baldwin 1985; Keohane 1984; Keohane and Nye 1988; Yarbrough and Yarbrough 1987a and 1987b). In the field of economics, transaction-
cost economics is a product of the subfield known as "institutional economics" or the "new economics of organization" (NEO), which is based on the work of such economists as Ronald Coase (1960), John Commons (1950), Geoffrey Hodgson (1988), and Oliver Williamson (1985 and 1986). However, Robert Keohane argues that transaction-cost analysis is "not a substitute for a power-oriented or interdependence position (a.k.a., international politics), but is rather a supplement to these "traditional modes of political analysis" (Keohane 1990:746).

This study will offer a description of NEO and transaction-cost analysis and an examination of their theoretical connection and importance to international politics and Soviet-Western political economy. The primary purpose of this study, however, is to conduct empirical tests using survey data to determine if the decision by Western firms to engage in Soviet joint ventures is the direct or indirect result of the reduction of the transaction costs involved in Soviet-Western political economy brought about by the implementation of the Soviet joint venture law, and if the reduction is sufficient to encourage joint ventures to become a mechanism of greater cooperation in Soviet-Western political economy.
The dissertation is organized as follows: Chapter Two examines the game theoretic context of international trade. Because international trade is widely assumed to have the payoff structure of a prisoner's dilemma, that concept is briefly reviewed and analyzed as applied to international trade. Chapter Two also examines the different factors postulated as causing the prisoner's dilemma dimension of international trade. This chapter identifies different factors associated with the two major paradigms of IPE, neorealism and pluralism, and their application to Soviet-Western trade. In addition to identifying the different obstacles emphasized by neorealism and pluralism, this chapter also presents an overview of each paradigm and examines the three dominant theories of international trade found in the IPE literature: hegemonic stability theory, regime theory, and the theory of reciprocal cooperation. The primary objective of this chapter is to demonstrate that the problem with approaching Soviet-Western trade exclusively from these mainstream IPE theoretical frameworks is that they are designed specifically for the study of political and economic cooperation between nations with established, functioning free market economies.

Chapter Three examines NEO and transaction-cost analysis. In this chapter, the conceptual framework of transaction-cost analysis is placed within the context of the international politics literature examined in Chapter
Two and the framework is applied to the problem of Soviet-Western trade within the context of the IPE. Chapter Three also offers a descriptive analysis of the primary transaction costs of Soviet-Western political economy, which provides the basis for an analysis of Soviet joint ventures with the West.

Chapter Four begins by developing a model of Soviet joint ventures with the West that permits a test to determine whether transaction costs directly or indirectly affect Western business firms' decision to engage or not engage in a joint venture project in the USSR. The data for this study come from a survey of both Western firms engaged in Soviet joint ventures and Western firms not engaged in Soviet joint ventures but who are conducting other business arrangements with the Soviet Union. The survey information was compiled and coded into a data set in order to test the following model and research hypothesis (see Figure 1):

**Model:** \[ SJV = a + b_1(TAC) + b_2(INTBUS) + b_3(SOVPOL) + b_4(WESTPOL) + b_5(SOP) + e \]

**SJV:** The Western firm's decision to engage or not engage in a joint venture in the Soviet Union.

**TAC:** The Western firm's perception of the level of transaction costs that may be incurred by engaging in a Soviet joint venture.

**INTBUS:** The Western firm's perception of the level of business and strategic planning risks involved in engaging or not engaging in a Soviet joint venture.
SOVPOL: The Western firm's perception of the Soviet political climate.

SOP: The Western firm's perception of the impact of Soviet government policy on their decision to engage or not engage in a Soviet joint venture.

WESTPOL: The Western firm's perception of the impact of Western government policy on their decision to engage or not engage in a Soviet joint venture.

Research Hypothesis: The decision by Western firms to engage in Soviet joint ventures is the direct or indirect result of the reduction of the transaction costs involved in Soviet-Western political economy.

In order to test both the relative contribution of the variables introduced above and their predictive power in a multivariate context, logistic regression will be employed with the decision to engage or not engage in a Soviet joint venture (SJV) as the dependent variable and TAC, INTBUS, SOVPOL, SOP, and WESTPOL as the independent variables. There are a few notable similarities between formal procedures, goals, and interpretations in logistic regression and analysis employing the "classic" regression model (Hosmer and Lemeshow 1989:1-24, but when a dependent variable is dichotomous (e.g., SJV), logistic regression analysis is preferred. The use of the classical regression model in such instances may lead to:

... serious misestimate(s) in the magnitude of the effects of the independent variables ... all of the standard statistical inferences such as hypotheses tests or the construction of confidence intervals are unjustified and the regression estimates will be highly sensitive to the range of particular values
observed for the independent variables - thus making extrapolations or forecasts beyond the range of the data especially unjustified (Aldrich and Nelson 1984:9-10).

The goal of an analysis employing logistic regression is the same as that of any model building technique used in statistics: "to find the best fitting and most parsimonious model to describe the relationship between the dependent (outcome) variable and a set of independent (predictor or explanatory) variables" (Hosmer and Lemeshow 1989:1). Since SJV is a dichotomous dependent variable and the goal of the study is an understanding of the dynamics involved in the decision by a Western firm to engage or not engage in a Soviet joint venture, logistic regression is appropriate for an investigation of this nature.

With the end of the Cold War and the emergence of a "new world order," the study of Soviet-Western political economy is found to be theoretically lacking. This study attempts to overcome the void by providing new theoretical and empirical insights on one specific aspect of Soviet-Western political economy: Soviet joint ventures with the West.
Figure 1
Soviet Joint Ventures Model
JOINT VENTURES IN THE CHANGING SOVIET POLITICAL ECONOMY

When this study began the Soviet Union under the leadership of President Mikhail Gorbachev appeared to be moving toward a free market economy and complete integration of the Soviet Union into the international political economy (IPE). However, by the summer of 1990 numerous events transpired in the Soviet Union that appeared to change the direction of Gorbachev's program of perestroika, which, in turn, raised questions about the relevance of this study and the future of Soviet joint ventures. This section will briefly recount some of these events and demonstrate that the results of this study and transaction-cost analysis are still valid despite the current Soviet political and social climate.

In July 1990, President Mikhail Gorbachev engaged in negotiations with Boris Yeltsin, President of the Russian Republic, on the Shatalin Plan. The Shatalin Plan was a 500 day economic program to transform the stagnant/declining Soviet command economy to a free market by selling off all state enterprises (e.g., factories and farms), letting prices reflect relative scarcity through supply and demand, promoting private enterprise, and facilitating the "devolution of power to the republics in exchange for their participation in a kind of economic commonwealth" (New York Times, February 3, 1991). However, following a brief vacation, Gorbachev returned to Moscow
offering a different, far less sweeping plan. It appeared the restraining influence of the Communist Party, the KGB, and the Army was a major factor in Gorbachev's reversal. The Communist Party, while issuing disclaimers regarding its monopoly on power in the Soviet government, still maintains a strong influence in all institutions of the central government. In addition, Gorbachev could not afford to further alienate the KGB and the Army, already upset by what they perceived to be Soviet security concessions to the West, with domestic protests increasing throughout the Soviet Union. These organizations might be needed to preserve the Soviet Union and its leader, President Mikhail Gorbachev.

The events of the summer of 1990 were followed by a series of personnel changes in the Soviet government and cabinet which appeared to reflect a policy of retrenchment by Gorbachev. The appointments of Valentin S. Pavlov to the post of Prime Minister, and Boris Pugo to the post of Interior Minister, and the nomination of Gennadi Yanayev as Vice-President of the Soviet Union by Gorbachev saw the reemergence of Communist Party conservatives in key positions of Soviet government. In addition, the unexpected resignation of Foreign Minister Eduard Shevardnadze in December 1990, because he feared the possibility of dictatorship, further demonstrated that Gorbachev might be aligning himself more with the
conservatives in the Communist Party, the KGB, and the Soviet Army. In addition, the "brain thrust of perestroika," Aleksandr Yakolev, Stanislav Shatalin, Nikolai Petrakov, and Vadim Bakatin, had either resigned or have been demoted and delegated little responsibility in the Soviet government (New York Times, January 27, 1991). The reasons for this realignment included the need to insure (1) the survival of Mikhail Gorbachev as President of the Soviet Union and leader of the Communist Party, and (2) the support and control of the security forces of the Soviet Union to preserve the union in the face of strong independence movements throughout the 15 republics.

When considering the question of perestroika or retrenchment by Gorbachev in the Soviet Union, the most significant of all events has been the appointment of Valentin Pavlov as Prime Minister. Since Pavlov has assumed the position of Prime Minister, Soviet policy, especially policy that has a direct bearing on foreign economic relations, has gone through a definite period of retrenchment. The first major policy change implemented by Pavlov was the withdrawal of 50 and 100 ruble notes from circulation, approximately 33 percent of the currency in circulation in the Soviet Union. The decree ordering the withdrawal, the first major act implemented by Gorbachev's new Cabinet of Ministers, stated the measure was designed to bring the Soviet economy and black market under control
by reducing "speculation, corruption, smuggling, forgery, unearned income, and normalizing the monetary situation and the consumer market" (New York Times, January 23, 1991). In February 1991, following negative public reaction to the measure, Pavlov attempted to justify the law by accusing banks in Switzerland, Austria, and Canada of plotting to (1) acquire billions of rubles on the black market, (2) flood the Soviet economy with these rubles in order to create hyperinflation and cause greater economic panic throughout the Soviet Union, and (3) overthrow Gorbachev in order to bring an end to Communist Party rule in the Soviet Union.

While Pavlov's actions may have diminished Soviet public outrage with the ruble withdrawal policy it may have alienated the Soviet government from Western financial institutions. The importance of this alienation is best described by an article in The Economist (February 16, 1991):

He [Pavlov] heads the government of a country with a recent history of unpaid trade obligations, rising foreign debt, and falling export revenues. Many bankers (Western) fear that the Soviet Union may have to reschedule its foreign debt in 1991 or 1992. In these circumstances, accusing Western banks of criminality risks undermining his own government's negotiating credibility. Some parts of the economy, especially the energy industry, urgently need Western investment . . . Yet Mr. Pavlov's welcome for foreign investment was distinctly cool.
The second retrenchment policy change implemented by Gorbachev, Pavlov, and the Cabinet of Ministers was the expansion of the role of the KGB in policing private enterprise, including Soviet joint ventures with the West. Pavlov suggested that these enterprises, especially the joint ventures with the West, were tools of the black market and contributed greatly to the stagnation of the Soviet economy. This Soviet policy change was not well received by Western firms engaged in Soviet joint ventures. An interview with an official of a Memphis medical firm involved in a Soviet joint venture (name of official and company withheld at request of company), suggested that any interference and intimidation by the KGB could cause their company to reconsider its business relationship with the Soviet Union. The company official stated that the retrenchment policies taken by the Soviet government could raise the company's cost of doing business to such a level that profits may not be attainable anytime in the near future. In particular, he suggested that the new policies could make repatriation of profits more difficult and would give the Soviet government greater control over the operation of the joint venture, which the company official suggested would result in greater inefficiency as well as other business and production problems. He also stated that the referendum on March 17 was another key factor concerning their future business relations with the Soviet
Union as well as other Western firms' further business relations with the Soviet Union. It appears that Western investors viewed the referendum as an indicator of the future of reform and economic liberalization in the Soviet Union; thus its failure would have forced the central government in Moscow to implement even stronger retrenchment policies causing the further deterioration of the Soviet political economy resulting in the potential loss of Western investors in the Soviet economy.

On the other hand, support for the future of Soviet-Western political economy, Soviet joint ventures with the West, and this study can be found in the legislation enacted by the USSR Supreme Soviet and the parliaments of the various republics in conjunction with decrees by Gorbachev. Sarah Carey (1991:38) states:

The USSR is on the verge of a new era of foreign investment. The door to this vast market is no longer partially ajar; it is wide open. Foreign companies are no longer constrained to a narrow path, for they can go virtually anywhere in the Soviet economy, both geographically (with limited exceptions related to the vestiges of the Cold War) and in terms of the forms their investments take. While the centralized ministries and other state organizations still exist and still want to serve as the "channelers" or "handlers" of foreign investors, they are becoming increasingly irrelevant. The informed foreign investor now starts with the customer or the potential partner, not the customer's or partner's superior organization. The enterprise is now the basic building block in foreign trade. Soviet President Mikhail Gorbachev has promulgated decrees emphasizing the importance of foreign trade to overall economic development, and this policy is reflected in a number of USSR Supreme Soviet enactments as well as in proposed and current legislation of the Russian Republic.
On June 4, 1990, the "Law on Enterprises in the USSR" (effective January 1, 1991) was passed by the Supreme Soviet of the USSR. The law officially sanctioned and guaranteed the rights of several new (new to the Soviet economy) business forms such as corporations, partnerships, and cooperatives (Carey 1991). However, the key provision of the law allows foreigners to be the founders of enterprises and grants those enterprises independence in decisionmaking from the central bureaucracy. In addition, on October 26, 1990 Gorbachev issued a Presidential Decree that authorized 100 percent foreign ownership of enterprises in the Soviet Union. The door for direct foreign investment in the Soviet Union was now "wide open" and Western firms responded by engaging in more joint ventures. Between September 1, 1990, and March 1, 1991 the number of joint ventures in the Soviet Union rose approximately 42 percent.

Sarah Carey (1991) suggests that the explanation for the increase in Soviet joint ventures is relatively simple. She (1991:39) argues that "joint ventures are a proven, established business form in the USSR as in most of the world" and that joint ventures are "a better vehicle for locking in key partners whose involvement is crucial, because they control either natural resources, a customer network, real property, or some other asset." In addition, Carey states that Western "business can survive and even
thrive despite intergovernmental conflicts." The empirical findings of this study support Carey's conclusions, as demonstrated in Chapter Four.

The procedure initially set forth by the January 1987 edict for the establishment of joint ventures was complicated and unclear. The 1987 edict was only five pages long, providing a loose framework that limited foreign firms to owning no more than 49 percent of the joint venture and leaving the majority of the key decisions to the discretion of the joint venture's partners and governing boards. But under recently enacted amendments to the joint venture law and the aforementioned Presidential Decree issued in October, foreign firms are permitted to be the majority partner. It is entirely possible that a Soviet joint venture with a Western firm could be 100 percent owned by a Western firm, controlled under its charter by citizens of the home country of the Western firm, and operated on a day to day basis by Western capitalist managers.

Four years later, the Soviet Ministry of Finance (the ministry responsible for the registration of Soviet joint ventures with the West) reports that 2375 joint ventures have been registered as of March 1, 1991. Soviet joint ventures have been established in almost every industry: energy, natural resources, food processing, chemical production, engineering services, telecommunications,
transportation, tourism, consumer products, computers, and heavy industry (e.g., machinery) (Carey 1991). Carey (1990) argues that joint ventures "have demonstrated that, although the path to success is arduous, foreign investors can prosper and can have positive effects on the economy . . . and have served as demonstration projects for many of the current economic reforms."

While political conflicts between conservatives and liberals continue in the Soviet Union, the overview above suggests that the compete integration of the Soviet economy into the IPE is a policy objective of both political factions in order to prevent the Soviet Union from being labeled as a permanently developing country (PDC) and thereby diminishing its status as an international superpower. The theoretical discussion of NEO and transaction costs presented in Chapter 3 and the empirical analysis of the Soviet joint venture model will demonstrate that this study, the theoretical assumptions, and the model are still appropriate research tools because, despite the political conflict in the Soviet Union, economic reform continues to move in the direction of greater liberalization and integration. Soviet government policies and legislation that directly affect the Soviet economy have not been interrupted by the political conflict, as previously noted, this is especially true for economic policies and legislation that affect Soviet joint ventures.
But the Soviet Union, like the NEO world, is still a world where, for example, "individuals are only bounded rationally, legal enforcement of agreements is costly and imperfect, and opportunistic acts cannot be ruled out" (Yarbrough and Yarbrough 1990:239). This makes cooperation difficult, "even when all parties are acting in good faith, and it therefore creates a demand for norms to enhance predictability and political and economic institutions to support exchange and other forms of cooperation" (Yarbrough and Yarbrough 1990:240). Uncertainty can also be increased if actors are engaging in opportunistic behavior, strategic behavior that is designed to deliberately conceal an actor's preferences or actions in order to achieve gains that improves its position while threatening the welfare and utility of other actors (Hodgson 1988:37-40). Obviously, the facts suggest that the Soviet Union meets the criteria necessary for NEO and transaction-cost analysis. Therefore, a study of Soviet joint ventures with the West is relevant and important for understanding the Soviet-Western political economy, and to the larger international political economy.
CHAPTER TWO
INTERNATIONAL TRADE, COOPERATION, AND THEORIES OF INTERNATIONAL POLITICAL ECONOMY

This study will integrate a relatively new theoretical framework within the existing IPE theories to bear on the problem of Soviet-Western trade to determine if Soviet joint ventures with the West have the potential to significantly affect Soviet-Western economic and political relations. But in order to introduce a new theoretical framework on Soviet-Western trade it is necessary to examine the existing theoretical frameworks on international trade that dominate the field of international politics and why they are deficient for purposes of understanding Soviet-Western trade relations. Currently, the literature on economic and political cooperation in international trade (including Soviet-Western trade) in the IPE subfield of international politics is found within the context of three dominant theories that evolve from the neorealist and pluralist paradigms: hegemonic stability theory, regime theory, and the theory of reciprocal cooperation. This chapter presents an overview of each paradigm and examines the three dominant theories of international trade. In addition, it demonstrates that the problem with approaching Soviet-Western trade from these mainstream IPE theoretical frameworks is that they are designed specifically for the study of political and economic cooperation between nations.
with established, functioning free market economies. Therefore, attempts to apply only these theories to Soviet-Western trade is somewhat problematic because the Soviet Union has yet to establish a functioning market economy.

THE PRISONER'S DILEMMA

The benefits of free international trade have long been promoted by classical and neo-classical economics (or liberalism). Liberalism teaches that since wealth is fundamentally a function of the extent of division of labor and scale of the market, states can increase their welfare (income or wealth) through specialization and trade according to comparative advantage. Yet, despite the potential benefits of economic cooperation, the historical record clearly shows that states often prefer forms of protectionism to liberal international trade (Conybeare 1987). Both the neorealist and pluralist schools explain non-cooperation and the breakdown of international trade by reference to the game theoretical model of the prisoner's dilemma. The prisoner's dilemma is a situation in which two actors can achieve mutual gain through cooperation, but often fail to achieve cooperation because each actor's payoff derived from taking advantage of the other's cooperation is greater than the payoff from mutual cooperation (Oye 1985).
What factors give international trade the characteristics of a prisoner's dilemma? Although neorealists and pluralists both tend to accept the notion that international trade presents states with a prisoner's dilemma scenario, their differing theoretical assumptions lead them to postulate somewhat different variables as contributing to the problems posed by the prisoner's dilemma.

NEOREALISM, PLURALISM, AND INTERNATIONAL TRADE

Neorealism, International Trade, and Cooperation

Neorealist analysis begins with the assumption that the essential characteristic of the international system is the competition for power and security among states. This competitive nature of international relations is an inherent trait produced by the anarchic structure of the international system (Waltz 1979:76-77). Under anarchy no sovereign authority exists to ensure the survival and security of individual states. Thus, the primary concern of states is to develop the means to provide for their security (Waltz 1979:111).

Neorealist theory posits that the state's primary concern for security limits cooperation in two ways. States must worry about economic independence and maintaining a diversified economy (Waltz 1979:106-107). Free international trade, according to liberal economic
theory, causes states to specialize in the production and trade of goods in which they have a comparative advantage. Neorealists argue that while a state may increase its national income through specialization in international trade according to comparative advantage in the short-run, in the long-run broader national security interests place limits on specialization. States have an interest in developing and maintaining a diversified and structurally competitive and efficient economy, and to achieve this objective states frequently intervene in the market through the use of subsidies and protectionist measures.

Neorealists argue that specialization offers at least five potential long-run costs to the welfare and security of the individual states. First, some economic sectors, such as steel and food, are strategically important because they are vital to military preparedness and national survival. States which fail to develop these strategically important sectors or to let them decline become vulnerable to the possibility of trade embargoes and massive shortages during periods of international conflict. Second, specialization may cause a state to suffer serious economic losses if the demand for its goods falls unexpectedly. Third, a state that is competitive in a wide range of goods has considerable economic leverage, which can enable the state to improve its terms of trade during periods of negotiation with other states (Knorr 1977; Yarbrough and
Yarbrough 1986). Fourth, economic leverage can also provide a state greater political leverage in the IPE, which can result in the achievement of security and other political objectives in international regimes such as the General Agreement on Trade and Tariffs (GATT), the North Atlantic Treaty Organization (NATO), and the International Monetary Fund (IMF). Finally, industrial and high technology sectors must be promoted over the primary product sectors if the market does not encourage the development of those sectors because industry and technology have positive spill over effects that enhance the long-run economic welfare of the state and provide it with a technologically more sophisticated and powerful military (Gilpin 1987:32-33).

The second way in which anarchy constrains international cooperation is that the pursuit of security forces states to be "defensively positional" actors in their economic relations with other states (Greico 1988). Defensive positionality applies to actors whose fundamental goal is not to maximize their own absolute gains, but "to prevent others from achieving advances in their relative capabilities" (Greico 1988:490). In other words, neorealists argue that states want economic cooperation to preserve or enhance their relative power and security vis-à-vis other states, especially rivals. According to Greico (1988:492), neorealists assume that to achieve this
objective a state will many times "decline to join . . . leave, or . . . sharply limit its commitment to a cooperative arrangement if it believes that partners are achieving, or are likely to achieve relatively greater gains."

In summary, neorealism postulates that, in their economic relations, states strive to maximize a utility function that is dependent not only upon increases in their own payoffs but also on the maintenance of a diversified and structurally competitive economy and on a favorable distribution of the benefits that cooperation affords. Intuitively one perceives that the proposition that states are defensively positional renders free trade problematic to the extent that states are not merely concerned with increasing their own payoffs but with avoiding relative losses in the distribution of trade gains. Consequently, free trade becomes less likely and the probability of the prisoner's dilemma outcome of mutual defection increases.

Pluralism, International Trade, and Cooperation

Pluralists begin their analysis with the basic assumption that the essential characteristic of the contemporary IPE is that of complex interdependence. Complex interdependence is a condition in which states have both security and economic interests, and in which the latter are not necessarily subordinate to the former
(Keohane and Nye 1988:24-25). Therefore, the condition of complex interdependence implies that states' interests in cooperation are as strong as their interest in competition.

Complex interdependence is defined as a network of crisis crossing relationships that have the potential to be both costly and beneficial to actors in the international system (Keohane and Nye 1988:23). While neorealism views states as the only important actors in the international system, pluralism assumes that a variety of non-state actors are linked in ways that may be important to international relations. The behavior of non-state actors may affect outcomes directly, as when a powerful multinational bank decides whether to make loans to developing nations and when multinational corporations (MNCs) turn from a strategy of horizontal integration to vertical integration (Gilpin 1987:254-256).

Pluralists stress that sub-state and non-state actors influence international relations indirectly through their impact on state policy. Unlike the defensively positional argument of neorealism, pluralism assumes that under the conditions of complex interdependence states are fragmented actors whose policies reflect the interests of sub-state and non-state actors. The state's economic policy is assumed to be the product of the relative power and political pressure of various interest groups. Interest groups include domestic coalitions, transnational actors
such as MNCs and transgovernmental coalitions (Keohane and Nye 1988:30-32). Thus, the state is not, on most economic issues, a coherent unitary actor that necessarily pursues security over wealth as neorealists suggest.

Pluralism, however, does acknowledge the realist distinction between "high politics" (military and security issues) and "low politics" (economic and other issues) and accepts that with respect to certain security issues realism's assumptions may be accurate. Yet, in economic matters, pluralism is not satisfied with explanations that link international cooperation to the power and security concerns of states. Explicit in pluralism is the idea that modern technology, modern forms of socioeconomic organizations (e.g., transnational capitalism), and modern forms of political organization have altered the character of international relations. In the contemporary international system, pluralists expect that the state's economic policies will be shaped as often by its relations with non-state actors and by economic forces as by its relations with other states and its military and strategic interests.

Because pluralism regards the international system as a complex environment and state policy as a product of complex forces, pluralists have identified a wide variety of factors that constitute impediments to international trade. For example, workers and certain domestic
industries whose incomes may be threatened by foreign economic competition often use their political power to pressure their government to enact tariffs or other non-tariff protectionist measures that will reduce the competitiveness of foreign goods in the domestic market (Friman 1988). On the other hand, MNCs, perceiving their interests to be best served by economic liberalism (openness), are likely to pressure policy makers to reduce tariffs and other non-tariff protectionist measures (Milner 1988). A corollary of the idea that domestic and transnational interests affect state economic policy is the notion that the particular institutional structure of a state, and the degree to which its institutions enable particular interest groups to influence economic policy, will be a major determinant of a state's trade policy (Lake 1988).

Finally, pluralism often traces protectionist policies to macroeconomic conditions such as surplus capacity, business cycles, and global economic instability (Calleo 1982; McKeown 1983; Strange and Tooze 1984; Yarbrough and Yarbrough 1987a). Whereas neorealism emphasizes the distribution of overall military and economic capabilities as a determinant of outcomes in international relations, pluralism examines the distribution of capabilities across particular issue areas and sectors in an effort to understand the international system. This is necessary
because on issues involving complex interdependence overall military and economic power is not usually an effective instrument of foreign policy. In other words, broad based military and economic power is no longer fungible in the modern international system.

Pluralists posit that any number of economic or domestic political factors may influence state policy in ways that exacerbate the prisoner's dilemma aspect of international trade and thereby inhibit cooperation in the liberalization of international trade. Yet to list a series of pluralist impediments to international trade is perhaps to overemphasize the causes of non-cooperation within pluralism and neorealism on the broader issue of cooperation in the liberalization of international trade. In simplest terms cooperation is much more the norm for pluralism than for neorealism. This is evident from the fact that neorealist theories of international political economy are fundamentally theories of non-cooperation. Neorealism stresses that distributional conflict over the gains from international trade is ever present in international political economy and that this conflict continually makes free international trade problematic. While pluralism, on the other hand, has identified specific factors leading to non-cooperation, it has also developed explicit theories of cooperation. As shall be illustrated next, when the three dominant theories of international
trade found in the IPE literature are examined, the conditions that must be met for cooperation in the liberalization of international trade to emerge and be sustained are much less stringent in pluralist theories of international cooperation than in the theories of international cooperation that are consistent with basic neorealist assumptions.

THEORIES OF INTERNATIONAL COOPERATION

Although the historical record documents a great deal of protectionism it also chronicles periods of sustained cooperation among states. Indeed, liberal world economies have been predominant in the modern era (Krasner 1976). While both neorealism and pluralism have sought to understand when and how sustained international economic cooperation occurs, they have also sought to understand when and how sustained international economic cooperation is possible given the prisoner's dilemma aspect of economic relations. In general, three basic theories have dominated the massive body of IPE literature of the last two decades: hegemonic stability theory, regime theory, and the theory of reciprocal cooperation. Hegemonic stability theory is usually emphasized by neorealists, while regime theory and the theory of reciprocal cooperation are usually emphasized by pluralists.
Hegemonic Stability Theory

Hegemonic stability theory emerged in the early 1970s and remains a widely accepted and influential account of international economic cooperation and free trade regimes. Hegemonic stability theory maintains that a "hegemonic power is a necessary, albeit not a sufficient condition for the full development of a world market economy" (Gilpin 1987:86). In part, a hegemon promotes free international trade by providing certain financial and monetary functions such as serving as a "lender of last resort" and maintaining stable international exchange rates (Kindleberger 1973, 1983). More importantly, however, the hegemon promotes free international trade through its power to bribe states that would otherwise prefer protection to liberal international trade. In this situation, the hegemon overcomes the prisoner's dilemma aspect of trade by making side payments or trade concessions that induce states, which would otherwise choose protectionism, to pursue free international trade (Yarbrough and Yarbrough 1987a). Once free international trade has been established, the sizeable gains that states realize from trading on the hegemon's large domestic market enable the hegemon to use the threat that it will close its market as an additional efficacious enforcement mechanism for keeping the IPE open (Yarbrough and Yarbrough 1987a).
Given the emphasis neorealism places on the obstacles to trade, hegemonic stability theory is the best and perhaps the only theory of cooperation that is fully compatible with neorealism's theory of non-cooperation. Given the relative gain problem that exists among defensively positional units, a hegemonic power is necessary to pay bribes and coerce states that feel that they would lose in relative terms from cooperation in the liberalization of international trade.

Beginning in the late 1970s, however, hegemonic stability theory became the object of increasing criticism. The continued operation of the liberal IPE in the face of what appeared to most observers as hegemonic decline on the part of the United States led researchers to examine more closely the empirical and theoretical validity of hegemonic stability theory. The result was the discovery of significant empirical evidence that appeared to contradict the hegemonic stability hypotheses that (1) widespread and sustained economic cooperation is unlikely in the absence of a hegemon, and (2) hegemonic systems are more open than non-hegemonic systems (Gilpin 1987:91).

Neither cross-sectional nor time series analysis reveals a strong relationship between hegemony and openness in international trade (Conybeare 1984). Stephen Krasner (1976) demonstrated that openness and closure in trade in the nineteenth and twentieth centuries did not correspond
closely with the rise and decline of British and American hegemony. In particular, liberal international trade appears to continue to prevail for a considerable period of time after a hegemon has begun to decline. Although British hegemonic decline was marked by a modest closure of the IPE during the last two decades of the 19th century, the years 1900-13 (clearly years of marked British hegemonic decline) were ones of increasing openness (Krasner 1976:357). Similarly, despite the fact that non-tariff and other forms of protectionism have clearly increased over the last two decades and that managed and strategic trade is on the rise, trade has remained remarkably open during the period of declining United States hegemony (Nye 1990:143-145). Trade actually continued to expand until the 1982 world recession (Strange 1985). In sum, hegemonic decline does not, as hegemonic stability theory suggests, necessarily mean closure of the IPE.

Regime Theory

In the 1970s, regime theory emerged to explain the fact that the liberal IPE was persisting despite the apparent erosion of U.S. hegemony. The regime literature flourished in the 1980s, as international political economists sought to explore the utility of institutions in achieving and maintaining cooperation in the international
system (Krasner 1983:2-3). This approach to institutions has relied upon the neoclassical analogy, and has focused on the collective action/public goods approach, emphasizing the importance of enforcement, commitment, and strategic interactions for international cooperation (Keohane 1984:7-9; Oye 1986). Employing these various approaches in the field of international politics illustrates the importance of transaction costs (e.g., uncertainty and information) in achieving international economic and security cooperation. Regime theory argues that regimes, defined as norms, principles, and rules around which actor expectations converge in a given issue area, may serve as an intervening or independent variable in promoting cooperation in the liberalization of international trade. Although regimes may have their roots in a particular distribution of power, regimes may persist and promote continuing cooperation even after the underlying distribution of power that gave rise to the regimes has changed. Therefore, regime theory attempts to explain how the liberal IPE could continue to function in the 1970s and 1980s even though U.S. hegemony was in decline.

Robert Keohane (1984:85-97) argues that regimes facilitate cooperation in the IPE by reducing the transaction costs that normally result in market failure and externalities. Keohane states:
Market failure refers to situations in which outcomes of market-mediated interactions are suboptimal given the utility functions of actors and the resources at their disposal. That is, agreements that would be beneficial to all parties are not made. . . . In situations of market failure the difficulties are attributed not to inadequacies of the actors themselves (who are assumed to be rational utility maximizers), but rather to the structure of the system and the institutions, or lack thereof, that characterize it. Specific attributes of the system impose transaction costs that create barriers to effective cooperation among the actors. Thus institutional defects are responsible for failures of coordination. To correct these defects, conscious institutional innovation (e.g., international regimes and joint ventures) may be necessary (1984:82-83).

Externalities occur when "one actor A, in the course of rendering some service to a second actor B, incidentally also renders services or disservices to other persons . . . of such a sort that payment cannot be exacted from the benefitted parties or compensation enforced on behalf of the injured parties" (Head 1974:185). Ronald Coase (1960) and Robert Keohane (1984:85-86) offer the classic example of an externality: the paint factory and the laundry service next door. In the course of producing their paint, the factory generates emissions that settle on clothes hung to dry in the yard of the neighboring laundry. The smoke dirties the clothes, and the cleaner must relaunder them. The laundry has no possible means of avoiding the smoke, and is not compensated for its detrimental effect. The factory has seemingly no incentive for reducing smoke output, nor for compensating the laundry for the costs of rewashing the clothes. To correct the externality, the
cost to the laundry must somehow be incorporated into the factory's production costs. Externalities and market failure arise in the IPE as a result of the transaction costs that create barriers to political and economic cooperation among actors in the system. Keohane argues that "international regimes perform the valuable functions of reducing the costs of legitimate transactions, while increasing the costs of illegitimate ones, and of reducing uncertainty" (1984:107).

While regime theory introduces the transaction-cost framework to the study of international politics, attempting to apply regime theory to a detailed analysis of Soviet-Western political economy is problematic for two reasons. First, regime theory is designed specifically to study and explain the continuing existence of a Western dominated international trading system in age of apparent declining United States hegemony. Second, regime theory is inherently difficult to put to empirical tests, a difficulty that is compounded by the problem of pinpointing the exact moment when hegemony has eroded to a sufficient degree that regimes alone are the sustaining force of cooperation in the liberalization of international trade.

The Theory of Reciprocal Cooperation

Recently, a third explanation for continuing cooperation in the liberalization of international trade in
an era of hegemonic decline has emerged. This explanation has its origins in the game theoretical analysis of Robert Axelrod (1984). Instead of focusing directly on regimes as independent variables explaining cooperation, this theory of cooperation in the liberalization of international trade uses game theoretic analysis to explain the way in which regimes emerge and are maintained. This analysis implies that cooperation in the liberalization of international trade may be established and maintained spontaneously when economic and other conditions are favorable, even in the absence of regimes.

Robert Axelrod (1984) has shown that in situations where actors (or players to use his terminology) expect to continue to play the prisoner's dilemma game, a tit-for-tat strategy tends to dominate as long as the players can communicate and do not discount the future too heavily. Under these conditions players will ordinarily cooperate contingent on the other players cooperating on the subsequent play. Thus, on the surface, Axelrod's analysis suggests that the continuous nature of international trade relations can encourage cooperation based on reciprocity. From this theoretical perspective the primary threats to cooperation are the domestic economic and political factors that were discussed in the previous section on pluralist impediments to free international trade. Changes in these variables may alter the payoff structure or change the
interests of actors in ways that encourage opportunistic
defection.

Theoretical Differences Between Neorealism and Pluralism
and the Problem of Soviet-Western Trade

Neorealists have been quick to criticize the pluralist argument that reciprocity can be a basis for sustained cooperation in the liberalization of international trade. Because states are assumed to be defensively positional, neorealists find that the concepts of reciprocity and tit-for-tat are inadequate to sustain cooperation in the liberalization of international trade (Greico 1988). Neorealists point out that Axelrod's analysis rests on the assumption that actors are egoistic. Egoistic actors have the primary objective of maximizing their absolute utility and gain irrespective of the gain of other actors. As has been illustrated, neorealists assume that states strive not to maximize their absolute gain in international economic relations but to preserve their relative positions vis-a-vis other states, thus making states defensively positional rather than egoistic (Greico 1988; Stein 1984).

The basis of cooperation among defensively positional units is not tit-for-tat but rather an equitable distribution of gains among cooperating parties, a distribution that while sustaining economic growth also roughly preserves the existing position of states within the IPE. Since there is no reason to assume that
reciprocity will necessarily produce equitable gains that preserve the existing distribution of power, reciprocity alone is not a sufficient condition of cooperation in liberalization of international trade or more specifically Soviet-Western trade. Indeed, if equity is the basis for cooperation, reciprocity might be harmful to cooperation in the liberalization of international trade, particularly Soviet-Western trade, because reciprocity requires retaliation against all forms of protectionism whereas equity often requires toleration of most measures of protectionism.

Reciprocity may be effective for preventing opportunistic protectionism, protectionism that seeks not to achieve such equitable distribution of gains from trade but rather to achieve such great gains as improve a state's position and threatens the domestic and strategic welfare of that state's trading partner. But reciprocity alone cannot assure equity given the free functioning of the international market. To be consistent with neorealism, a theory of non-hegemonic cooperation must recognize that cooperation is based not just on reciprocity but also on arrangements that ensure an equitable distribution of international trade among states. In other words, hegemonic type functions that ensure equity are seen as a necessary condition for the sustained functioning of the liberal IPE. Those states that gain in relative terms from
trade must be willing and able to make concessions to the losers, concessions that take the place of hegemonic bribes in keeping international trade open. Therefore, some other mechanism that provides equity must supplement reciprocity for a liberal IPE to prevail among defensively positional units.

It must be noted that reciprocity alone as a basis of sustained cooperation in the liberalization of international trade is theoretically problematic for pluralism as well. First, pluralism assumes that the state is pluralistic. If state policy reflects a pluralistic struggle among competing interests then that policy will not always be egoistic (e.g., will not always aim to maximize national income). Rather, overall national welfare will sometimes be subordinated in the interest of maximizing or protecting the interests and income of particular industries and other groups. In addition, reciprocity clearly does not provide an adequate explanation of trade outcomes in the contemporary era. Increasingly free international trade has been replaced by "fair trade" as states negotiate a network of voluntary export restraints and other agreements that essentially allocate certain shares of markets to particular states and thereby distribute international trade gains more equitably than might the free international market (Gilpin 1987:204-228). States have exhibited a willingness to tolerate
protectionism on the part of their trade partners in certain sectors in exchange for the partners' continued openness in other sectors and/or the partners' reciprocity in tolerating protectionism in certain sectors.

It appears that for all the effort to understand the basis of economic cooperation and cooperation in the liberalization of international trade, the field of international politics remains divided if not confused on the subject. In addition, when the politics and economics of Soviet-Western trade issues are added to the analysis the current theoretical literature on the IPE is inadequate. The problem with approaching Soviet-Western trade from these mainstream IPE theoretical frameworks is that they are assigned specifically for trade between nations with established and functioning liberal economies. However, some conclusions on the current theoretical perspectives found in the IPE literature are justified.

First, on the basis of the empirical evidence and theoretical insights, multiple factors are capable of influencing economic and political cooperation in the liberalization of international trade. Friman (1988) suggests that an integrative approach that takes into account domestic and systemic variables and that looks at specific sectors as well as specific nations is necessary to develop adequate explanations of international trade policy choices. Second, security concerns in the long-run
may influence trade appreciably. It may be that the relative loss of wealth and power of a hegemon, for example, will eventually lead to a posture of defensive positionality on the part of the hegemon, and hence to significant closure of the IPE. Yet, the historical record clearly indicates that hegemons do not take such a turn in international trade policy lightly. Both Britain in the nineteenth century and the U.S. in the twentieth century have demonstrated that declining hegemons tend to retain liberal trade policies even after trade has begun to erode their relative power position. Third, though it does not appear to relate so much to security as to domestic political and economic concerns, there is clearly a relative gain problem concomitant with international trade. States seek to intervene in international trade in order to protect certain industries and sectors from foreign competition. Finally, there is also the problem of "linkage" where liberal governments intervene in trade and use it as leverage to achieve other goals.

The coming of Europe 1992, the rise of the newly industrialized nations (NICs) of Asia, and the political and economic initiatives taken by the Soviet Union and the nations of Eastern Europe to become more involved in the IPE have resulted in a contemporary world economy that is growing increasingly competitive, and therefore the incentives for state intervention in the IPE have greatly
increased. This last point implies that neither hegemonic stability theory, nor regime theory, nor the theory of reciprocal cooperation are adequate, in and of themselves, to explain the impact of or the motivation for joint ventures between the Soviet Union and Western firms. An additional theoretical framework needs to be incorporated into the IPE literature to explain the integration and impact of the Soviet Union and the Eastern Europe states in the world economy. The new economics of organization (NEO) offers transaction-cost economics theory as a solution to this deficiency in the IPE literature. This study will demonstrate that the inclusion of NEO into the existing IPE literature is theoretically justified and necessary in order to adequately analyze and explain the factors that contribute to the establishment of joint ventures between the Soviet Union and Western firms.
Since the publication of Adam Smith's *The Wealth of Nations* in 1776, economic research has focused primarily on five factors (prices, supply, demand, income, resource allocation) that affect the functioning and efficiency of markets and economic systems. But in any complex economy, there exist numerous other factors that can have a major impact on the organization of economic activity. Included among them are (1) the administrative and internal organization of production and exchange between firms or states, (2) the contractual relations between firms or states, and (3) government control through law, policies, and regulations (e.g. tariffs, quotas, export controls) (McCloskey 1985:224-228). Orthodox neoclassical economics has failed to examine thoroughly the relationship between the functioning and efficiency of markets and non-market activity (e.g., institutional arrangements and contractual agreements). The reason for this neglect remains unclear in the current literature on the subject.

In principle, the methodology of neoclassical economics offers a framework for analyzing institutional form. Institutional arrangements are decisions made by economic agents and should be examined as part of an agent's overall optimization problem. In practice, however, neoclassical economics has never formulated the issue of institutional
efficiency in that context. Neoclassical economic theory assumes agents make decisions within a particular institutional arrangement, and the efficiency consequences of those decisions are evaluated relative to the Paretian ideal. The problem with this approach is its failure to adequately explain either the evolution of those arrangements in the first place or the persistence of ostensible inefficient institutions thereafter, which implies that the neoclassical model ignores the opportunity costs found in alternative mechanisms and contractual arrangements (Williamson 1986:85-98). In order to explain these phenomena a theory is needed that is capable of demonstrating that the losses resulting from the use of one method of organization (e.g., institutional arrangements, contractual agreements) are greater than the cost implied by the available options. The new economics of organization (NEO) and transaction-cost analysis addresses this problem. This chapter will explain NEO and transaction-cost analysis and examine their theoretical connection and importance to international politics and Soviet-Western political economy.
Transaction-Cost Analysis: The Conceptual Framework

Transaction-cost analysis forces the analyst to recognize that from the economic agent's point of view the net value of a given transaction reflects not only the losses due to the potential misallocation of resources, but also the costs of conducting the transaction itself. From this perspective, transaction costs take on a decisive role in the analysis of institutional efficiency, for in their absence all gains from trade would be realized by rational self-interest seeking agents forming cooperative agreements (Coase 1960). Therefore, once we have ascribed costs to such activities as observation, communication, and negotiation, the possibility of a divergence between cooperative and non-cooperative solutions emerge as agents attempt to exploit circumstantial advantages. Since transaction costs in effect drive a wedge between actual and potential outcomes, our attention is naturally directed toward the character of those costs.

As previously stated, transaction-cost analysis is the product of the new subfield of economics called the new economics of organization (NEO), or institutional economics. NEO is an interdisciplinary approach to institutions and that incorporates contributions from law, organization theory, economics, and other social sciences.
While the origins of NEO are grounded in the study of the firm, the central research focus of NEO is "precisely those of political economy" as defined by Susan Strange in her book *States and Markets*. Strange (1988:18-19) states:

IPE concerns the social, political, and economic arrangements affecting the global systems of production, exchange, distribution, and the mix of values reflected therein.

Oliver Williamson explains that transaction-cost analysis is a product of NEO based upon Herbert Simon's assumption "that human agents are subject to bounded rationality, whence behavior is intendedly rational, but only limited so, and are given to opportunism" (Williamson 1985:30). The basic unit of analysis is the transaction, which John Commons (1950:21) defined as a "joint action where performance is executed in accordance with established rules" (usually a contractual agreement). The implicit assumption of Commons' definition is that any direct or indirect contracting problem can be examined with transaction-cost analysis (Ouchi 1980; Williamson 1986:187). A transaction-cost analysis of Soviet joint ventures with the West and their impact on cooperation and liberalization of Soviet-Western trade, therefore, would be justified because of the contractual nature of Soviet joint ventures with the West.

What are the essential characteristics of the basic unit of analysis, the transaction? Ronald Coase's "The Problem of Social Cost" (1960) suggested that transaction
costs include all information, negotiation, investment, contracting, maintenance, and enforcing costs of a joint action. Beth and Robert Yarbrough (1990) state:

The transaction is not an instantaneous exchange in a world of perfectly specified property rights and perfectly enforced contracts; rather it is a relationship in which performance may be non-simultaneous and non-performance may leave an aggrieved party with little recourse. Given these elements of anarchy, cooperation requires an institutional structure consistent with self-enforcement or self-help.

Oliver Williamson has condensed the characteristics of transaction costs into two distinct categories: ex-ante and ex-post transaction costs. Ex-ante transaction costs are the costs involved in the negotiation, drafting, and establishment (e.g., initial capital investment) of a joint action (e.g., a joint venture or merger) that aligns the incentives of the actors involved, and allows an internal system of institutions and norms control of the relationship (Klein, Crawford, and Alchian 1978; Williamson 1985:32-34). Ex-post transaction costs are the costs involved in the day to day operation, maintenance, and governance of a joint action. Ex-ante and ex-post transaction costs may be incurred as the result of activities which are directly productive, which implies that transaction costs are incurred in the course of organizing and maintaining an economic or political activity and thus may vary with organizational form (Coase 1960). Kenneth Arrow (1969) states:
The distinction between transaction costs and production costs is that the former can be varied by a change in the mode or resource allocation, organization, and operation of organized activity, while the latter only depend on technology and output, and would be the same in all systems.

While a clear and concise definition of transaction costs is essential to an analysis of Soviet joint ventures with the West, there exist two other crucial components of transaction-cost analysis that demand our attention: the process from which transaction costs emerge, and asset specificity.

John Commons (1950) stated that in order for transaction costs to exist and be measured the following process must transpire:

In point of time sequence, the transaction has three stages: first, the negotiations, which are closed when the agreement on intentions is reached; then the contract or commitment, which imposed the obligation of performance and payment upon the parties in future time; finally the administration or performance of the obligations agreed upon, when completed by both parties, closes the transaction.

And with respect to the latter, Oliver Williamson (1986:17) argues that the most critical dimension of transaction-cost analysis is the condition of asset specificity. Asset specificity exists when transaction-specific (or idiosyncratic) investment is undertaken in a joint action. Transaction-specific investment occurs when capital assets (e.g., human resources, natural resources, goods) are specifically designed for a particular use, and where the alternative use (opportunity costs) of the assets invested
are low (Williamson 1986:106-107; Yarbrough and Yarbrough 1987a). Specificity is perhaps best thought of in spatial terms. The decision to invest in a transaction-specific asset is comparable to the selection of a more or less unique product, process, or site from among a set of alternative characteristics, technologies, or locations. Williamson (1986:107) further argues that asset specificity transforms a bilateral relationship into a bilateral monopoly because, as a result of transaction-specific investment, the loss of the relationship would result in significant excess capacity and other economic losses due to high transaction costs. Asset specificity implies that it is usually to the mutual advantage of each contracting party to maintain a joint action because each party to the agreement has become a "hostage" to the relationship (Telser 1980; Williamson 1983; Yarbrough and Yarbrough 1986). The literature on transaction-cost analysis assumes that any investment that is not transaction-specific is a general purpose or non-specialized investment, which has a discretely higher value in its next best use (opportunity costs).

Another essential element of asset specificity is that the transaction-specific investment exchange transpires once the required resources have been committed on the part of the investor, or in other words that the investment is durable. If expenditures, asset life, and exchange were
instantaneous, appropriate quasi-rents could not exist, since alternative buyers and sellers would always be available. The fact that assets are durable implies that transaction-specific relationships should persist for an appreciable period (Williamson 1986:105-109). It is the absence of continuous alternatives in the wake of transaction-specific investments which gives rise to transactional frictions. When investments are non-specialized, opportunistic inclinations are attenuated by the ability of either party to turn to alternative partners should one seek to gain at the expense of the other (opportunism). When investments are transaction-specific in nature, however, agents become able to employ variables such as output, effort, quality, and information in a strategic fashion which alters the distribution of the surplus or rent accruing to those assets in their favor (Williamson 1986:110).

Transaction-Cost Analysis and Soviet-Western Economic and Political Cooperation

The failure of neoclassical economics to examine the relationship between market and non-market activity has also inhibited the development of viable theories of international political economy that are capable of explaining the role of international institutional arrangements and contractual agreements in governing and facilitating cooperation in the IPE. Critics of
neoclassical economics argue that the failure of neoclassical theories of international trade can be attributed to the apolitical and ahistorical nature of the assumptions and methodologies of those theories (Coase 1960; Conybeare 1980; Yarbrough and Yarbrough 1987b). Yarbrough and Yarbrough (1987a:4) also argue that neoclassical economics has ignored the basic assumption of transaction costs in international trade because neoclassical theory "posits trade as a situation of near perfect harmony, zero transaction costs, a positive sum game with little room for strategy, negotiation, or disagreements."

The failure of neoclassical economics to develop international trade theories that explain the way in which institutional arrangements and contractual agreements govern and facilitate trade has stimulated research in other disciplines, primarily international politics, in search of a truly systemic theory of international trade. The pioneer efforts of such individuals as Kindleberger, Keohane, Krasner, and Strange have resulted in viable alternative theories of international trade found in the literature on international cooperation and international regimes. While these theories offer a "useful analysis of a specific institution or historical episode" they fail to develop a "systematic theory to explain the wide range of international trade institutions, and contractual
agreements, that have existed under differing economic conditions" (Yarbrough and Yarbrough 1987b). In addition, the analytical frameworks of these theories of international cooperation and regimes and are not completely conducive to an analysis of Soviet-Western trade.

Transaction-cost analysis' emphasis on institutions, contracts, economic conditions, rules, enforcement, and opportunism provides the framework for a truly systematic theory of international trade and cooperation that can explain the role of these variables in governing and facilitating East-West, West-West, and North-South trade. The relevant world for NEO is a world or institutional setting in which uncertainty prevails, a world where, for example, "individuals are only bounded rationally, legal enforcement of agreements is costly and imperfect, and opportunistic acts cannot be ruled out" (Yarbrough and Yarbrough 1990:239). In this environment relatively complex institutional structures may be required for mutually beneficial associations and arrangements that deter opportunism (such as Soviet joint ventures).

The scope of uncertainty in the NEO environment is further increased by bounded rationality and opportunism because they may result in incompletely specified and imperfectly obeyed agreements. In addition, the scope of uncertainty can be increased by an actor's lack of
information about other actor's motivations, perceptions, preferences, and actions (Hodgson 1988:21-24). This makes cooperation difficult, "even when all parties are acting in good faith, and it therefore creates a demand for norms to enhance predictability and political and economic institutions to support exchange and other forms of cooperation" (Yarbrough and Yarbrough 1990:240).

Uncertainty may also increase if actors are engaging in opportunistic protection behavior, strategic behavior that is designed to deliberately conceal an actor's preferences or actions in order to achieve gains that improves its position while threatening the welfare and utility of other actors (Hodgson 1988:37-30; Yarbrough and Yarbrough 1990). Because of these conditions, the problem in this type of environment "becomes one of devising institutions that will facilitate cooperation by safeguarding against opportunism, maintaining flexibility, forestalling disputes, and mediating any disputes that do arise" (Yarbrough and Yarbrough 1990:240). A careful examination of the NEO environment reveals an environment similar to the IPE in a world of complex interdependence as described by Robert Keohane and Joseph Nye in their book *Power and Interdependence*. Keohane and Nye (1988:253-254) state:

> From the foreign policy standpoint, the problem facing individual governments is how to benefit from international exchange while maintaining as much autonomy as possible. From the perspective of the international system, the problem is how to generate and maintain a mutually beneficial pattern of
cooperation in the face of competing efforts by governments, and nongovernmental actors, to manipulate the system for their own benefit.

A transaction-cost analysis of Soviet joint ventures with the West and their impact on East-West economic and political relations, therefore, would also be justified because Soviet joint ventures occur within a NEO like environment consisting of (1) complex institutional and contractual agreements, (2) the uncertain nature of Soviet joint ventures, (3) the unsettled Soviet political and economic climate, and (4) the anarchic structure of the international system.

Geoffrey Hodgson, Oliver Williamson, and Beth and Robert Yarbrough have all contributed to the development of the analytical framework from a systematic theory of international trade based on transaction-cost analysis not found in the current literature of neoclassical economics and international politics. Yarbrough and Yarbrough (1987b:130) provide additional justification for the application of transaction-cost analysis to the study of cooperation in the liberalization of international trade:

International trade presents a fertile ground for transaction-cost analysis for two reasons. First, an additional level of potential opportunism is introduced. A British firm entering into trade involving substantial transaction-specific investment with a French firm faces two potential levels of opportunism: the French firms may threaten to halt trade in order to alter the prices at which trade occurs and the British states may threaten to halt the relationship by imposing trade restrictions. This second level of opportunism enriches the implications of the transaction-cost framework since organizational
forms should reflect the additional sources of transactional insecurity. Second, the enforcement institution of the state is weak or absent in international transactions making the lack of efficacious third-party adjudication and enforcement even more evident than in transactions within a single nation-state (e.g., the Soviet Union). As a result, provision of adequate governance structures for all international transactions may require an especially diverse and sophisticated range of institutions.

State and private opportunism in the international system can take two forms: (1) reneging or cheating on negotiated contractual trading agreements, and (2) the establishment of barriers to trade (e.g., quotas, tariffs, export controls). To control the level of opportunism in the international trading system, transaction-cost analysis posits that the establishment of institutional safeguards is required between trading partners. Nonstandard contractual arrangements consist of such mechanisms as economic hostages, joint ventures, and licensing agreements. Each has relevance to an understanding of Soviet joint ventures with the West.

Nonstandard Contracting in Soviet-Western Economic and Political Relations: The Logic of Soviet Joint Ventures with the West

The Soviet joint venture law of 1987 was the first authorization of such industrial cooperation between East and West in the Soviet Union since 1930. It was in 1930 that Stalin cancelled all joint ventures with foreign countries on ideological grounds, claiming that such enterprises were inconsistent with Marxism-Leninism because
they granted foreign control over vital sectors of the Soviet economy (Ross 1987).

Why did Gorbachev decide once again to allow Soviet joint ventures with Western firms within the geographical borders of the Soviet Union? By allowing joint ventures between Soviet enterprises and Western firms Gorbachev and his economic advisers hoped to gain three major economic benefits. First, they hope that joint ventures with the West can provide the Soviet Union with an additional source of investment capital. Second, Soviet officials hope that exports from joint ventures with will open new opportunities and markets for trade between the Soviet Union and the West. Finally, and perhaps most important, they hope joint ventures will provide a vehicle for absorbing advanced foreign technology and foreign management skills that, in turn, will help transform Soviet enterprises into economically efficient and internationally competitive units. (Bergson 1989:163-174; Lindsay 1989:60-65). Thus, the Soviet logic for engaging in the nonstandard contracting arrangement of joint ventures with the West is based on the Soviet concept that joint ventures are the most cost-effective (least amount of hard currency expenditure) and efficient means of acquiring and applying Western technology, business techniques, and internal organization to Soviet enterprises in a NEO-like environment.
If, on the other hand, Western firms are to be induced to invest in the Soviet Union, thereby fulfilling the Soviet Union's desire to absorb foreign capital and its attendant benefits, the goals of Western investors must also be satisfied. The goals of Western firms to invest in the Soviet Union, and hence their interests, are straightforward. The foremost motivation for Western firms to invest in the Soviet Union has been to gain access, immediately or in the future, to what they perceive to be a huge domestic market, and to preempt competitors from gaining market share in the Soviet Union. Foreign investors are sensitive to their perception of the Soviet government's willingness to create a favorable environment for their long-run goals (Lindsay 1989:85). Western firms have, therefore, watched closely changes in the investment environment and have responded to concrete or perceived changes in it (Vestnik 1990). Potential investors have withheld investment when the environment has seemed to be poor, while extant investors have made their complaints known. Conversely, Western investors have entered joint venture projects when the environment improved.

The emphasis of transaction-cost analysis on institutions, contracts, economic and political conditions, rules, enforcement, and opportunism provides the framework for a truly systematic theory of international trade and cooperation that can explain the role of these factors in
facilitating or inhibiting not only East-West but West-West, North-South, East-South, and West-South economic and political relations. Employing a systematic framework is particularly important to the study of Soviet foreign economic policy and the IPE because Gorbachev has not made a secret of his interest in a growing role for the Soviet Union in the IPE, especially in Western organizations and arrangements such as GATT, the IMF, and the World Bank. At the same time, however, Gorbachev wants to guard against a repetition of past experiences in which economic ties with the West were allegedly exploited to bring political pressure on the Soviet Union (e.g., the Jackson-Vanik Amendment). One way to avoid this problem is to raise the domestic political costs to Western governments while reducing economic costs to Western business firms, thus mixing international politics and international economics. Presumably the stronger the vested interest of Western business firms in the Soviet economy, the more difficult it will be for Western governments to politicize economic relations and to inhibit full Soviet integration into the IPE.

Internationally and domestically, economic and political agents, whether they be individual firms or sovereign states, must achieve economic and political cooperation in a world of uncertainty, bounded rationality, imperfect enforcement mechanisms, and opportunism.
However, the effect of these factors on a cooperative arrangement depends upon the attributes of the existing relationship between the agents. Therefore, as a preface to a transaction-cost analysis of Soviet joint ventures with the West, it is essential to understand the characteristics and the evolution of the primary transaction costs in Soviet-Western political economy.

SOVIET-WESTERN POLITICAL ECONOMY:
THE EVOLUTION OF TRANSACTION COSTS

In a free market trade occurs when it is to the mutual advantage of the participants to engage in exchange. In international trade, participants exploit their comparative advantages in order to profit economically and sometimes politically. When compared to North-South or West-West trade, or when figured in volume and dollars, Soviet-Western trade is sometimes considered less important. Regarded as a matter related to international security and defense, however, its importance cannot be overlooked. Weighing recent changes in the government and economic system of the Soviet Union, continuing developments in the international control and transfer of technology and goods, and overtures made to the West by President Mikhail Gorbachev, conventional attitudes about the economic and political relations of Soviet-Western trade warrant reevaluation. Thus, before undertaking any analysis of Soviet joint ventures with the West and their political and
economic impact on Soviet-Western relations, it is necessary to examine first the basic characteristics and evolution of the primary transaction costs in Soviet-Western political economy which provides the basis for an analysis of Soviet joint ventures with the West. The primary transaction costs affecting Soviet-Western political economy that demand attention are (1) trade barriers, (2) problems related to monopsony market conditions, (3) the foreign exchange policy, and (4) risk and return. However, these transaction costs are not mutually exclusive and can produce various other transaction costs to economic and political agents in the Soviet-Western political economy.

Trade Barriers

If the benefits of a trading relationship are enjoyed predominantly by one of the partners, the other has the potential to use various trade barriers as a source of influence or leverage in seeking to obtain economic and noneconomic concessions and other valued outcomes. The behavior of target countries can be influenced by imposing opportunity costs and transaction costs on them. Trade barriers commonly take the form of restrictions on exports (tariffs), limits on imports (quotas), or impediments to the financial activities of the state (sanctions). Any actions or conditions that reduce the price received for
exports, or increase the price paid for imports, will tend to reduce the gains of trade. In cases of attempted leverage, the interruption of trade is usually involved to some degree (Mastanduno 1985:25). This is especially true in Soviet-Western trade as both the West and the Soviet Union have imposed policies that inhibit cooperation in the liberalization of Soviet-Western trade.

**Western Trade Barriers:** The desire to insure international security has led to the imposition of formal controls on Western commerce with the Soviet Union, the Eastern European states, and the People's Republic of China. The United States and Japan, along with the members of the North Atlantic Treaty Organization (NATO), restrict trade, investment, and transfers of technology to these countries. These restrictions are administered primarily through the operation of an international regime known as the Coordinating Committee on Multilateral Export Controls (COCOM). The primary purpose of COCOM is to integrate the efforts of its members to prevent the movement of strategic goods and technology to designated countries (Bertsch 1988:11-12).

If trade barriers can be difficult to impose and maintain when attempted unilaterally, multilateral trade barriers are even more difficult to implement. A trade barrier may have as its goal a variety of objectives, but the use of trade barriers tends to reduce the gains from
Because trade is a reciprocal activity, costs are also felt by the country that seeks to achieve its goals by imposing trade barriers. These can include the loss of profitable markets, or the loss of the advantages of economies of scale of production. Another loss is the stability that can result from increased interdependence and the political benefits of such stability (Bertsch 1988:19-20). Loss can be further experienced through the slowing of research and technical advances (Nau 1988).

Strategic trade barriers have often been a source of economic and political disagreement among the countries of the industrialized West. The conflict derives from divergent national opinions, perceptions, and objectives about the correct balance between economic and security interests, including the degree to which the trade barriers actually serve the collective economic and security needs of the West. This is increasingly problematic in a world market that is becoming more competitive as nation-states divide into well organized trading blocs (e.g., the European Community (EC) and the North American Trade Agreement between the United States and Canada). The industrialized West, newly industrialized countries (NICs), the Third World, the Soviet Union, and the Eastern European states are all currently seeking to expand their share of the world's wealth, which makes the specific character and
nature of strategic trade barriers imposed by other governments critically important for their success or failure because of the opportunity costs and transaction costs involved in those barriers (Bertsch 1988:25-26).

This debate over the effectiveness and value of strategic trade barriers has led to the development of two fundamentally different points of view in the West regarding the proper management of Soviet-Western trade. The first view regards the antagonistic aspects of the relationship between the Soviet Union, the United States, and their allies as the primary concern to be addressed in decisions about Soviet-Western trade. This viewpoint assumes that Soviet-Western trade benefits the Soviet Union disproportionately, and that trade will allow the Soviet Union the opportunity to redirect its resources away from consumer industries and toward military research and production. As a consequence, the West will be forced to increase its spending on defense in order to offset an increased Soviet military threat caused by trade and technology transfers (Cooper 1985; Mastanduno 1985:90-91; Wolf 1983:49). Therefore, the transaction costs of the Soviet-Western trading relationship are assumed to be too high to engage in full scale economic activity with the Soviet Union.
The second viewpoint assumes that the benefits of Soviet-Western trade accrue to the West. The ability of Western firms to open and compete for portions of the markets in the Soviet Union is seen as potentially profitable and beneficial in a variety of ways to Western economies. It is thought by proponents of this view that contacts made through Soviet-Western trade can bring about greater political stability through increased levels of economic cooperation and interdependence (Malish 1985; Mastanduno 1985:90). Therefore, this viewpoint assumes that the benefits of the Soviet-Western trading relationship are greater than the transaction costs involved in that relationship and in the long-run will reduce the level of transaction costs.

The position taken by the United States has generally been that the benefits of Soviet-Western trade accrue almost entirely to the Soviet Union. The United States has used its hegemonic position in the world, and in COCOM, to apply pressure to the Soviet Union through both multilateral and unilateral actions on a wide variety of political and economic issues, some of which have been essentially unrelated to narrowly conceived security concerns (e.g., MFN status for the Soviet Union) (Nau 1988:77).
The European Community and Japan have often supported the opposing view. The economies of Western Europe and Japan are highly dependent upon trade as a source of national income, and they have favored more liberal policies in regard to Soviet-Western trade. This has caused the West to experience conflicting pressures regarding the most efficacious role for strategic trade barriers (e.g., export controls) and Western oriented international regimes. The West has experienced both a desire to promote liberal attitudes and integration in international trade in order to enhance economic stability, and the fear that a failure to constrain the interests of the Soviet Union through strategic trade barriers would have important negative consequences for Western security and economic interests (Bertsch 1988:26). Soviet joint ventures with the West have only increased these concerns because, by design, joint ventures are supposed to be an effective mechanism for the transfer of high technology and management know-how from the West to the Soviet Union.

Soviet Trade Barriers: It is erroneous to assume that the West has an exclusive monopoly on barriers to trade with the Soviet Union. Aslund (1989), Lindsay (1989), and McIntyre (1987) argue that a major barrier to Soviet-Western trade is the structure of the Soviet foreign trade system since it imposes controls on the export and import of energy, food, raw materials, and other products.
considered of strategic importance to the Soviet Union.

Historically, the guiding principle of the Soviet foreign trade system has been autarky or monopoly of foreign trade which gives the state absolute control over foreign economic policy (Hewett 1988B:287; Hough 1988:6). Until 1987, the Soviet foreign trade system operated in a manner originally created during the 1930s under Stalin. The foreign trade organizations (FTO) established a monopoly over foreign trade by buying and selling goods in foreign currency and then selling to or buying from Soviet enterprises in domestic currency, which usually resulted in lower prices for producers of export goods. Industrial enterprises had no independent rights to export or import; the FTOs managed all details of import/export transactions, thereby keeping the enterprises from engaging in direct contact with foreign customers and participating in trade negotiations (Hewett 1988b:114-115).

In January 1987, a law entitled "Measures to Improve Management of Foreign Economic Relations" was enacted by the Soviet government in an effort to reduce the inefficiencies and barriers of international trade with the West intrinsic in the Soviet foreign trade system. The legislation originally granted authority to 21 ministries and 68 enterprises to trade directly with foreign markets. Enterprises can now negotiate the export terms for their products in order to obtain highest possible hard currency
earnings. Previously, an enterprise's exports and earnings were based on a system for the delivery of specified goods to meet the requirements of the plan set forth by GOSPLAN (Hough 1988:54-67). This reorganization of the Soviet foreign trade system was designed to provide greater incentives for Soviet enterprises to expand their export trade in order to make profits, which Soviet policymakers hoped would improve the quality of Soviet exports.

In January 1988, another phase of the reorganization of the Soviet foreign trade system was implemented. The Ministry of Foreign Trade (MFT) and the State Foreign Economic Committee were merged into the Ministry for Foreign Economic Relations (MVES). The MVES was designed to provide strategic guidance to the foreign trade sector, but while the MFT and the State Foreign Economic Committee were abolished the MVES assumed the dominant role of monitoring the entire foreign trade system of the Soviet Union. However, the most recent reorganization of the Soviet foreign trade system appears to offer a measure of decentralization designed to eliminate barriers and facilitate trade with the West. The new Soviet Cabinet of Ministers has no Ministry for Foreign Economic Relations, most FTOs are now being abolished, and individual firms are being given greater autonomy and responsibility in the area of foreign trade (CIA 1990:44-46).
The Monopsony Problem

The basic problems presented by trading relations between market economies and nonmarket economies are those that neoclassical economists describe in their discussion of monopsony market relations. Specifically, these economists suggest that market failure occurs when there exists only one or a few buyers for particular products (a monopsony). In this relationship the sellers are seen as being somewhat at the mercy of the buyer. While ideal market conditions (e.g., many buyers and sellers, perfect information) might suggest a positive-sum growth for all parties to an exchange, the ability of a monopsony buyer to attain lower than competitive level prices from competing sellers has been the economic basis on which Western nation-states have denied the Soviet Union and its allies privileges that they currently accord each other (e.g., membership in GATT, the World Bank, and the IMF).

Although the existence of Soviet monopsony power has been disputed by some researchers, a more convincing argument can be made that even if monopsony power is weak at the present level of trade, this might not be the case if trade were to expand significantly. Critics of the existence of a monopsony argue that centrally planned economies, often being price insensitive and relatively small traders, tend also to be price takers rather than price fixers (Wolf 1983). In answering these criticisms it
can be argued that although the end users of a product imported into a centrally planned economy may be price insensitive, the appointed trade minister, by establishing open bidding by Western firms, can easily become price sensitive with respect to the purchase of foreign goods. Vernon argues that although the Soviet Union and its allies may be small traders in the current international trading system, the challenge "is to devise a set of institutions and procedures that is compatible with the growing volume of East-West trade" (Vernon 1983:49). Vernon believes this challenge includes having to deal with Soviet economic power based on their monopsony position. He argues that even with high technology items there are often competing technologies and that:

... where such competition exists, the USSR appears to be in an excellent position to exploit the fact. First of all, few sellers to the Soviets are interested in making an isolated sale, however large that sale may be; most sellers are aware that firms with a prior record in the Soviet Union have an inside track for the future (1983:51).

In addition, Vernon suggests that the tendency for a Western firm to want to achieve an "inside track" will be extremely strong since sellers will attain this privileged market position with respect to an entire economy and not just part of it. Consequently, the temptation for Western firms to cut prices during the initial bidding process will
be "commensurately stronger" in their dealing with the Soviet Union than it would be in their dealings with other Western firms (Vernon 1983:51).

In the monopsony condition sellers are likely to practice price-cutting and become more competitively aggressive because of the ability of the large purchaser to drastically affect the seller's returns on investment. The negative effects of heightened competition are most apparent under three conditions, (1) when the seller's production capacity is subject to large economies of scale, (2) when surplus capacity already exists in the market, and (3) when the level of asset specificity in the seller's production function is high (Lindert 1986:178). This last condition occurs when a seller's capital investment is only profitable when long term sales guarantees have been achieved. Higher levels of competition among sellers occur as these three conditions come into play.

The analysis of the basic monopsonistic relationship between Western firms attempting to sell and a single (or few) buyers represented by socialist trade organizations and enterprises in the Soviet Union is complicated by Western government attempts to become involved on the part of individual sellers' interests in gaining lucrative contracts. These Western governments have two methods by which they can aid their national commercial interests with respect to a monopsonistic market. First, they can provide
subsidies in the forms of low cost credit or, more directly, through export subsidies. Both export subsidies and low cost credit have been used extensively by Western European countries to gain a competitive advantage over other foreign commercial interests in the Soviet-Western trade market. Second, market-oriented governments can develop cooperative relations of their own through an international regime to counteract the monopsonistic power of socialist trade ministries (e.g., GATT, COCOM) through the establishment of trade barriers (Crawford 1988). Therefore, trade between several Western firms and a single monopsonist trader in the Soviet Union will tend, by definition, to heighten the natural level of transaction costs since the existence of a monopsony implies small numbers bargaining at the very beginning of a trading relationship. Consequently, one would expect Western firms to encounter high levels of transaction costs as they attempt to insure they are not exploited and to avoid Western government controls that can hinder Western economic activity with the Soviet Union.

While the current reforms in the Soviet Union advocate the implementation of many aspects of a market economy, the monopsony problem still exists. The Wall Street Journal (September 12, 1990) reported that after the Iraqi invasion of Kuwait on August 2, 1990, representatives of the Soviet petrochemical industry were acting as a monopsonistic power
by causing intense competition among Western petrochemical firms negotiating joint ventures in this area.

Producer cooperatives, the right of Soviet enterprises to engage in foreign trade with external markets, and the increasing economic autonomy of the fifteen republics add to the complexity of the monopsony problem. In a regulated or planned market system, such as that advocated by Gorbachev, monopsony power shifts from the center in Moscow to the various producer cooperatives, enterprises, and republics. Until the Soviet Union implements a free market system many of the elements of a monopsonistic power will persist in the Soviet Union. This makes an understanding of the monopsony problem, even in the age of perestroika, essential for an analysis of Soviet joint ventures with the West and their economic and political impact on Soviet-Western trade and the IPE.

The Foreign Exchange Problem

A major stumbling block to significant increases in the volume and value of Soviet-Western trade has been the nonconvertibility of the ruble on international foreign exchange markets. Exchange rates are pivotal in international trade for two reasons: (1) they allow participants in international trade to compare the prices of goods and services in different countries, and (2) trade transactions require that the currency of one country be
exchanged for the currency of the other country in order to pay for the goods and services purchased on international markets (Krugman and Obstfeld 1988:307; Yarbrough and Yarbrough 1988:354). According to the theory of purchasing power parity (PPP), in the long-run a country's foreign exchange rate on international foreign exchange markets is determined by the relative prices of goods and services within that country. The problem in the Soviet Union is that relative prices for goods and services do not reflect relative scarcity, which means setting an appropriate exchange rate for the ruble on international foreign exchange markets is problematic at this point (Hewett 1988; Zverev 1989).

Although the major industrialized countries, especially those in the West, have had free floating foreign exchange rates since 1973, the Soviet Union's official commercial exchange rate for the ruble remains fixed at $1.66. On the other hand, PLANECO (1989) estimates that the exchange rate for the ruble on the Soviet black market and in many international trade transactions to be approximately $.60. In December 1988, the Council of Ministers issued an edict entitled "On the Further Development of the External Economic Activity of State, Cooperative, and Other Public Enterprises, Associations, and Organizations." In it the Soviet Council of Ministers directed the Ministry of Finance to expand the
foreign trade activities of Soviet firms, simplify trade regulations, and develop a plan for convertibility of the ruble. Soviet officials now believe that a convertible ruble is essential to encourage Western investment, expand Soviet-Western trade and technology transfers, and impose a market responsiveness on Soviet firms.

While the Soviets work to make the ruble a convertible currency they have attempted to developed temporary solutions to the foreign exchange problem in order to allow repatriation of profits by Western firms. First, a foreign exchange market is being created by the Soviet government in Moscow to allow Soviet and Western businesses to buy and sell foreign currency. The prices on this exchange market will reflect currency prices found on other international foreign exchange markets, but the Soviet market is limited to Soviet firms engaged in international trade or joint ventures. The Soviet government still plans to retain fixed exchange rates until 1993 for the domestic market under the "Gorbachev Plan" (New York Times, October 17, 1990). Second, the Soviets have created special exchange rates for approximately 2000 products by setting the exchange rates for equipment ($.50 - $1.00 per ruble) and raw materials ($2.00 and up per ruble). This aspect of the solution is designed to make a dollars worth of machinery sales worth more rubles than a dollars worth of raw materials so as to offset the inconsistencies of the
unreformed price system caused by massive government subsidies (Hewett 1988a). Third, the foreign exchange problem in joint ventures (e.g., repatriation of profits) is being overcome through old-fashioned bartering. For example, Pepsico receives Russian vodka as its share of the profits in its joint venture arrangement, which it then sells on the world market for hard currency (Hardt 1989a).

Making the ruble a convertible currency on international foreign exchange markets would remove a major obstacle to Soviet integration into the IPE. The success of Soviet joint ventures and the future development of Soviet-Western trade requires that the Soviet Union make the ruble convertible in order to have a direct business connection with Western markets. However, ruble conversion may cause some unwanted transaction-costs for the Soviet Union. According to PPP, it is highly probable that a convertible ruble on international exchange markets would cause domestic price increases in the Soviet Union, which would increase the demand by Soviet consumers for imports and thereby dramatically reduce the value of the ruble. Thus, ruble conversion is a zero-sum game for Gorbachev because a convertible ruble would enhance the Soviet prospects in IPE but could hurt the governments image within the Soviet Union. On the other hand, maintaining a non-convertible ruble could potentially have the opposite effect.
Risk and Return

Formal risk analysis begins by categorizing the various types of risks into a four-tier hierarchy. At the top of the hierarchy is country risk, which may be divided into two subcategories, (1) sovereign (or transfer) risk, which relates to government loans, and (2) country risk, which is a broader concept that encompasses the economic and political factors that affect the creditworthiness and opportunities of a nation-state (Goldstein and Vanous 1983; Merrill 1982). Macroeconomic risk is found on the second tier of the hierarchy. Macroeconomic risk "relates to specific macroeconomic factors including devaluations, recessions, and economic policy shifts that may impact the business within a nation" (Korbrin, Basek, Blank, La Palombara 1980). Industry risk and project risk, which deal with a specific product or investment opportunities, occupy tiers three and four of the hierarchy.

Uncontrollable risk factors are the most serious concern of Western firms involved in Soviet joint ventures. Korbrin, Basek, Blank, and La Palombara (1980) define uncontrollable risk factors as "those that are not amenable to alleviation by a firm's own strategic choices, although the firm's policies may guard against or limit damage from some forms of risk." Merrill (1982) further argues that most of the uncontrollable risks found in international business relate to country risk and macroeconomic risk.
factors. In theory, country risk and macroeconomic risk are the most difficult to analyze because they usually involve more than two actors. For example, in a Soviet joint venture arrangement, country and macroeconomic risk analysis would involve the partners to the joint venture, the Soviet government, the Western firm's home government, and the other actors that make-up the IPE.

Goldstein and Vanous (1983) identify three factors that are essential to any Western firm's analysis of the risks of a business venture in the Soviet Union: (1) Soviet trade strategy, (2) Soviet internal investment priorities and infrastructure development, and (3) Soviet macroeconomic policy. The current situation in the Soviet Union requires an additional factor to be added to any Western firm's risk analysis: Soviet political and social stability. It is reasonable to assume that a Western firm would not want to invest heavily in a country where the potential exists for civil unrest or war even though that country offers the possibility of a lucrative market. The reason these factors are considered a requirement in Western firms' risk analysis of the Soviet Union is because they indicate the specific opportunities, strategies, and transaction costs to which Western firms should be cognizant.
Bergson (1989), Hewett (1988b), and Lindsay (1989) assert that Soviet trade strategy is a vital component of Gorbachev's transition to a controlled market economy, thus making assessment of Soviet trade an important factor in estimating long-run Soviet economic prospects. The key element for Western firms analyzing Soviet trade strategy is calculating whether the Soviet Union is moving from an import-substitution development strategy to an export promotion development strategy. Yarbrough and Yarbrough (1988:302) state that the major indicators of a transition from import substitution to export promotion are growth of export value and volume, increased industrial competitiveness, and reductions in the degree of effective protection. Tedstrom (1990) argues that while export indicators are moving marginally upward, increased industrial competition and reduced protectionism have not fully materialized in the Soviet Union.

Soviet internal investment priorities and infrastructure development is the second key factor of Western firms' risk analysis of the Soviet Union. Goldstein and Vanous (1983) identify several warning signs in assessing this risk factor: (1) a preference for large, prestigious projects over basic infrastructure, (2) lean distribution of investment resources across various projects, (3) reliance on imported capital for major projects, and (4) subsidized inputs. In June 1989, former
Prime Minister Ryzhkov reported that the Soviet Union was severely undercapitalized and that the problem was exacerbated by a poor track record for job completion and the tendency to overextend resources across projects (FBIS-SOV, June 8, 1989). Solutions to the problem of undercapitalization are needed in order for the Soviet Union to increase its productivity, thus making its economy more competitive in the IPE and more attractive to foreign investors due to lower transaction costs (e.g., capital investment on the part of the Western firm).

Michael Porter (1990) and Beth and Robert Yarbrough (1988) argue that one of the most important elements of maintaining an attractive international business environment is the implementation of solid and competent macroeconomic policy (particularly fiscal policy) by a nation-state. Yarbrough and Yarbrough (1988:433) state:

A nation that is vulnerable to poor fiscal management may be a poorer risk from the foreign partner's viewpoint for several reasons. First, it increases the chances of recession or lengthy economic stagnation. Second, inflation risks are higher and inflation may be more severe. This, in turn, upsets cost forecasts and if exchange rates are fixed, could impair export profitability.

Lindsay (1989:107) suggests that the Soviet Union has been very susceptible to poor macroeconomic management because of the inherent nature of the central planning system and the massive subsidies the government provides to industry and agriculture. V.K. Senchagov, Chairman of GOSTSEN
(State Committee for Prices), estimated Soviet subsidies to be approximately 130 billion rubles annually (FBIS-SOV, August 23, 1989).

**CONCLUSION: THE TRANSACTION COSTS OF SOVIET-WESTERN POLITICAL ECONOMY**

Despite pronouncements of the end of the Cold War and the emergence of a "new world order," transaction costs are ever present in Soviet-Western political economy due to the uncertainty, bounded rationality, and legal complications for Western firms doing business in the Soviet Union. Western and Soviet trade barriers, primarily in the form of export controls, force a prospective Western partner in a Soviet joint venture into a marginal acceptability of risk. The risk involves the possibility that the Western partner's export or import licenses may not be renewed by its home government or the Soviet government. This compromises a Western firm's investment in a Soviet joint venture, resulting in lost revenue and surplus capacity for the joint venture's final product.

The foreign exchange problem illustrates the financial and economic transaction costs a Western firm may encounter in a Soviet joint venture. Financial and economic transaction costs are primarily the result of the pricing system of the Soviet command economy. A government regulated price system prevents the functioning of a market based on supply and demand. This results in problems of
(1) cost calculations, (2) valuation of investment by Western partners, (3) foreign currency controls, (4) repatriation of profits, and (5) payment guarantees to Western firms (Hardt 1989b:49). In addition, taut planning by GOSPLAN produces chronic shortages of raw materials, machines, energy, and other primary inputs, forcing Western firms to import these inputs for production thereby increasing the level of capital investment on the part of the Western firms.

The monopsonistic power of the various government and business entities in the Soviet Union increases the risk and legal transaction costs of Western firms doing business in the Soviet Union. John Hardt (1989b:49) explains:

Relatively new and fluid Soviet joint venture legislation increases business risk. Of particular interest to business are questions of balancing accounts, foreign currency valuation, and insurance. In addition, basic concerns such as domestic handling of compensation and a mechanism for arbitration must still be negotiated. The absence of protection in a wide-range of areas hampers trade by disproportionately increasing the initial costs and risks involved. These risks among other, include the absence of (1) an investment protection treaty, (2) product promotion contract, and (3) protection for business and production secrets, patents, trademarks, and copyrights.

The current political, social, and economic instability in the Soviet Union also increases the legal transaction costs of Western firms doing business in the Soviet Union. The Soviet system under Gorbachev appears to be in a very tenuous position with the pressure for economic and political autonomy by the Soviet republics
increasing and the tide of social unrest stimulated primarily by the failure of the Soviet economy to meet the needs of the Soviet people rising. A change in the Soviet government may produce a change in Soviet laws concerning foreign investment that could be to the benefit or detriment of Western firms currently doing business in the Soviet Union depending upon who assumed power.

Despite the nature of Soviet-Western political economy, Western firms have traditionally regarded the Soviet Union as at least an average but somewhat problematic risk. But considering the current Soviet political and economic crisis and the evolving changes and instabilities, questions emerge regarding what factors are considered by a Western firm when it decides to engage or not engage in a Soviet joint venture project. Is it the Soviet political climate? Is it Soviet government policy? Is it Western government policy? Is it the international business environment? Is it the overall reduction of the transaction costs that have traditionally been involved in Soviet-Western political economy? This study will now focus on answering these questions in light of the continuing changes within the Soviet Union.
CHAPTER 4
A TRANSACTION-COST ANALYSIS OF SOVIET JOINT VENTURES WITH THE WEST

Soviet joint ventures with the West are considered the cornerstone of Gorbachev's foreign economic policy as he attempts to reorganize the Soviet foreign trade system and to fully integrate the Soviet Union into the IPE. That fact underscored the need to understand the factors that contribute to the establishment of Western joint ventures in the Soviet Union. This chapter develops a model of Soviet joint ventures with the West that permits an empirical test of whether transaction costs directly or indirectly affect Western business firms' decisions to engage or not engage in a joint venture project. The analysis will make it possible to determine (1) if the decision by Western firms to engage in Soviet joint ventures is the direct or indirect result of the reduction of the transaction costs involved in Soviet-Western political and economic relations brought about by the implementation of the Soviet joint venture law, and (2) if the reduction is sufficient to encourage joint ventures to become a mechanism of greater cooperation in Soviet-Western political economy.
RESEARCH DESIGN

Survey Data

The data analyzed are responses by Western firms involved and not involved in Soviet joint ventures to the surveys found in Appendix 1 and Appendix 2. The survey in Appendix 1, "Questionnaire: Firms Involved in Joint Ventures with the Soviet Union," was sent to 1,274 Western firms officially registered with the Soviet Union's Ministry of Finance as of April 1, 1990. The survey in Appendix 2, "Questionnaire: Firms Not Involved in Soviet Joint Ventures But Doing Business with the Soviet Union," was sent to 350 Western firms that are not engaged in Soviet joint ventures but are currently engaged in other business and economic arrangements in the Soviet Union (e.g., co-production, licensing agreements). The Western firms in the control group were identified by Fortune, Interflo, and Vestnik.

Replies were received from 431 of the 1,274 Western firms involved in joint ventures, a 34 percent rate of return. Three hundred forty-six (346) (80 percent of those firms that responded) answered the questionnaire while 85 (20 percent of those firms that responded) stated that company policy prohibited responses to inquires of this nature. Correspondingly, 227 replies were received from the 350 Western firms not involved in joint ventures, a 65
percent rate of return. Of those Western firms not involved in Soviet joint ventures but doing business in the Soviet Union, 172 (76 percent of those firms that responded) answered the questionnaire while 55 (24 percent of those firms that responded) stated that company policy prohibited responses to inquiries of this nature. The higher overall rate of return for firms not involved in joint ventures may best be explained by the fact that all the firms in this group were located in the United States and Canada. On the other hand, firms involved in joint ventures were located in the United States, Canada, Germany, Great Britain, Australia, Japan, France, Finland, Ireland, Italy, Sweden, the Netherlands, Spain, Belgium, and Lichtenstein (see Table 1). The data in Table 1 indicate that the majority of the firms involved in joint ventures (approximately 57 percent) were located in the United States and Canada. Therefore, the two groups are made up predominantly of Western firms from these two North American countries. This probably means that the business practices and attitudes of both groups, while not identical, should be similar in nature.

Another similarity between the two groups is the location of their Soviet business activity. Two hundred-eighty five, or 82 percent, of Western firms involved in Soviet joint ventures conduct business in the Russian Republic, and 136, or 80 percent of the Western firms not
TABLE 1: NO SJV AND SJV BY HOME COUNTRY

<table>
<thead>
<tr>
<th>HOME COUNTRY</th>
<th>No SJV</th>
<th>SJV</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>131</td>
<td>115</td>
</tr>
<tr>
<td>Canada</td>
<td>41</td>
<td>81</td>
</tr>
<tr>
<td>Great Britain</td>
<td>-</td>
<td>41</td>
</tr>
<tr>
<td>Japan</td>
<td>-</td>
<td>39</td>
</tr>
<tr>
<td>Germany</td>
<td>-</td>
<td>29</td>
</tr>
<tr>
<td>France</td>
<td>-</td>
<td>13</td>
</tr>
<tr>
<td>Italy</td>
<td>-</td>
<td>9</td>
</tr>
<tr>
<td>Australia</td>
<td>-</td>
<td>7</td>
</tr>
<tr>
<td>Sweden</td>
<td>-</td>
<td>3</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>-</td>
<td>3</td>
</tr>
<tr>
<td>Spain</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td>Belgium</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td>Ireland</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Lichtenstein</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>TOTAL</td>
<td>172</td>
<td>346</td>
</tr>
</tbody>
</table>
involved in joint ventures. In addition, 12 percent (42 Western firms) of the firms involved in joint ventures conduct business in the Baltic republics, while 11 percent (19 Western firms) of the firms not involved in joint ventures conduct business in the Baltic republics (see Table 2). Since the Russian Republic and the Baltic republics account for the vast majority of the Soviet gross national product (GNP) these findings are not surprising. In general, it appears that Western firms are conducting business in the most economically important and productive republics of the Soviet Union.

Survey respondents were queried regarding the area of industry in which they primarily conducted business in the Soviet Union. The summary in Table 3 shows that 46 percent of the Western firms engaged in Soviet joint ventures are involved in the service industry (hotels, tourism, etc.) and the production of consumers products (e.g., personal hygiene items). Fifteenth percent of the Soviet joint ventures are in the medical field, particularly in the area of medical supplies. On the other hand, the industry breakdown for Western firms not involved in joint ventures is quite different. Seventy-five percent of the firms not involved in joint ventures conduct business primarily within three areas of industry in the Soviet Union: (1) chemical, (2) energy (oil, gas, etc.), and (3) machinery/heavy machinery industry. Sarah Carey (1991)
### TABLE 2: LOCATION OF WESTERN FIRMS IN THE SOVIET UNION BY NO SJV AND SJV

<table>
<thead>
<tr>
<th>REPUBLIC</th>
<th>NO SJV</th>
<th>SJV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
<td>136</td>
<td>285</td>
</tr>
<tr>
<td>Estonia</td>
<td>9</td>
<td>17</td>
</tr>
<tr>
<td>Lithuania</td>
<td>7</td>
<td>12</td>
</tr>
<tr>
<td>Latvia</td>
<td>3</td>
<td>13</td>
</tr>
<tr>
<td>Ukraine</td>
<td>7</td>
<td>11</td>
</tr>
<tr>
<td>Georgia</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Belorussia</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Armenia</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Molvavia</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Kazakhistan</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Kirghizia</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Tadzhikistan</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>172</strong></td>
<td><strong>346</strong></td>
</tr>
</tbody>
</table>
explains that before June 1990 Western firms in the chemical, energy, and machinery industries were very hesitant to engage in a legal entity (joint venture) in the Soviet Union because of the ambiguity of the joint venture law itself, particularly questions regarding ownership, management, and access to resources. Table 3 also presents an industry breakdown for those firms in each group that did not respond to the survey. This information increases the reliability of the study by showing that the firms responding to the survey are a representative sample when compared to those firms that did not respond. Carey (1991) further notes that joint ventures in the Soviet Union in these areas are increasing because of the Presidential Decree issued in October 1990 authorizing 100 percent foreign ownership of joint ventures and other business forms. This decree is suppose to grant greater managerial control and access to resources for Western firms conducting business in the Soviet Union.

Some significant differences appear to exist between Western firms involved in joint ventures and those firms not involved in joint ventures with respect to the market destination of their final products. As can be seen in Table 4, 28 percent of the firms involved in joint ventures state that the Soviet domestic market is their product's final destination, while 56 percent of the firms not involved in joint ventures target the Soviet domestic
TABLE 3: AREA OF INDUSTRY OF WESTERN FIRMS IN THE USSR

<table>
<thead>
<tr>
<th>AREA OF INDUSTRY</th>
<th>R NO SJV</th>
<th>NR NO SJV</th>
<th>R SJV</th>
<th>NR SJV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemical</td>
<td>22%</td>
<td>20%</td>
<td>5%</td>
<td>4%</td>
</tr>
<tr>
<td>Energy</td>
<td>18%</td>
<td>17%</td>
<td>8%</td>
<td>5%</td>
</tr>
<tr>
<td>Computers/Electronics</td>
<td>8%</td>
<td>7%</td>
<td>8%</td>
<td>11%</td>
</tr>
<tr>
<td>Food</td>
<td>0%</td>
<td>4%</td>
<td>3%</td>
<td>5%</td>
</tr>
<tr>
<td>Service (hotels, tourism, etc.)</td>
<td>0%</td>
<td>5%</td>
<td>24%</td>
<td>34%</td>
</tr>
<tr>
<td>Machinery/Heavy Industry</td>
<td>35%</td>
<td>23%</td>
<td>9%</td>
<td>8%</td>
</tr>
<tr>
<td>Consumer Products</td>
<td>4%</td>
<td>2%</td>
<td>22%</td>
<td>11%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>11%</td>
<td>14%</td>
<td>4%</td>
<td>13%</td>
</tr>
<tr>
<td>Medical</td>
<td>2%</td>
<td>6%</td>
<td>15%</td>
<td>5%</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>0%</td>
<td>2%</td>
<td>8%</td>
<td>4%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

n=172 n=178 n=346 n=928
NR=Did Not Respond to Survey R=Did Respond to Survey

TABLE 4: FINAL MARKET DESTINATION BY NO SJV AND SJV

<table>
<thead>
<tr>
<th>Market Destination</th>
<th>NOT SJV</th>
<th>SJV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soviet Domestic</td>
<td>56%</td>
<td>28%</td>
</tr>
<tr>
<td>Home Domestic</td>
<td>15%</td>
<td>12%</td>
</tr>
<tr>
<td>World</td>
<td>29%</td>
<td>60%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

n=172 n=346
market. On the other hand, Western firms involved in Soviet joint ventures appear to be targeting the world market as the final destination of their products (61 percent compared to 29 percent for Western firms not involved in Soviet joint ventures). The reason for this difference in the two groups may be easily explained. Since 25 percent of the joint venture firms are found in the service industry (e.g., hotels, tourism, etc.), it is probable that they view Western business people and tourists as their primary market. While this area of industry brings hard currency to the Soviet economy it should not be given the same weight as oil, chemicals, and heavy machinery as similar exports that are included in the Soviet Union's balance-of-payments. Removing the service industry reduces the percentage from 61 to 37 for targeting the world market by Western firms involved in Soviet joint ventures.

One factor common to the two groups of firms concerns the Soviet political climate. Both were asked what would have to occur for them to end all business relations in the Soviet Union (Questions 35 and 34 in Appendix 1 and 2 respectively). Table 5 shows that 80 percent of both firms involved and not involved in joint ventures would seriously reconsider their business activity in the Soviet
Union if civil war should erupt. Western firms fear losing their investment and any potential revenues because civil war would cause economic and political chaos.

The other questions addressed in the survey (not used in the analysis in the next section) show little variation between firms involved and not involved in joint ventures. This is further demonstrated by miscellaneous comments received from survey respondents in both groups. For example, the biggest surprise of doing business in the Soviet Union cited by survey respondents in both groups was the cooperation and willingness to work exhibited by their Soviet co-workers. In addition, a majority of the survey respondents from both groups stated that the one thing they would do if they had the opportunity to renegotiate with the Soviet Union would be to seek either more control or complete ownership of the operation. Further analysis of the data will demonstrate that Western firms are willing to conduct business in the Soviet Union, even under diverse circumstances as the unstable Soviet political climate. The success of Western firms doing business in the Soviet Union can only contribute to cooperation in the liberalization of Soviet-Western political economy and the complete integration of the Soviet Union in the IPE.
### TABLE 5: EVENTS IN THE USSR THAT WOULD CAUSE WESTERN FIRMS TO RECONSIDER DOING BUSINESS IN THE SOVIET UNION

<table>
<thead>
<tr>
<th>Event</th>
<th>NOT SJV</th>
<th>SJV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secession of the Republics</td>
<td>4%</td>
<td>5%</td>
</tr>
<tr>
<td>The ouster of President Gorbachev</td>
<td>16%</td>
<td>15%</td>
</tr>
<tr>
<td>Civil War in the Soviet Union</td>
<td>80%</td>
<td>80%</td>
</tr>
</tbody>
</table>
| **TOTAL**                          | **100%**| **100%**
| n=172                              | n=346   |
Model and Methodology

The transaction cost analysis of Soviet-Western joint ventures with the West employed in this study is based on the information collected from the surveys found in Appendix 1 and Appendix 2. As previously noted, specific questions from the surveys were identified, treated as Likert scale items, and coded into a data set in order to test the following model and research hypothesis (see Table 6 for precise coding of the data):

Model: $SJV = a + b_1(TAC) + b_2(INTBUS) + b_3(SOVPOL) + b_4(WESTPOL) + b_5(SOP) + e$

$SJV$: The Western firm's decision to engage or not engage in a joint venture in the Soviet Union.

$TAC$: The Western firm's perception of the level of transaction costs that may be incurred by engaging in a Soviet joint venture.

$INTBUS$: The Western firm's perception of the level of business and strategic planning risks involved in engaging or not engaging in a Soviet joint venture.

$SOVPOL$: The Western firm's perception of the Soviet political climate.

$SOP$: The Western firm's perception of the impact of Soviet government policy on their decision to engage or not engage in a Soviet joint venture.

$WESTPOL$: The Western firm's perception of the impact of Western government policy on their decision to engage or not engage in a Soviet joint venture.

Research Hypothesis: The decision by Western firms to engage in Soviet joint ventures is the direct or indirect result of the reduction of the transaction costs involved in Soviet-Western political economy.
<table>
<thead>
<tr>
<th>ACRONYM</th>
<th>SURVEY QUESTION AND CODING SCHEME</th>
</tr>
</thead>
<tbody>
<tr>
<td>SJV</td>
<td>Question 3, Appendix 1 and 2 Has firm entered into a joint venture? The question was coded in the following manner: 0 = No 1 = Yes</td>
</tr>
<tr>
<td>TAC</td>
<td>TAC is a composite variable created from the following survey questions: Question 13, Appendix 1 Question 8, Appendix 2 Importance of following factors in Western firm's decision to engage or not engage in a Soviet joint venture. TAC1: Capital Investment TAC2: Soviet Legal Barriers TAC3: Governance and Maintenance TAC4: Information These factors were coded in the following manner: 1 = Very Important 2 = Somewhat Important 3 = Not Important TAC5: Question 24, Appendix 1 Question 19, Appendix 2 Type of technology required for joint venture or business activity. TAC5 was coded in the following manner: 1 = Transaction-Specific Technology 2 = General Purpose Technology TAC6: Question 24, Appendix 1 Question 22, Appendix 2 The effect of firm's joint venture or business contractual agreement on the costs of information. TAC6 was coded in the following manner:</td>
</tr>
</tbody>
</table>
TABLE 6

<table>
<thead>
<tr>
<th>ACRONYM</th>
<th>SURVEY QUESTION AND CODING SCHEME</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 =</td>
<td>Very ambiguous and substantially increases the opportunity for the strategic use of information.</td>
</tr>
<tr>
<td>2 =</td>
<td>Somewhat ambiguous and provides minimal opportunity for the strategic use of information.</td>
</tr>
<tr>
<td>2 =</td>
<td>Uncertain</td>
</tr>
<tr>
<td>2 =</td>
<td>Somewhat limits and reduces the strategic use and costs of information.</td>
</tr>
<tr>
<td>3 =</td>
<td>Greatly limits and reduces the strategic use and costs of information.</td>
</tr>
</tbody>
</table>

TAC7: Question 29, Appendix 1
Question 24, Appendix 2
The effect of mechanisms in joint venture and business activity arrangements on the potential for opportunism and defection. TAC7 was coded in the following manner:

1 = Greatly increases the costs and the potential for opportunism and defection.

2 = Somewhat increases the costs and the potential for opportunism and defection.

2 = Uncertain.

2 = Somewhat reduces the costs and the potential for opportunism and defection.

3 = Greatly reduces the costs and the potential for opportunism and defection.

TAC = TAC1 + TAC2 + TAC3 + TAC4 + TAC5 + TAC6 + TAC7
The composite TAC score was grouped into three categories (High = 0 to 7), (Average = 8 to 13), and (Low = 14 to 20).
TABLE 6

<table>
<thead>
<tr>
<th>ACRONYM</th>
<th>SURVEY QUESTION AND CODING SCHEME</th>
</tr>
</thead>
<tbody>
<tr>
<td>INTBUS</td>
<td>INTBUS is a composite variable created from the following questions:</td>
</tr>
</tbody>
</table>

INTBUS1: Question 15, Appendix 1
Question 10, Appendix 2
How much marketing effort is required to sell products in the Soviet Union? INTBUS1 was recoded in the following manner:

1 = Much more than average customer.

2 = Initial sales require more marketing effort, but repeat sales do not.

2 = Not sure.

3 = Level of required marketing is about the same.

3 = Less expensive than for most foreign customers.

INTBUS2: Question 16, Appendix 1
Question 11, Appendix 2
How reliable are the Soviets in complying with contract agreements? INTBUS2 was recoded in the following manner:

1 = Never meets agreements.

2 = Sometimes does not meet agreements.

2 = Uncertain.

3 = Meets agreements, but exploits loopholes.

3 = Very reliable.

INTBUS3: Question 20, Appendix 1
Question 15, Appendix 2
What is the estimated initial capital investment for your firm's joint venture or business activity in the Soviet Union? INTBUS3 was recoded in the following manner:
### Table 6

<table>
<thead>
<tr>
<th>ACRONYM</th>
<th>SURVEY QUESTION AND CODING SCHEME</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Over $30 million</td>
</tr>
<tr>
<td>1</td>
<td>$20 - 29 million</td>
</tr>
<tr>
<td>2</td>
<td>$10 - 19 million</td>
</tr>
<tr>
<td>2</td>
<td>$1 - 9 million</td>
</tr>
<tr>
<td>2</td>
<td>$500,000 - 1 million</td>
</tr>
<tr>
<td>3</td>
<td>$100,000 - 500,000</td>
</tr>
<tr>
<td>3</td>
<td>Under $100,000</td>
</tr>
</tbody>
</table>

\[ \text{INTBUS} = \text{INTBUS1} + \text{INTBUS2} + \text{INTBUS3} \]

The composite INTBUS was grouped into three categories (High = 0 to 3), (Average = 4 to 6), and (Low = 7 to 9).

**SOVPOL**

- Question 34, Appendix 1
- Question 32, Appendix 2

How would your firm describe the current political climate in the Soviet Union? The question was coded in the following manner:

- 1 = Very stable.
- 2 = Somewhat stable.
- 3 = Somewhat unstable.
- 4 = Very Unstable.
### TABLE 6

<table>
<thead>
<tr>
<th>ACRONYM</th>
<th>SURVEY QUESTION AND CODING SCHEME</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SOP</strong></td>
<td>Question 33, Appendix 1 and 2&lt;br&gt;How would your firm describe the impact of Soviet government policy on your firm's decision to engage or not engage in a joint venture? The question was coded in the following manner: 1 = Greatly limits.&lt;br&gt;2 = Somewhat limits.&lt;br&gt;3 = Somewhat promotes.&lt;br&gt;4 = Greatly promotes.</td>
</tr>
<tr>
<td><strong>WESTPOL</strong></td>
<td>Question 26, Appendix 1&lt;br&gt;Question 21, Appendix 2&lt;br&gt;How would your firm describe the impact of Western government policy on your firm's decision to engage or not engage in a Soviet joint venture? The question was coded in the following manner: 1 = Greatly limits.&lt;br&gt;2 = Somewhat limits.&lt;br&gt;3 = Somewhat promotes.&lt;br&gt;4 = Greatly promotes.</td>
</tr>
</tbody>
</table>
In order to test both the relative contribution of the variables described above and their predictive power in a multivariate context, logistic regression will be employed with the decision to engage or not engage in a Soviet joint venture (SJV) as the dependent variable and TAC, INTBUS, SOVPOL, SOP, and WESTPOL as the independent variables.

**Conceptualization of Model Variables**

**Dependent Variable:** The dependent variable for the Soviet joint venture model is the Western firm's decision to engage or not engage in a joint venture project in the Soviet Union (SJV). The model suggests that the decision by a Western firm on participation in a Soviet joint venture is influenced by the variables TAC, INTBUS, WESTPOL, SOP, and SOVPOL. The variable SJV is based upon responses by Western firms to the following question: "Has your firm entered into a joint venture agreement with a firm in the Soviet Union?" (Question 3 on both surveys - see Appendix 1 and Appendix 2).

**Independent Variables:** The first independent variable in the Soviet joint venture model is TAC. TAC is a composite variable based upon the Western firm's perception of the level of transaction costs that may be incurred if the Western firm decides to engage in a Soviet joint venture. TAC is measured on an ordinal scale (1=high, 2=average, 3=low) based on responses to survey questions by both
Western firms engaged in Soviet joint ventures and those Western firms not engage in Soviet joint venture (Questions 13, 24, 27, and 29 in Appendix 1 for Western firms engaged in Soviet joint ventures, and Questions 8, 19, 22, and 24 in Appendix 2 for Western firms not engaged in Soviet joint ventures). Table 7 shows the frequency distribution for TAC. While not identical, the index for both groups are similar in that they attempt to measure such things as the level of capital investment, available information, legal and contractual barriers, governance and maintenance of the business relationship, and asset specificity.

In keeping with the theoretical assumptions of NEO and transaction-cost analysis presented in Chapter 3, TAC was composed based upon the researcher's classification of survey responses to the aforementioned questions according to TAC's coding scheme (1=high, 2=average, 3=low). Responses for both Western firms involved in Soviet joint ventures and Western firms not involved in Soviet joint ventures were classified in the same manner. For Question 13 in Appendix 1 and Question 8 in Appendix 2, capital investment, information, Soviet legal barriers, and governance and maintenance of the Soviet business relationship were used to compose TAC. If the survey respondents stated that either of these transaction cost factors were "very important" to their business relationship in the Soviet Union TAC was coded 1 (high), if
"somewhat important" TAC was coded 2 (average), and if "not important" TAC was coded 1 (low).

Question 24 in Appendix 1 and Question 19 in Appendix 2 measured the level of asset specificity by asking survey respondents if their business activity in the Soviet Union required general purpose (standardized) technology or transaction-specific technology. If a respondent answered general purpose technology TAC was coded 3 (low), and if a respondent answered transaction-specific technology TAC was coded 1 (high). This is in keeping with Oliver Williamson's (1986:17) argument that transaction-specific technology or asset specificity results in a high level of transaction costs because the technology is idiosyncratic to a particular business relationship, the loss of this relationship would therefore result in significant excess capacity and other associated losses.

The level of transaction costs incurred from the available information to Western firms in their business relationship in the Soviet Union was measured based upon survey responses to Question 27 in Appendix 1 and Question 22 in Appendix 2. If respondents stated that their business relationship "greatly limits and reduces . . . the strategic use and costs of information" TAC was coded 3 (low). A "somewhat" or "uncertain" response resulted in TAC being coded 2 (average). TAC was coded 1 (high) if respondents stated that their business relationship in the
Soviet Union could result in the strategic use of information or lead to opportunism by one of the partners to the contractual agreement.

The last element of TAC is based upon survey responses to Question 29 in Appendix 1 and Question 24 in Appendix 2. These questions measure the Western firms' perceived level of transaction costs involved in the maintenance and governance of the Western firm's business relationship in the Soviet Union and if that relationship provides a mechanism for opportunism. If respondents stated that their business form "greatly reduces the costs and the potential for opportunism and defection," TAC was coded 3 (low). A "somewhat reduces" or "uncertain" response to the survey questions resulted in TAC being coded 2 (average). TAC was coded 1 (high) if survey respondents stated that the governance and maintenance of their business form in the Soviet Union "somewhat" or "greatly" increased the potential for opportunism and defection."

Based upon the theoretical arguments presented in Chapter 3, a strong relationship should exist between TAC and SJV. If the Western firm's perceived level of TAC is high then it is expected that the Western firm will be less likely to decide to engage in a Soviet joint venture. On the other hand, it is expected that if the Western firm's perceived level of TAC is average or low, the Western firm will be more likely to decide to engage in a Soviet joint
venture. Table 8 shows that there exists a strong relationship in the expected direction between SJV and TAC, TAC is average (2) or low (3) for 67 percent of those Western firms involved in Soviet joint ventures. Conversely, only 28 percent of those firms not involved in Soviet joint ventures perceived TAC as being low, while approximately 33 percent of the control group perceived TAC as being high.

The second independent variable in the Soviet joint venture model is INTBUS. INTBUS is the Western firm's perception of the level of the business and strategic planning risks involved in the decision to engage or not engage in a Soviet joint venture. INTBUS includes such factors as marketing, Soviet contract reliability, and capital investment requirements. INTBUS is measured on an ordinal scale (1=high, 2=average, 3=low) based on responses to the survey questions by both Western firms engaged in Soviet joint ventures (Questions 15, 16, and 20 in Appendix 1) and Western firms not engaged in Soviet joint ventures (Questions 10, 11, and 15 in Appendix 2). Table 9 shows the frequency distribution for INTBUS.
### TABLE 7: FREQUENCY TABLE FOR TAC

<table>
<thead>
<tr>
<th>TAC</th>
<th>FREQUENCY</th>
<th>PERCENT</th>
<th>Cumulative Frequency</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-High</td>
<td>170</td>
<td>32.8</td>
<td>170</td>
<td>32.8</td>
</tr>
<tr>
<td>2-Aver</td>
<td>165</td>
<td>31.9</td>
<td>335</td>
<td>64.9</td>
</tr>
<tr>
<td>3-Low</td>
<td>183</td>
<td>35.3</td>
<td>518</td>
<td>100.0</td>
</tr>
</tbody>
</table>

### TABLE 8: SOVIET JOINT VENTURES BY TRANSACTION COSTS

<table>
<thead>
<tr>
<th>SJV</th>
<th>HIGH</th>
<th>AVERAGE</th>
<th>LOW</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 (NO)</td>
<td>56</td>
<td>68</td>
<td>48</td>
<td>172</td>
</tr>
<tr>
<td></td>
<td>(10.8%)</td>
<td>(13.1%)</td>
<td>(9.3%)</td>
<td>(33.2%)</td>
</tr>
<tr>
<td>1 (YES)</td>
<td>114</td>
<td>97</td>
<td>135</td>
<td>346</td>
</tr>
<tr>
<td></td>
<td>(22.0%)</td>
<td>(18.7%)</td>
<td>(26.1%)</td>
<td>(66.8%)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>170</td>
<td>165</td>
<td>183</td>
<td>518</td>
</tr>
<tr>
<td></td>
<td>(32.8%)</td>
<td>(31.8%)</td>
<td>(35.4%)</td>
<td>(100%)</td>
</tr>
</tbody>
</table>

\[ x^2 = 8.79 \quad \text{prob.} = .012 \quad \text{gamma} = .107 \]
<table>
<thead>
<tr>
<th>INTBUS</th>
<th>FREQUENCY</th>
<th>PERCENT</th>
<th>CUMULATIVE FREQUENCY</th>
<th>CUMULATIVE PERCENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-High</td>
<td>143</td>
<td>28.8</td>
<td>149</td>
<td>28.8</td>
</tr>
<tr>
<td>2-Aver</td>
<td>188</td>
<td>36.3</td>
<td>331</td>
<td>61.6</td>
</tr>
<tr>
<td>3-Low</td>
<td>187</td>
<td>36.1</td>
<td>518</td>
<td>100.0</td>
</tr>
</tbody>
</table>
INTBUS is based on survey responses to the aforementioned questions using the coding scheme 1=high, 2=average, 3=low. Question 15 in Appendix 1 and Question 10 in Appendix 2 measured the marketing level required by Western firms to sell products or services in the Soviet Union. If the survey firms stated that their marketing effort required "much more than average foreign customer" INTBUS was coded 1 (high). A response of "initial sales require more marketing effort, but repeat sales do not" or "not sure" resulted in INTBUS being coded 2 (average). INTBUS was coded 3 (low) if survey firms stated the level of required marketing was the same or "less expensive than for most foreign customers." The same criteria was applied to Question 16 in Appendix 1 and Question 11 in Appendix 2. INTBUS was coded 1 (high) if firms checked number 5 on Questions 16 and 11, coded 2 (average) if they selected response items 3 or 4, and coded 3 (low) if they selected response items 1 or 2.

Question 20 in Appendix 1 and Question 15 in Appendix 2 measured the estimated level of capital investment initially invested by Western firms involved in Soviet joint ventures and Western firms not involved in Soviet joint ventures. INTBUS was coded 1 (high) if firms selected response items 1 or 2, coded 2 (average) if they selected response items 3, 4, or 5, and coded 3 (low) if response items 6 or 7 were selected. The coding of INTBUS
is based on (1) the traditional motivations for direct foreign investment found in any basic international economics textbook (see Yarbrough and Yarbrough 1988), and (2) the arguments presented in the "Risk and Return" section of Chapter 3.

The relationship between SJV and INTBUS is expected to be similar to the relationship between SJV and TAC. If the Western firm's perception of INTBUS is high, the Western firm is less likely to engage in a Soviet joint venture and more likely to engage in a Soviet joint venture if INTBUS is average or low (see Table 10). Thus the hypothesis still shows a strong bivariate relationship in the expected relationship ($x^2 = 11.438$, $P \leq 0.05$, gamma = .252). In addition, it is expected that the perceived level of TAC is highly correlated with the perceived level of INTBUS. The expected relationship is strongly supported by the bivariate regression analysis presented in Table 10 (F-value of 1076.5 (prob = .0001) and a $R^2$ of .68.

The third independent variable in the Soviet joint venture model is SOVPOL. SOVPOL is the Western firm's perception of the Soviet political climate. SOVPOL is measured on a four point scale (1=very stable, 2=somewhat stable, 3=somewhat unstable, 4=very unstable) based upon Western firms' responses to survey Question 34 in Appendix 1 and survey Question 32 in Appendix 2. Table 12 shows the frequency distribution for SOVPOL.
TABLE 10: SOVIET JOINT VENTURES BY INTBUS

<table>
<thead>
<tr>
<th>SJV</th>
<th>HIGH</th>
<th>AVERAGE</th>
<th>LOW</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 (NO)</td>
<td>62</td>
<td>62</td>
<td>48</td>
<td>172</td>
</tr>
<tr>
<td></td>
<td>(12.0%)</td>
<td>(12.0%)</td>
<td>(9.3%)</td>
<td>(33.3%)</td>
</tr>
<tr>
<td>1 (YES)</td>
<td>81</td>
<td>126</td>
<td>139</td>
<td>346</td>
</tr>
<tr>
<td></td>
<td>(15.6%)</td>
<td>(24.3%)</td>
<td>(26.8)</td>
<td>(66.7%)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>143</td>
<td>188</td>
<td>187</td>
<td>518</td>
</tr>
<tr>
<td></td>
<td>(27.6%)</td>
<td>(36.3%)</td>
<td>(36.1%)</td>
<td>(100%)</td>
</tr>
</tbody>
</table>

$x^2 = 11.438$  prob. = .003  gamma = .252

TABLE 11: BIVARIATE REGRESSION ANALYSIS: EFFECT OF TAC ON INTBUS

<table>
<thead>
<tr>
<th>Dependent Variable: INTBUS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent Variable</td>
</tr>
<tr>
<td>------------------------</td>
</tr>
<tr>
<td>Constant</td>
</tr>
<tr>
<td>TAC</td>
</tr>
<tr>
<td>Number of Cases</td>
</tr>
<tr>
<td>R²</td>
</tr>
<tr>
<td>Adjusted R²</td>
</tr>
<tr>
<td>F-Value</td>
</tr>
</tbody>
</table>

*P ≤ Significant at .05 level (.0001)  
**P ≤ Significant at .05 level (.0001)
The Soviet joint venture model presented in Appendix 3 shows that SOVPOL affects TAC, INTBUS, and SJV. The relationships between SOVPOL and TAC and INTBUS is expected to be similar. If the perceived level of SOVPOL is 3 or 4 then TAC and INTBUS are expected to be high, but if SOVPOL is 1 or 2 then TAC and INTBUS should be average or low. Crosstabulations of the survey sample (both SJV and NO SJV) presented in Tables 13 and 14 show that the relationships between SOVPOL and TAC, and SOVPOL and INTBUS are not in the expected direction, instead they are exactly opposite. When SOVPOL is 3 or 4 then TAC and INTBUS appear to be average or low, while TAC and INTBUS are high if SOVPOL is 1 or 2. In relationship to SJV, Table 15 shows that if SOVPOL is 1 or 2 then a Western firm is less likely to engage in a Soviet joint venture and more likely to do so if SOVPOL is 3 or 4. However, the results of the bivariate analysis between TAC and SOVPOL ($x^2 = 191.391$, $p \leq .05$, gamma = .693), and INTBUS and SOVPOL ($x^2 = 397.325$, $p \leq .05$, gamma = .876) are statistically significant but substantially insignificant based upon the expected direction of the relationships. Johnson and Joslyn (1991:313) state that "a weak relationship among a large sample may attain statistical significance while a strong relationship within a small sample may not . . . chi-square values tell us the probability that an observed relationship could have occurred by chance."
The fourth independent variable in the Soviet joint venture model is SOP. SOP is the Western firm's perception of the impact of Soviet government policy on the Western firm's decision to engage or not engage in a Soviet joint venture. SOP is measured on a four point scale (1=greatly limits, 2=somewhat limits, 3=somewhat promotes, and 4=greatly promotes) based upon Western firms' responses to Question 33 in both Appendix 1 and Appendix 2. Table 16 shows the frequency distribution for SOP. The Soviet joint venture model suggests that SOP affects TAC, INTBUS, and SJV. If SOP equals 1 or 2 it is reasonable to expect that TAC and INTBUS will be high and that the odds are greater that the Western firm will not engage in a Soviet joint venture. The opposite is expected to occur if SOP equals 3 or 4. Like SOVPOL, Tables 17 and 18 show that the relationships between the variables achieve statistical significance but the direction of the relationship is completely opposite from the expected relationships.

The fifth independent variable in the Soviet joint venture model is WESTPOL. WESTPOL is the Western firm's perception of the impact of Western governments' policies on the firm's decision to engage or not engage in a Soviet joint venture. WESTPOL is measured on a four point scale (1=greatly limits, 2=somewhat limits, 3=somewhat promotes, 4=greatly promotes) based on Western firms' responses to
### TABLE 12: FREQUENCY DISTRIBUTION FOR SOVPOL

<table>
<thead>
<tr>
<th>SOVPOL</th>
<th>FREQUENCY</th>
<th>PERCENT</th>
<th>CUMULATIVE FREQUENCY</th>
<th>CUMULATIVE PERCENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-Very Stable</td>
<td>111</td>
<td>21.4</td>
<td>111</td>
<td>21.4</td>
</tr>
<tr>
<td>2-Somewhat Stable</td>
<td>101</td>
<td>19.5</td>
<td>212</td>
<td>40.9</td>
</tr>
<tr>
<td>3-Somewhat Unstable</td>
<td>144</td>
<td>27.8</td>
<td>356</td>
<td>68.7</td>
</tr>
<tr>
<td>4-Very Unstable</td>
<td>162</td>
<td>31.3</td>
<td>513</td>
<td>100.0</td>
</tr>
</tbody>
</table>

### TABLE 13: TRANSACTION COSTS BY SOVIET POLITICAL CLIMATE

<table>
<thead>
<tr>
<th>PERCEIVED LEVEL OF SOVPOL</th>
<th>TAC</th>
<th>Very Stable</th>
<th>Somewhat Stable</th>
<th>Somewhat Unstable</th>
<th>Very Unstable</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-High</td>
<td></td>
<td>82</td>
<td>46</td>
<td>35</td>
<td>7</td>
<td>170</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(15.8%)</td>
<td>(8.9%)</td>
<td>(6.8%)</td>
<td>(1.3%)</td>
<td>(32.8%)</td>
</tr>
<tr>
<td>2-Aver</td>
<td></td>
<td>29</td>
<td>36</td>
<td>47</td>
<td>53</td>
<td>165</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(5.6%)</td>
<td>(7.0%)</td>
<td>(9.0%)</td>
<td>(10.2%)</td>
<td>(31.8%)</td>
</tr>
<tr>
<td>3-Low</td>
<td></td>
<td>0</td>
<td>19</td>
<td>62</td>
<td>102</td>
<td>183</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0%)</td>
<td>(3.7%)</td>
<td>(12.0%)</td>
<td>(19.7%)</td>
<td>(35.4%)</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>111</td>
<td>101</td>
<td>144</td>
<td>162</td>
<td>518</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(21.4%)</td>
<td>(20.0%)</td>
<td>(27.8%)</td>
<td>(31.2%)</td>
<td>(100%)</td>
</tr>
</tbody>
</table>

\[ \chi^2 = 191.391 \]

prob. = .000  

\[ \text{gamma} = .693 \]
### TABLE 14: INTBUS BY SOVIET POLITICAL CLIMATE

<table>
<thead>
<tr>
<th>PERCEIVED LEVEL OF SOVPOL</th>
<th>INTBUS</th>
<th>Very Stable</th>
<th>Somewhat Stable</th>
<th>Somewhat Unstable</th>
<th>Very Unstable</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-High</td>
<td></td>
<td>91</td>
<td>34</td>
<td>11</td>
<td>7</td>
<td>143</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(17.6%)</td>
<td>(6.6%)</td>
<td>(2.1%)</td>
<td>(1.3%)</td>
<td>(27.3%)</td>
</tr>
<tr>
<td>2-Aver</td>
<td></td>
<td>20</td>
<td>55</td>
<td>91</td>
<td>22</td>
<td>188</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(3.9%)</td>
<td>(10.6%)</td>
<td>(17.6%)</td>
<td>(4.2%)</td>
<td>(36.3%)</td>
</tr>
<tr>
<td>3-Low</td>
<td></td>
<td>0</td>
<td>12</td>
<td>42</td>
<td>133</td>
<td>187</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0%)</td>
<td>(2.3%)</td>
<td>(8.1%)</td>
<td>(25.7%)</td>
<td>(36.1%)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>111</td>
<td>101</td>
<td>144</td>
<td>162</td>
<td>518</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(21.5%)</td>
<td>(19.5%)</td>
<td>(27.8%)</td>
<td>(31.2%)</td>
<td>(100%)</td>
<td></td>
</tr>
</tbody>
</table>

\[ x^2 = 397.325 \quad \text{prob.} = .000 \quad \text{gamma} = .854 \]

### TABLE 15: SOVIET JOINT VENTURES BY SOVIET POLITICAL CLIMATE

<table>
<thead>
<tr>
<th>PERCEIVED LEVEL OF SOVPOL</th>
<th>SJV</th>
<th>Very Stable</th>
<th>Somewhat Stable</th>
<th>Somewhat Unstable</th>
<th>Very Unstable</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 (NO)</td>
<td>41</td>
<td>47</td>
<td>37</td>
<td>47</td>
<td>172</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(7.9%)</td>
<td>(9.1%)</td>
<td>(7.1%)</td>
<td>(9.1%)</td>
<td>(33.2%)</td>
<td></td>
</tr>
<tr>
<td>1 (YES)</td>
<td>70</td>
<td>54</td>
<td>107</td>
<td>115</td>
<td>346</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(13.5%)</td>
<td>(10.4%)</td>
<td>(20.7%)</td>
<td>(22.2%)</td>
<td>(66.8%)</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>111</td>
<td>101</td>
<td>144</td>
<td>162</td>
<td>518</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(21.4%)</td>
<td>(19.5%)</td>
<td>(27.8%)</td>
<td>(31.3%)</td>
<td>(100%)</td>
<td></td>
</tr>
</tbody>
</table>

\[ x^2 = 13.735 \quad \text{prob.} = .003 \quad \text{gamma} = .162 \]
### TABLE 16: FREQUENCY DISTRIBUTION FOR SOP

<table>
<thead>
<tr>
<th>SOP</th>
<th>FREQUENCY</th>
<th>PERCENT</th>
<th>CUMULATIVE FREQUENCY</th>
<th>CUMULATIVE PERCENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-Greatly Limits</td>
<td>76</td>
<td>14.7</td>
<td>76</td>
<td>14.7</td>
</tr>
<tr>
<td>2-Somewhat Limits</td>
<td>166</td>
<td>32.0</td>
<td>242</td>
<td>46.7</td>
</tr>
<tr>
<td>3-Somewhat Promotes</td>
<td>140</td>
<td>27.0</td>
<td>382</td>
<td>73.7</td>
</tr>
<tr>
<td>4-Greatly Promotes</td>
<td>136</td>
<td>26.3</td>
<td>518</td>
<td>100.0</td>
</tr>
</tbody>
</table>

### TABLE 17: TRANSACTION COSTS BY SOVIET GOVERNMENT POLICY

<table>
<thead>
<tr>
<th>PERCEIVED LEVEL OF SOP</th>
<th>TAC</th>
<th>Greatly Limits</th>
<th>Somewhat Limits</th>
<th>Somewhat Promotes</th>
<th>Greatly Promotes</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1-High</td>
<td>39 (7.5%)</td>
<td>63 (12.2%)</td>
<td>35 (6.8%)</td>
<td>33 (6.4%)</td>
<td>170 (32.9%)</td>
</tr>
<tr>
<td></td>
<td>2-Aver</td>
<td>11 (2.1%)</td>
<td>20 (3.9%)</td>
<td>56 (10.8%)</td>
<td>78 (15.0%)</td>
<td>165 (31.8%)</td>
</tr>
<tr>
<td></td>
<td>3-Low</td>
<td>26 (5.0%)</td>
<td>83 (16.0%)</td>
<td>49 (9.5%)</td>
<td>25 (4.8%)</td>
<td>183 (35.3%)</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td>76 (14.6%)</td>
<td>166 (32.1%)</td>
<td>140 (27.1%)</td>
<td>136 (26.2%)</td>
<td>518 (100%)</td>
</tr>
</tbody>
</table>

\[ x^2 = 94.424 \quad \text{prob.} = .000 \quad \text{gamma} = -.012 \]
TABLE 18: INTBUS BY SOVIET GOVERNMENT POLICY

<table>
<thead>
<tr>
<th>PERCEIVED LEVEL OF SOP</th>
<th>INTBUS</th>
<th>Greatly Limits</th>
<th>Somewhat Limits</th>
<th>Somewhat Promotes</th>
<th>Greatly Promotes</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1-High</td>
<td>39 (7.5%)</td>
<td>43 (8.3%)</td>
<td>44 (8.5%)</td>
<td>17 (3.3%)</td>
<td>143</td>
</tr>
<tr>
<td></td>
<td>2-Aver</td>
<td>11 (2.1%)</td>
<td>27 (5.2%)</td>
<td>54 (10.4%)</td>
<td>96 (18.5%)</td>
<td>188</td>
</tr>
<tr>
<td></td>
<td>3-Low</td>
<td>26 (5.1%)</td>
<td>96 (18.5%)</td>
<td>42 (8.1%)</td>
<td>23 (4.5%)</td>
<td>187</td>
</tr>
<tr>
<td></td>
<td>TOTAL</td>
<td>76 (14.7%)</td>
<td>166 (32.0%)</td>
<td>140 (27.0%)</td>
<td>136 (26.3%)</td>
<td>518</td>
</tr>
</tbody>
</table>

\[ x^2 = 137.327 \quad \text{prob.} = .000 \quad \text{gamma} = -.052 \]
Question 26 in Appendix 1 and Question 21 in Appendix 2. Table 19 shows the frequency distribution for WESTPOL. WESTPOL is expected to function in a similar manner to SOP, if WESTPOL equals 1 or 2 TAC and INTBUS will be high and a Western firm is unlikely to engage in a Soviet joint venture. Also like SOP, the opposite is expected if WESTPOL equals 3 or 4. Tables 20 and 21 show a strong bivariate relationship in the expected direction between TAC and WESTPOL ($x^2 = 448.75, P < .05, \gamma = .922$) and INTBUS and WESTPOL ($x^2 = 513.79, P < .05, \gamma = .935$).

The analysis of the survey data should explain what factors contribute to the creation and establishment of Western joint ventures in the Soviet Union. These results will be presented in the next section and will demonstrate that the theoretical conclusions of transaction-cost analysis can be supported by empirical evidence. The findings will be summarized in Chapter 5, followed by a brief analysis of the potential implications of the findings for Soviet foreign economic policy.

EMPIRICAL ANALYSIS

Table 22 presents the results of a multivariate logistic analysis of the following model and research hypothesis:

Model: $SJV = a + b_1(TAC) + b_2(INTBUS) + b_3(SOVPOL) + b_4(WESTPOL) + b_5(SOP) + e$
### TABLE 19: FREQUENCY DISTRIBUTION FOR WESTPOL

<table>
<thead>
<tr>
<th>WESTPOL</th>
<th>FREQUENCY</th>
<th>PERCENT</th>
<th>CUMULATIVE FREQUENCY</th>
<th>CUMULATIVE PERCENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-Greatly Limits</td>
<td>149</td>
<td>28.8</td>
<td>149</td>
<td>28.8</td>
</tr>
<tr>
<td>2-Somewhat Limits</td>
<td>170</td>
<td>32.8</td>
<td>319</td>
<td>61.6</td>
</tr>
<tr>
<td>3-Somewhat Promotes</td>
<td>113</td>
<td>21.8</td>
<td>432</td>
<td>83.4</td>
</tr>
<tr>
<td>4-Greatly Promotes</td>
<td>86</td>
<td>16.6</td>
<td>518</td>
<td>100.0</td>
</tr>
</tbody>
</table>

### TABLE 20: TRANSACTION COSTS BY WESTERN GOVERNMENT POLICY

<table>
<thead>
<tr>
<th>PERCEIVED LEVEL OF WESTPOL</th>
<th>GREATLY LIMITS</th>
<th>SOMEWHAT LIMITS</th>
<th>SOMEWHAT PROMOTES</th>
<th>GREATLY PROMOTES</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>TAC</td>
<td>GREATLY LIMITS</td>
<td>SOMEWHAT LIMITS</td>
<td>SOMEWHAT PROMOTES</td>
<td>GREATLY PROMOTES</td>
<td>TOTAL</td>
</tr>
<tr>
<td>1-High</td>
<td>132</td>
<td>38</td>
<td>0</td>
<td>0</td>
<td>170</td>
</tr>
<tr>
<td></td>
<td>(25.5%)</td>
<td>(7.3%)</td>
<td>(0%)</td>
<td>(0%)</td>
<td>(32.8%)</td>
</tr>
<tr>
<td>2-Aver</td>
<td>17</td>
<td>101</td>
<td>36</td>
<td>11</td>
<td>165</td>
</tr>
<tr>
<td></td>
<td>(3.3%)</td>
<td>(19.5%)</td>
<td>(6.9%)</td>
<td>(2.1%)</td>
<td>(31.8%)</td>
</tr>
<tr>
<td>3-Low</td>
<td>0</td>
<td>31</td>
<td>77</td>
<td>75</td>
<td>183</td>
</tr>
<tr>
<td></td>
<td>(0%)</td>
<td>(5.9%)</td>
<td>(15.0%)</td>
<td>(14.5%)</td>
<td>(35.4%)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>149</td>
<td>170</td>
<td>113</td>
<td>86</td>
<td>518</td>
</tr>
<tr>
<td></td>
<td>(28.8%)</td>
<td>(32.7%)</td>
<td>(21.9%)</td>
<td>(16.6%)</td>
<td>(100%)</td>
</tr>
</tbody>
</table>

\[x^2 = 448.759\]  
prob. = .000  
gamma = .922
### TABLE 21: INTBUS BY WESTERN GOVERNMENT POLICY

<table>
<thead>
<tr>
<th>INTBUS</th>
<th>Greatly Limits</th>
<th>Somewhat Limits</th>
<th>Somewhat Promotes</th>
<th>Greatly Promotes</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-High</td>
<td>116 (22.4%)</td>
<td>27 (5.2%)</td>
<td>0 (0%)</td>
<td>0 (0%)</td>
<td>143 (27.6%)</td>
</tr>
<tr>
<td>2-Aver</td>
<td>33 (6.4%)</td>
<td>125 (24.1%)</td>
<td>19 (3.7%)</td>
<td>11 (2.1%)</td>
<td>188 (36.3%)</td>
</tr>
<tr>
<td>3-Low</td>
<td>0 (0%)</td>
<td>18 (3.5%)</td>
<td>94 (18.1%)</td>
<td>75 (14.5%)</td>
<td>187 (36.1%)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>149 (28.8%)</td>
<td>170 (32.8%)</td>
<td>113 (21.8%)</td>
<td>86 (16.6%)</td>
<td>518 (100%)</td>
</tr>
</tbody>
</table>

\( \chi^2 = 513.793 \quad \text{prob.} = .000 \quad \text{Gamma} = .935 \)
Research Hypothesis: The decision by Western firms to engage in Soviet joint ventures is the direct or indirect result of the reduction of the transaction costs involved in Soviet-Western political economy.

Given the estimated coefficients in Table 22, the logistic regression equation for the probability of a Western firms engaging in a Soviet joint venture can be written:

\[
SJV = .42 + .43(TAC) - .99(INTBUS) - .03(SOVPOL) - .16(SOP) + .23(WESTPOL)
\]

In multiple linear regression the interpretation of the regression coefficients is straightforward. It tells the researcher the amount of change in the dependent variable for a one-unit change in the independent variable. The logistic regression coefficient, however, is interpreted as the change in the log odds associated with a one-unit change in the independent variable (e.g., \[\text{logit} = \log[\text{prob(event)}/\text{prob(no event)}] - B_0 + B_1X_1 + \ldots + B_pX_p\]) (Dobson 1990:112). A positive coefficient increases the odds of an event for each level of an independent variable while a negative coefficient decreases the odds (Walsh 1987).

The results of the logistic regression analysis reveals that the overall model is statistically significant (\(P \leq 0.001\)) with a chi-square of 23.51 with 5 degrees of freedom. Walsh (1987) states that "the significant chi-square value in the SAS program indicates the independent variables have significant predictive value." The results also reveal that the coefficients for TAC (.43, \(p = .07\)) are marginally significant, very significant for INTBUS
(-.99, p = .0003), while the coefficients for SOVPOL (-.03), SOP (-.16), and WESTPOL (.23) are not. This suggests a multicollinearity problem. Johnson, Johnson, and Buse (1987:270-273) suggest two methods for solving the problem of multicollinearity:

One possible way to resolve the problem is to obtain a new sample. This is easier said than done. In cross-sectional studies it may be possible to take a new sample from the population being studied but it is seldom practical to do so. Data collection by the interview method is an expensive undertaking and the cost of resampling is usually prohibitive. A second possible means of coping with the problem of multicollinearity is to eliminate one or more of the variables. When there are several explanatory variables in the equation the problem is more difficult. It may be that more than one variable is highly correlated with the same or a different subset of the remaining variables raising the question of which variables to delete. An even more serious potential problem is that deleting relevant variables can result in the introduction of bias into the estimates of the coefficients of the variables retained in the equation.

The Pearson correlation matrix for the variables is presented in Table 22. The sample correlations between TAC and INTBUS (.82), TAC and WESTPOL (.79), and TAC and SOVPOL (.60) are high. There are also substantial correlations between INTBUS and WESTPOL (.81), and INTBUS and SOVPOL (.74). Moreover, there is a strong correlation between SOVPOL and WESTPOL (.68). But "the presence of simple sample correlation in the sample does not necessarily mean that the multicollinearity problem exists" (Johnson, Johnson, and Buse 1987:271). Dobson (1990:112) argues that simple correlations among pairs of independent
### TABLE 22: LOGISTIC REGRESSION - SOVIET JOINT VENTURE MODEL

<table>
<thead>
<tr>
<th>Variable</th>
<th>Parameter Estimate</th>
<th>Standard Error</th>
<th>Wald Chi-Square</th>
<th>PR &gt; Chi-Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>.42</td>
<td>.37</td>
<td>1.30</td>
<td>.26</td>
</tr>
<tr>
<td>TAC</td>
<td>.43</td>
<td>.23</td>
<td>3.36</td>
<td>.07</td>
</tr>
<tr>
<td>INTBUS</td>
<td>-.99</td>
<td>.27</td>
<td>13.02</td>
<td>.0003</td>
</tr>
<tr>
<td>SOVPOL</td>
<td>-.03</td>
<td>.13</td>
<td>.04</td>
<td>.84</td>
</tr>
<tr>
<td>SOP</td>
<td>-.16</td>
<td>.10</td>
<td>2.50</td>
<td>.11</td>
</tr>
<tr>
<td>WESTPOL</td>
<td>.23</td>
<td>.18</td>
<td>1.63</td>
<td>.20</td>
</tr>
</tbody>
</table>

Chi-Square for Overall Model: 23.50, P = .0003

Number of Cases: 518

Percent Predicted: 83.7
variables are suggestive but not conclusive. Multicollinearity can be measured by regressing each independent variable against all other independent variables. The resulting $R^2$s measure the level of multicollinearity. Employing this method, multicollinearity is suggested in this study because four of the five independent variables have a large $R^2$ (TAC=.67, INTBUS=.79, WESTPOL=.63, SOVPOL=.55, and SOP=.12). However, it is important to note multicollinearity is not so much a problem, but rather causes a problem by increasing the estimates of the standard errors. This causes difficulty in obtaining stable or statistically significant estimates of the effects. With this caveat, Johnson, Johnson, and Buse (1987:275) state "there is no solution to the problem, short of never doing applied regression." As previously stated, removing any of the independent variables from the model can introduce bias into the estimates of the coefficients of the independent variables therefore all of the variables will be retained in the analysis that follows.

While it is certainly true that every model suffers from some specification error, the question of specification is more than simply a technical consideration in the analysis. Specification error can result in two ways. First, the model may be estimated with the wrong independent variables by omitting important variables,
<table>
<thead>
<tr>
<th></th>
<th>SJV</th>
<th>TAC</th>
<th>INTBUS</th>
<th>WESTPOL</th>
<th>SOVPOL</th>
<th>SOP</th>
</tr>
</thead>
<tbody>
<tr>
<td>SJV</td>
<td>1.000</td>
<td>.06</td>
<td>.15</td>
<td>.05</td>
<td>.10</td>
<td>.09</td>
</tr>
<tr>
<td></td>
<td>0.0</td>
<td>.16</td>
<td>.00</td>
<td>.24</td>
<td>.02</td>
<td>.05</td>
</tr>
<tr>
<td>TAC</td>
<td>.06</td>
<td>1.000</td>
<td>.82</td>
<td>.79</td>
<td>.60</td>
<td>.005</td>
</tr>
<tr>
<td></td>
<td>.16</td>
<td>0.0</td>
<td>.00</td>
<td>.00</td>
<td>.89</td>
<td></td>
</tr>
<tr>
<td>INTBUS</td>
<td>.15</td>
<td>.82</td>
<td>1.000</td>
<td>.81</td>
<td>.74</td>
<td>-.13</td>
</tr>
<tr>
<td></td>
<td>.00</td>
<td>.00</td>
<td>.00</td>
<td>.00</td>
<td>.76</td>
<td></td>
</tr>
<tr>
<td>WESTPOL</td>
<td>.05</td>
<td>.79</td>
<td>.81</td>
<td>1.000</td>
<td>.68</td>
<td>-.18</td>
</tr>
<tr>
<td></td>
<td>.24</td>
<td>.00</td>
<td>.00</td>
<td>.00</td>
<td>.00</td>
<td></td>
</tr>
<tr>
<td>SOVPOL</td>
<td>.10</td>
<td>.60</td>
<td>.74</td>
<td>.68</td>
<td>1.000</td>
<td>-.07</td>
</tr>
<tr>
<td></td>
<td>.02</td>
<td>.00</td>
<td>.00</td>
<td>.00</td>
<td>.09</td>
<td></td>
</tr>
<tr>
<td>SOP</td>
<td>.09</td>
<td>.005</td>
<td>-.13</td>
<td>-.18</td>
<td>-.07</td>
<td>1.000</td>
</tr>
<tr>
<td></td>
<td>.05</td>
<td>.89</td>
<td>.76</td>
<td>.00</td>
<td>.09</td>
<td>0.0</td>
</tr>
</tbody>
</table>
including irrelevant variables, or both. A second form of misspecification occurs when we have the proper variables in the model but specify the functional form of the relationship improperly (Berry and Feldman 1985:18-22; Achen 1982:51-58). There is no clear cut way of knowing that a substantively important variable has been excluded from an analysis, even after the fact (Berry and Feldman 1985:25). However, the six conceptual components (the dependent variable and five independent variables) presented and operationalized in terms of the hypotheses, allow for a substantial degree of confidence in the substantive accuracy of the overall model. This confidence is founded not only in the conceptual clarity they introduce, but also the manner in which they provide a successful integration of the vast literature on Soviet-Western political economy, international political economy, and transaction-cost analysis. This confidence in the conceptualization of the model turns the specification question into a matter, literally, of best capturing the concepts. This study provides an excellent step in this direction.

The results presented in Table 22 can now be used to determine the odds of a Western firm engaging in a Soviet joint venture given its perception of the transaction costs that may be incurred (TAC), the level of business and strategic planning risks (INTBUS), the Soviet political
climate (SOVPOL), the impact of Soviet government policy on their decision to engage or not engage in a Soviet joint venture (SOP), and the impact of Western government policy on its joint venture decision (WESTPOL). This is accomplished by substituting the parameter estimates for each of the independent variables into the logistic regression equation and evaluating various scenarios. Walsh (1987) states:

This is very much like a prediction equation for ordinary least squares regression . . . Instead of calculating the best prediction or score by y, in logit we are calculating the best probability prediction.

The results of the logistic regression analysis of the Soviet joint venture model are summarized in Table 24. Analyzing the results for TAC demonstrate that the probability of a Western firm engaging in a Soviet joint venture decreases as the level of TAC increases, thus the research hypothesis for the study cannot be rejected.

As previously stated positive coefficients mean the odds of an event occurring are increased, while the odds of an event occurring are reduced by negative coefficients. This holds for the Soviet joint venture model if the odds of a Western firm engaging in a Soviet joint venture are calculated from all of the possible scenarios of the independent variables. In order to verify the logistic coefficients a multivariate regression analysis is
### TABLE 24: A TRANSACTION-COST ANALYSIS OF SOVIET JOINT VENTURES WITH THE WEST

<table>
<thead>
<tr>
<th></th>
<th>SJV</th>
<th>TAC</th>
<th>INTBUS</th>
<th>SOVPOL</th>
<th>SOP</th>
<th>WESTPOL</th>
<th>ODDS</th>
</tr>
</thead>
<tbody>
<tr>
<td>TAC=1</td>
<td>-1.2</td>
<td>.43</td>
<td>-2.07</td>
<td>-.08</td>
<td>-.42</td>
<td>.52</td>
<td>.31:1</td>
</tr>
<tr>
<td>TAC=2</td>
<td>-.77</td>
<td>.86</td>
<td>-2.07</td>
<td>-.08</td>
<td>-.42</td>
<td>.52</td>
<td>.47:1</td>
</tr>
<tr>
<td>TAC=3</td>
<td>-.34</td>
<td>1.29</td>
<td>-2.07</td>
<td>-.08</td>
<td>-.42</td>
<td>.52</td>
<td>.72:1</td>
</tr>
<tr>
<td>INTBUS=1</td>
<td>.32</td>
<td>.87</td>
<td>-.99</td>
<td>-.08</td>
<td>-.42</td>
<td>.52</td>
<td>1.38:1</td>
</tr>
<tr>
<td>INTBUS=2</td>
<td>-.77</td>
<td>.87</td>
<td>-1.98</td>
<td>-.08</td>
<td>-.42</td>
<td>.52</td>
<td>.52:1</td>
</tr>
<tr>
<td>INTBUS=3</td>
<td>-1.66</td>
<td>.87</td>
<td>-2.97</td>
<td>-.08</td>
<td>-.42</td>
<td>.52</td>
<td>.19:1</td>
</tr>
<tr>
<td>SOVPOL=1</td>
<td>-.71</td>
<td>.87</td>
<td>-2.07</td>
<td>-.03</td>
<td>-.42</td>
<td>.52</td>
<td>.49:1</td>
</tr>
<tr>
<td>SOVPOL=2</td>
<td>-.74</td>
<td>.87</td>
<td>-2.07</td>
<td>-.06</td>
<td>-.42</td>
<td>.52</td>
<td>.48:1</td>
</tr>
<tr>
<td>SOVPOL=3</td>
<td>-.77</td>
<td>.87</td>
<td>-2.07</td>
<td>-.09</td>
<td>-.42</td>
<td>.52</td>
<td>.46:1</td>
</tr>
<tr>
<td>SOVPOL=4</td>
<td>-.80</td>
<td>.87</td>
<td>-2.07</td>
<td>-.12</td>
<td>-.42</td>
<td>.52</td>
<td>.44:1</td>
</tr>
<tr>
<td>SOP=1</td>
<td>-.50</td>
<td>.87</td>
<td>-2.07</td>
<td>-.08</td>
<td>-.16</td>
<td>.52</td>
<td>.61:1</td>
</tr>
<tr>
<td>SOP=2</td>
<td>-.66</td>
<td>.87</td>
<td>-2.07</td>
<td>-.08</td>
<td>-.32</td>
<td>.52</td>
<td>.51:1</td>
</tr>
<tr>
<td>SOP=3</td>
<td>-.82</td>
<td>.87</td>
<td>-2.07</td>
<td>-.08</td>
<td>-.48</td>
<td>.52</td>
<td>.44:1</td>
</tr>
<tr>
<td>SOP=4</td>
<td>-.98</td>
<td>.87</td>
<td>-2.07</td>
<td>-.08</td>
<td>-.64</td>
<td>.52</td>
<td>.38:1</td>
</tr>
<tr>
<td>WESTPOL=1</td>
<td>-1.05</td>
<td>.87</td>
<td>-2.07</td>
<td>-.08</td>
<td>-.42</td>
<td>.23</td>
<td>.35:1</td>
</tr>
<tr>
<td>WESTPOL=2</td>
<td>-.82</td>
<td>.87</td>
<td>-2.07</td>
<td>-.08</td>
<td>-.42</td>
<td>.46</td>
<td>.44:1</td>
</tr>
<tr>
<td>WESTPOL=3</td>
<td>-.59</td>
<td>.87</td>
<td>-2.07</td>
<td>-.08</td>
<td>-.42</td>
<td>.69</td>
<td>.55:1</td>
</tr>
<tr>
<td>WESTPOL=4</td>
<td>-.36</td>
<td>.87</td>
<td>-2.07</td>
<td>-.08</td>
<td>-.42</td>
<td>.92</td>
<td>.70:1</td>
</tr>
</tbody>
</table>

Constant=.42

Note: These estimates were obtained by examining various levels of each independent variable and substituting the mean for all of the other independent variables.24
presented in Appendix 3, this analysis further supports the coefficients and findings of the logistic analysis of the Soviet joint venture model.

The logistic model with its five conceptual components is further strengthened by examining the two intervening conceptual components in the model: TAC and INTBUS. The model indicates that the Western firm's perception of the level of transaction costs (TAC) that may be incurred by engaging in a Soviet joint venture is directly affected by WESTPOL, SOP, and SOVPOL. Table 25 presents a multivariate ordinary least-squares (OLS) regression analysis of the impact of WESTPOL, SOP, and SOVPOL on TAC. The estimated coefficients predict that all three variables will affect the Western firm's perception of the level of transaction costs that may be incurred by engaging in a Soviet joint venture (SJV). All of the independent variables (WESTPOL, SOVPOL, and SOP) are significant at the .05 significance level. In addition, the $R^2$ for the analysis is .66, which means that the model accounts for approximately 66 percent of the variance, leaving only 34 percent of the variance unexplained by these factors.

The Western firm's perception of the level of business and strategic planning risks involved in engaging or not engaging in a Soviet joint venture (INTBUS) may account for some of the unexplained variance found in the multivariate regression analysis of TAC. The Soviet joint venture model
TABLE 25: OLS COEFFICIENTS FOR TAC

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Coefficient</th>
<th>S.E.</th>
<th>T-Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>CONSTANT</td>
<td>.16</td>
<td>.09</td>
<td>1.85</td>
</tr>
<tr>
<td>WESTPOL</td>
<td>.59</td>
<td>.03</td>
<td>21.03*</td>
</tr>
<tr>
<td>SOP</td>
<td>.12</td>
<td>.02</td>
<td>5.76*</td>
</tr>
<tr>
<td>SOVPOL</td>
<td>.08</td>
<td>.03</td>
<td>3.14*</td>
</tr>
</tbody>
</table>

R\(^2\)  .66  
Adjusted R\(^2\)  .66  
Number of Cases 518  
F-Value 331.10**  

*P< Significant at .05 level  
**P< Significant at .05 level
suggests that as a dependent variable INTBUS is directly and indirectly affected by the independent variables TAC, WESTPOL, SOP, and SOVPOL. A multivariate OLS regression analysis of INTBUS is present in Table 26. All of the independent variables are significant and the $R^2$ for the model is .79. Thus, the model accounts for approximately 79 percent of the variance leaving only 21 percent of the variance unexplained by these factors.

The importance of the direct and indirect influence of WESTPOL, SOVPOL, and SOP on TAC and INTBUS is illustrated by the multivariate analyses presented in Tables 25 and 26. Therefore, if WESTPOL, SOVPOL, and SOP all have such an influence on TAC and INTBUS they should remain in the logistic regression analysis of the Soviet joint venture model. As previously stated, if either WESTPOL, SOVPOL, or SOP is eliminated from the logistic regression model it is possible that the coefficient estimates would be biased.

In summary, the data are favorable toward all of the conceptual components developed above in the Soviet joint venture model. The importance of the Western firm's perception of (1) the level of transaction costs that may be incurred by engaging in a Soviet joint venture, and (2) the level of business and strategic planning of a Soviet joint venture are among the major findings. Thus, the analysis helps to explain some of the factors that contribute to Soviet joint ventures with the West. The
### TABLE 26: OLS COEFFICIENTS FOR INTBUS

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Coefficient</th>
<th>S.E.</th>
<th>T-Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>CONSTANT</td>
<td>.092</td>
<td>.06</td>
<td>1.44</td>
</tr>
<tr>
<td>TAC</td>
<td>.39</td>
<td>.04</td>
<td>11.97*</td>
</tr>
<tr>
<td>WESTPOL</td>
<td>.22</td>
<td>.03</td>
<td>7.66*</td>
</tr>
<tr>
<td>SOP</td>
<td>.05</td>
<td>.02</td>
<td>2.86*</td>
</tr>
<tr>
<td>SOVPOL</td>
<td>.22</td>
<td>.02</td>
<td>11.16*</td>
</tr>
<tr>
<td>R²</td>
<td>.79</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>.79</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of Cases</td>
<td>518</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

F-Value: 498.26**

*P< Significant at .05 level

**P< Significant at .05 level
theoretical conclusions of Chapter 3 are thereby supported by the empirical evidence presented here. The IPE literature is currently dominated by theories designed to explain political and economic relations among states with well-established, functioning free market economies, a characteristic not yet found in the Soviet Union. Therefore, transaction-cost analysis provides an additional theoretical framework that can be integrated into the existing IPE literature in order to help explain political and economic relations among states with different types of political and economic systems (e.g., the United States and its free market economy, and the Soviet Union and its centrally planned economy). Questions remain, however, concerning the implications of the analysis for Soviet foreign economic policy and Soviet joint ventures with the West in light of the recent political personnel and policy changes in the Soviet Union. The concluding chapter will demonstrate that the Soviet joint venture model and transaction-cost analysis are viable social scientific tools in researching Soviet foreign economic policy.
CHAPTER FIVE
CONCLUSION

The purpose of this study was threefold (1) to explain the factors that contribute to the establishment of Soviet joint ventures with the West, (2) to integrate a relatively new theoretical framework within the existing IPE theories to bear directly on the problem of Soviet-Western political economy, and (3) to speculate about the effect of Soviet joint ventures with the West on Soviet-Western economic and political relations. In the previous chapters, goals one and two were somewhat achieved. Transaction-cost analysis' emphasis on institutions, contracts, economic conditions, political conditions, rules, enforcement, and opportunism provides an analytical framework that can help explain the role of these variables in governing and facilitating Soviet-Western political economy. Eggertsson (1990:15) states that there are six activities related to political and economic exchanges between states, firms, or individuals that give rise to transaction costs:

1. The search for information about the distribution of price and quality of commodities and labor inputs, and the search for potential buyers and sellers and for relevant information about their behavior and circumstances.

2. The bargaining that is needed to find the true position of buyers and sellers when prices are endogenous.

3. The making of contracts.

4. The monitoring of contractual partners to see whether they abide by the terms of the contract.
5. The enforcement of a contract and the collection of damages when partners fail to observe their contractual relations.

6. The protection of property rights against third-party encroachment - for example, protection against pirates or even against the government in the case of illegitimate trade.

The world of the new economics of organization (NEO) is one where uncertainty and opportunism exist, thereby requiring complex institutional structures and arrangements for the (1) the establishment of economic and political relations, and (2) the reduction or elimination of transaction costs. The NEO environment provides a very precise description of the international political economy (IPE) and of Soviet-Western political economy. In Power and Interdependence, Keohane and Nye (1988:253-254) state:

> From the foreign policy standpoint, the problem facing individual governments is how to benefit from international exchange while maintaining as much autonomy as possible. From the perspective of the international system, the problem is how to generate and maintain a mutually beneficial pattern of cooperation in the face of competing efforts by governments, and nongovernmental actors, to manipulate the system for their own benefit.

The NEO environment and the IPE in a world of complex interdependence are very similar in nature, therefore, transaction-cost analysis provides an added dimension to the study of IPE, Soviet-Western political economy, and Soviet foreign economic policy by providing a framework for studying political and economic relations among states in the international system with different and similar political and economic structures.
Stephen Krasner suggests that transaction-cost analysis is not logically inconsistent with the traditional power-oriented research program of international politics. Krasner (1991:362) states:

The most important issues for a power-oriented analysis is the distribution of capabilities and benefits. Charles Perrow, for instance, argues there is always a struggle within an institution because control of the institution can bring with it a variety of rewards including security, power, and survival. For a power-oriented research program, power is exercised not to facilitate cooperation but to secure a more favorable distribution of benefits. And analysis seeks to explain outcomes in terms of interests and relative capabilities rather than in terms of institutions designed to promote Pareto optimality.

Transaction-cost analysis' focus on institutions is also designed to explain outcomes in terms of interests and relative capabilities. It is precisely the interests or capabilities of states, firms, or individuals that may increase or reduce the cost of transacting between economic and political agents.

The empirical analysis of the survey data offers some support for the theoretical conclusions of NEO and transaction-cost analysis. The empirical results found that the decision by a Western firm to engage or not engage in a joint venture may be directly or indirectly influenced by that firm's perception of the level of transaction costs that could be incurred in such a venture. The data also indicate that the perceived level of transaction costs is influenced by the Western firm's perception of Western
government policy, Soviet government policy, and the Soviet political climate. If the perceived level of transaction costs is high, the data suggest that a Western firm is less likely to engage in a Soviet joint venture. On the other hand, if the perceived level of transaction costs is average or low, the data suggest that a Western firm is more likely to engage in a Soviet joint venture.

The third objective of this study was to speculate about the effect of Soviet joint ventures with the West on Soviet-Western economic and political relations to determine if joint ventures would significantly affect Soviet-Western political economy. As stated in Chapter 1, when this study began the Soviet Union under the leadership of President Mikhail Gorbachev appeared to be moving toward a free market economy and complete integration of the Soviet Union into the established international political economy. However, since the summer of 1990 numerous events have occurred in the Soviet Union that appear to have shifted the direction of Gorbachev's program of perestroika, thus resulting in questions about the applicability of the Soviet joint venture model developed and tested in this study. However, in the area of Soviet-Western political economy the Soviet Union continues to move toward greater economic reform and liberalization as demonstrated by recent (1) legislation of the USSR Supreme Soviet, (2) legislation of the most economically important
republics in the Soviet Union (e.g., the Baltics and Russia), and (3) Presidential Decrees issued by Gorbachev. The result, noted earlier, has been a 42 percent increase in Soviet joint ventures with the West between September 1, 1990 and March 1, 1991.

Cooperation in the liberalization of Soviet-Western political economy must continue if the Soviet Union wants to shake its permanently developing country (PDC) image and become a major player in the IPE. This requires that the Soviet government, and the governments of the various republics, make the Soviet Union even more attractive to Western investors by further reducing the level of transaction costs and the level of business and strategic planning risks involved in doing business in the Soviet Union. Because in a world of complex interdependence high levels of TAC and INTBUS may reduce cooperation and increase the potential for opportunism.

The theoretical discussion of NEO and transaction costs in Chapter 3 and the empirical analysis of the Soviet joint venture model demonstrate that this study, its theoretical assumptions, and the model are still appropriate research tools even if the Soviet Union is moving from policies of liberalization to Communist Party hardline policies of retrenchment. The Soviet Union, like the NEO world, is a world where, for example, "individuals are only bounded rationally, legal enforcement of
agreements is costly and imperfect, and opportunistic acts cannot be ruled out" (Yarbrough and Yarbrough 1990:239). This makes cooperation difficult, "even when all parties are acting in good faith, and it therefore creates a demand for norms to enhance predictability and political and economic institutions to support exchange and other forms of cooperation" (Yarbrough and Yarbrough 1990:240). Uncertainty can also be increased if actors are engaging in opportunistic behavior, strategic behavior that is designed to deliberately conceal an actor's preferences or actions in order to achieve gains that improves its position while threatening the welfare and utility of other actors (Hodgson 1988:37-40). Obviously, the Soviet Union in 1991 fits the criteria of NEO and transaction-cost analysis.

The Soviet joint venture model and its theoretical assumptions are adaptable to other areas of Soviet foreign economic relations with the West, such as the decision to engage or not engage in trade with the Soviet Union. This study suggests that many Western foreign economic decisions are based upon the variables of (1) Western government policy, (2) Soviet government policy, (3) Soviet political climate, (4) the level of transaction costs, and (5) the business and strategic planning risks. The theoretical arguments demonstrate that these factors may be some of the most crucial in a Western firm's decisionmaking process regarding doing business in the Soviet Union.
Transaction-cost analysis appears to be a more rigorous and precise research tool for the study of Soviet-Western political economy as the Soviet Union continues to move toward a free market economy and becomes more integrated into the international political economy. In *War and Change in World Politics*, Robert Gilpin presents an argument which gives further credence to a transaction-cost analysis of Soviet joint ventures with the West when the current political situation in the Soviet Union within the context of the IPE is taken into consideration. Gilpin (1981:231-233) states:

A further reason for the rise and spread of a market economy and for its impact was a decrease in transaction costs, especially the costs of defining and enforcing property rights. . . In the new international environment created by the advent of sustained economic growth and a world market economy, the tendency of states to expand as their power grew underwent a profound transformation. Whereas in the premodern world, expansion principally took the form of territorial expansion, political expansion and economic expansion have tended to characterize growing states in the modern world. The primary objectives of increasing numbers of states have been to extend their political influence over other states and to increase their dominance over the world market economy. Through specialization and international trade an efficient state could gain more than through territorial expansion and conquest. The expanded market and the diversity of available resources made possible by trade were spurs to growth of wealth and power of those states best able to take advantage of the change in world conditions. For these states, trade proved to be more profitable than imperial tribute.

The Soviet Union now appears to be attempting to follow a path of market reform in order to increase its wealth and power which would allow it to maintain its
superpower status in the international system. Thus, transaction-cost analysis appears to offer greater empirical verisimilitude than any other existing IPE model for the study of Soviet-Western political economy. Transaction-cost analysis provides the basis for not only examining the amount of overall trade and business between the Soviet Union and the West in joint ventures and other business arrangements, but can also examine and explain the nature and impact of those relationships on the international political economy.
REFERENCES


APPENDIX 1
QUESTIONNAIRE: WESTERN FIRMS INVOLVED IN JOINT VENTURES WITH THE SOVIET UNION

1. How would you describe your firm's attitude toward doing business with the Soviet Union?

   _65%_ 1. Very willing to do business with the Soviet Union.

   _35%_ 2. Have minor reservation about doing business with the Soviet Union, but anxious to explore possibilities with the Soviet Union to become established in Soviet market.

   _0%_ 3. Willing to explore, but have serious reservations about doing business with the Soviet Union.

   _0%_ 4. Little interest in doing business with the Soviet Union.

   _0%_ 5. No interest in doing business with the Soviet Union.

   _100%_ Total N=346

2. Does your firm conduct business in the Soviet Union?

   _100% Yes_  _0_ No

   N=346

3. Has your firm entered into a joint venture agreement with a firm in the Soviet Union?

   _100% Yes_  _0_ No

   N=346
4. What type of international business activity, other than joint ventures, does your firm primarily conduct in the USSR?

  22% 1. International trade.
  75% 2. Licensing agreements.
  3%  3. Plant and equipment transfers.
  0%  4. Subcontracting.
  0%  5. Co-production.
  0%  6. Other (please specify).  No Responses.

100% Total N=346

5. I would like for your firm to rate the desirability of the Soviet Union as a foreign customer or business partner on a scale of 0 to 10. For example, if you rate the desirability of the Soviet Union as a foreign customer or business partner as average, give it a rating of 5. If you rate the desirability of the Soviet Union as a foreign customer or business partner as above average, give it a rating of 6 to 10. If you rate the Soviet Union as a foreign customer or business partner as below average, give it a rating from 0 to 4.

Average Rating 6.5

6. In order to compare the desirability of the Soviet Union as a foreign customer or business partner, please rate the desirability of the following countries as a foreign customer or business partner based on the same scale used in Question 6.

3.6 Brazil  6.6 Israel  4.8 South Africa
8.2 Canada  5.9 Italy  6.4 South Korea
4.3 Egypt  8.5 Japan  5.7 Spain
7.8 France  5.1 Mexico  5.1 Sweden
7.9 Britain  6.3 PRC  8.3 United States
3.4 Hungary  5.2 Poland  4.6 Venezuela
4.7 India  5.8 Saudi Arabia  8.1 West Germany

Scores Reflect Average Ratings for Survey
7. What is the name of your firm's joint venture in the Soviet Union?

________________________________________________________________________

THIS INFORMATION WILL BE USED TO AVOID DUPLICATION. SPECIFIC IDENTIFYING INFORMATION IS CONFIDENTIAL AND WILL NOT BE MADE PUBLIC.

8. How is the percentage share of the joint venture distributed?

Your firm 46.9%
Soviet firm 51.3% AVERAGE
Other firms 1.8%

9. Name the home base country of other firms involved in your joint venture agreement in the Soviet Union?

________________________________________________________________________

10. Is your firm's joint venture in the Soviet Union fully operational?

59% Yes 41% No

N=346

11. If your firm's joint venture in the Soviet Union is not fully operational, what is its current stage of operation?

34% 1. Planning and development.
29% 2. Construction.
12% 3. On Hold.
25% 4. Other (please specify). Soviet partner contribution.

100% Total N=346
12. If your firm's joint venture in the Soviet Union is on hold, which of the following factors have contributed most significantly to the delay?

12% 1. Soviet legal barriers.
6%  2. Soviet financial and economic barriers.
18% 3. Managerial/personnel problems.
0%  5. Lack of agreement on goals
18% 6. Repatriation of profit problems.
0%  7. Western government policies.
40% 8. Other (please specify). Soviet partner contribution.

100%  Total     N=17
13. How important was each of the following factors in your firm's decision to engage in a joint venture agreement in the Soviet Union?

<table>
<thead>
<tr>
<th>Factor</th>
<th>Very Important</th>
<th>Somewhat Important</th>
<th>Not Important</th>
<th>Not Sure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soviet Political Climate</td>
<td>42%</td>
<td>53%</td>
<td>5%</td>
<td>0%</td>
</tr>
<tr>
<td>Marketing</td>
<td>18%</td>
<td>63%</td>
<td>19%</td>
<td>0%</td>
</tr>
<tr>
<td>Research and Development</td>
<td>81%</td>
<td>12%</td>
<td>7%</td>
<td>0%</td>
</tr>
<tr>
<td>Home Government Policies</td>
<td>20%</td>
<td>56%</td>
<td>24%</td>
<td>0%</td>
</tr>
<tr>
<td>Trade Barriers</td>
<td>11%</td>
<td>72%</td>
<td>17%</td>
<td>0%</td>
</tr>
<tr>
<td>Capital Investment</td>
<td>28%</td>
<td>40%</td>
<td>32%</td>
<td>0%</td>
</tr>
<tr>
<td>Labor</td>
<td>5%</td>
<td>27%</td>
<td>68%</td>
<td>0%</td>
</tr>
<tr>
<td>Production/Technology</td>
<td>34%</td>
<td>57%</td>
<td>9%</td>
<td>0%</td>
</tr>
<tr>
<td>Information</td>
<td>12%</td>
<td>28%</td>
<td>60%</td>
<td>0%</td>
</tr>
<tr>
<td>World Economy</td>
<td>26%</td>
<td>23%</td>
<td>25%</td>
<td>26%</td>
</tr>
<tr>
<td>Soviet Monopsony Power</td>
<td>1%</td>
<td>3%</td>
<td>5%</td>
<td>91%</td>
</tr>
<tr>
<td>Soviet Government Policies</td>
<td>34%</td>
<td>32%</td>
<td>34%</td>
<td>0%</td>
</tr>
<tr>
<td>Repatriation of Profits</td>
<td>75%</td>
<td>25%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Soviet Infrastructure</td>
<td>16%</td>
<td>38%</td>
<td>40%</td>
<td>6%</td>
</tr>
<tr>
<td>Soviet Financial Barriers</td>
<td>23%</td>
<td>28%</td>
<td>35%</td>
<td>14%</td>
</tr>
<tr>
<td>Lack of Agreement on Goals</td>
<td>31%</td>
<td>33%</td>
<td>25%</td>
<td>11%</td>
</tr>
<tr>
<td>Managerial Problems</td>
<td>47%</td>
<td>30%</td>
<td>23%</td>
<td>0%</td>
</tr>
<tr>
<td>Personnel Problems</td>
<td>41%</td>
<td>34%</td>
<td>25%</td>
<td>0%</td>
</tr>
<tr>
<td>Soviet Legal Barriers</td>
<td>25%</td>
<td>32%</td>
<td>43%</td>
<td>0%</td>
</tr>
<tr>
<td>Governance and Maintenance of Soviet Relationship</td>
<td>18%</td>
<td>22%</td>
<td>66%</td>
<td>0%</td>
</tr>
<tr>
<td>Other: No Responses</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

(Please Specify)

N=346 For Each Factor
14. Does your firm's joint venture in the Soviet Union require a marketing effort?

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>N=346</td>
</tr>
</tbody>
</table>

If you answered yes to Question 14 please answer Question 15. If you answered no to Question 14 please go to Question 16.

15. How much marketing effort is required to sell products or services in the Soviet Union?

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>61%</td>
</tr>
<tr>
<td></td>
<td>1.</td>
</tr>
<tr>
<td></td>
<td>Much more than average foreign customer.</td>
</tr>
<tr>
<td></td>
<td>21%</td>
</tr>
<tr>
<td></td>
<td>2.</td>
</tr>
<tr>
<td></td>
<td>Initial sales require more marketing effort, but repeat sales do not.</td>
</tr>
<tr>
<td></td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>3.</td>
</tr>
<tr>
<td></td>
<td>Not sure.</td>
</tr>
<tr>
<td></td>
<td>10%</td>
</tr>
<tr>
<td></td>
<td>4.</td>
</tr>
<tr>
<td></td>
<td>Level of required marketing is about the same.</td>
</tr>
<tr>
<td></td>
<td>8%</td>
</tr>
<tr>
<td></td>
<td>5.</td>
</tr>
<tr>
<td></td>
<td>Less expensive than for most foreign customers.</td>
</tr>
<tr>
<td></td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td>N=346</td>
</tr>
</tbody>
</table>

16. How reliable are the Soviets in complying with contract agreements?

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>22%</td>
</tr>
<tr>
<td></td>
<td>1.</td>
</tr>
<tr>
<td></td>
<td>Very reliable.</td>
</tr>
<tr>
<td></td>
<td>46%</td>
</tr>
<tr>
<td></td>
<td>2.</td>
</tr>
<tr>
<td></td>
<td>Meets agreements, but exploits loopholes.</td>
</tr>
<tr>
<td></td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>3.</td>
</tr>
<tr>
<td></td>
<td>Uncertain.</td>
</tr>
<tr>
<td></td>
<td>32%</td>
</tr>
<tr>
<td></td>
<td>4.</td>
</tr>
<tr>
<td></td>
<td>Sometimes does not meet agreement.</td>
</tr>
<tr>
<td></td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>5.</td>
</tr>
<tr>
<td></td>
<td>Never meets agreements.</td>
</tr>
<tr>
<td></td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td>N=346</td>
</tr>
</tbody>
</table>
17. In what area of industry will your firm's joint venture activity in the Soviet Union primarily occur?

- 5% 1. Chemical
- 8% 2. Energy (oil, gas, other)
- 8% 3. Computer/
- 3% 4. Food
- 24% 5. Service (hotels, tourism, etc.)
- 22% 6. Machinery/Heavy Industry
- 9% 7. Consumer Products
- 4% 8. Agriculture
- 15% 9. Medical
- 2% 10. Other (Please Specify):

Total N=346

18. In which Soviet Republic is your firm's joint venture located?

- 82% 1. Russia
- 5% 2. Estonia
- 3% 3. Ukraine
- 2% 4. Georgia
- 3% 5. Lithuania
- 1% 6. Belorussia
- 0% 7. Armenia
- 0% 8. Uzbekistan
- 0% 9. Azerbaijan
- 0% 10. Molvavia
- 4% 11. Latvia
- 0% 12. Kazakhstan
- 0% 13. Kirghizia
- 0% 14. Turkmenistan
- 0% 15. Tazdzhikistan

Total N=346

19. To what market is the final products of your firm's joint venture in the Soviet Union targeted?

- 28% 1. Soviet domestic market.
- 12% 2. Home domestic market.
- 60% 3. World market.
- 0% 4. Other (please specify). No Responses.

Total N=346
20. What is the estimated initial capital investment for your firm's joint venture in the Soviet Union?

1% 1. Over $30 million
2% 2. $20 - 29 million
34% 3. $10 - 19 million
41% 4. $1 - 9 million
17% 5. $500,000 - 1 million
5% 6. $100,000 - 500,000
1% 7. Under $100,000
100% 8. Total N=346

21. What is the estimated annual operational costs for your firm's joint venture in the Soviet Union?

1% 1. Over $30 million
1% 2. $20 - 29 million
32% 3. $10 - 19 million
28% 4. $1 - 9 million
36% 5. $500,000 - 1 million
2% 6. $100,000 - 500,000
0% 7. Under $100,000
100% 8. Total N=346
22. What is the estimated annual revenue for your firm's joint venture in the Soviet Union?

- 0% 1. Over $30 million
- 4% 2. $20 - 29 million
- 33% 3. $10 - 19 million
- 38% 4. $1 - 9 million
- 25% 5. $500,000 - 1 million
- 0% 6. $100,000 - 500,000
- 0% 7. Under $100,000
- 100% 8. Total N=346

23. How does your firm plan to repatriate profits from its joint venture in the Soviet Union?

- 43% 2. Trading goods from the joint venture on the international market.
- 15% 3. Hard currency auctions.
- 0% 5. Other (please specify). No responses.
- 100% Total N=346

24. What type of technology is required for your firm's joint ventures in the Soviet Union?

- 78% 1. General purpose or standardized technology.
- 22% 2. Transaction-specific technology (see note).
- 100% Total N=346

NOTE: Transaction-specific technology is technology that is idiosyncratic to a particular business relationship, the loss of this relationship would result in significant excess capacity and other associated losses.
25. Of the following Western government policies, which has had or will have the most adverse effect on your firm's joint venture project in the Soviet Union?

_32%_ 1. Trade barriers (e.g., export and import controls).

_21%_ 2. Controls and legal restrictions on extending credit to the Soviet Union.

_27%_ 3. Failure to give the Soviet Union most favored nation (MFN) status.

_20%_ 4. Multilateral restrictions agreed upon by GATT and the OECD (e.g., anti-dumping and countervailing duty laws).

_0%_ 5. Other (please specify). No responses.

100% Total N=346

26. How would your firm describe the impact of Western governments' policy on your firm's decision to engage in a Soviet joint venture?

_20%_ 1. Greatly limits.

_31%_ 2. Somewhat limits.


_22%_ 4. Greatly promotes.

100% Total N=346
27. The costs of information, including the supplying and the learning of the terms on which transactions are to be carried out (the rules of the game), are frequently associated with market exchange. Contracts and laws are the formal means by which firms and governments attempt to limit the strategic use of information and thereby reducing the costs of information. How would your firm describe the Soviet Joint Venture Law and your firm's joint venture agreement in limiting the strategic use of information by all parties involved, thereby reducing the costs of information?

   54% 1. Greatly limits and reduces the strategic use and costs of information.
   41% 2. Somewhat limits and reduces the strategic use and costs of information.
   0% 3. Uncertain.
   5% 4. Somewhat ambiguous and provides minimal opportunity for the strategic use of information.
   0% 5. Very ambiguous and substantially increases the opportunity for the strategic use of information.

   100% Total N=346

28. What mechanism is provided for in your firm's joint venture agreement in the Soviet Union to ensure the proper governance and maintenance of the joint venture?

   34% 1. Arbitration.
   24% 2. Direct negotiations between all parties of the joint venture agreement.
   7% 3. Adjudication.
   35% 4. Abrogation of the joint venture agreement if any of the contracting parties renege.
   0% 5. Other (please specify). No responses.

   100% Total N=346
29. How do you think the mechanism selected in Question 28 will effect the costs of maintaining and governing your firm's joint venture in the Soviet Union, and the potential for opportunism and defection by all parties involved in the agreement?

- **58%** 1. Greatly reduces the costs and the potential for opportunism and defection.
- **40%** 2. Somewhat reduces the costs and the potential for opportunism and defection.
- **0%** 3. Uncertain.
- **2%** 4. Somewhat increases the costs and the potential for opportunism and defection.
- **0%** 5. Greatly increases the costs and the potential for opportunism and defection.

**100%** Total N=346

30. In length of years, what is the average contract term of your firm's joint venture in the Soviet Union?

- **3%** 1. 10 years or more.
- **53%** 2. 5 - 9 years.
- **44%** 3. 1 - 4 years.
- **0%** 4. Less than a year.

**100%** Total N=346

31. What were the biggest surprises or unanticipated costs of your firm's joint venture project in the Soviet Union?

**Level of cooperation and willingness to work exhibited by Soviet co-workers.**

32. If your firm had the opportunity to do it all again, what would your firm do differently as it negotiated and engaged in a joint venture project in the Soviet Union?

**Negotiate for 100 percent ownership of joint venture.**
33. How would your firm describe the impact of Soviet government policy on your firm's decision to engage in a joint venture?

  9% 1. Greatly limits.
  31% 3. Somewhat promotes.
  35% 4. Greatly promotes.
  100% Total N=346

34. How would your firm describe the current political climate in the Soviet Union?

  19% 1. Very stable.
  22% 2. Somewhat stable.
  27% 3. Somewhat unstable.
  32% 4. Very unstable.
  100% Total N=346

35. Of the following events, which one would have to occur and negatively alter the Soviet political climate in order for your firm to end all business relations with the Soviet Union?

  5% 1. Secession of the Soviet Republics.
  15% 2. The ouster of Mikhail Gorbachev as President.
  80% 3. Civil War in the Soviet Union.
  0% 4. Economic depression.
  0% 5. Other (please specify). No responses.
  100% Total N=346
36. Please provide any comments about doing business with the Soviet Union or this survey you think might be helpful:

No responses.

37. General Information:

Name and title of person answering survey:

Name_____________________ Title_________________

Company Address:

__________________________________________

__________________________________________

Phone Number:_________________

THANK YOU FOR YOUR ASSISTANCE WITH THIS SURVEY. ALL INFORMATION AND SPECIFIC IDENTIFYING INFORMATION IS CONFIDENTIAL AND WILL NOT BE MADE PUBLIC.
APPENDIX 2
QUESTIONNAIRE: WESTERN FIRMS NOT INVOLVED IN SOVIET JOINT VENTURES BUT DOING BUSINESS WITH THE SOVIET UNION

1. How would you describe your firm's attitude toward doing business with the Soviet Union?

  71% 1. Very willing to do business with the Soviet Union.

  29% 2. Have minor reservation about doing business with the Soviet Union, but anxious to explore possibilities with the Soviet Union to become established in Soviet market.

  0% 3. Willing to explore, but have serious reservations about doing business with the Soviet Union.

  0% 4. Little interest in doing business with the Soviet Union.

  0% 5. No interest in doing business with the Soviet Union.

  100% Total N=172

2. Does your firm conduct business in the Soviet Union?

  100% Yes 0 No

  N=172

3. Has your firm entered into a joint venture agreement with a firm in the Soviet Union?

  0% Yes 100% No

  N=172

4. Is your firm currently in the process of negotiating a joint venture agreement in the Soviet Union?

  15% Yes 85% No

  N=172
5. What type of international business activity, other than joint ventures, does your firm primarily conduct in the USSR?

25% 1. International trade.
53% 2. Licensing agreements.
8% 3. Plant and equipment transfers.
10% 4. Subcontracting.
4% 5. Co-production.
0% 6. Other (please specify). No Responses.

100% Total N=172

6. I would like for your firm to rate the desirability of the Soviet Union as a foreign customer or business partner on a scale of 0 to 10. For example, if you rate the desirability of the Soviet Union as a foreign customer or business partner as average, give it a rating of 5. If you rate the desirability of the Soviet Union as a foreign customer or business partner as above average, give it a rating of 6 to 10. If you rate the Soviet Union as a foreign customer or business partner as below average, give it a rating from 0 to 4.

Average Rating 6.1

7. In order to compare the desirability of the Soviet Union as a foreign customer or business partner, please rate the desirability of the following countries as a foreign customer or business partner based on the same scale used in Question 6.

2.9 Brazil  6.3 Israel  4.3 South Africa
8.1 Canada  6.2 Italy  6.3 South Korea
4.0 Egypt  8.3 Japan  5.9 Spain
7.8 France  5.2 Mexico  5.0 Sweden
8.1 Britain  5.9 PRC  8.6 United States
3.2 Hungary  5.2 Poland  5.1 Venezuela
4.9 India  5.6 Saudi Arabia  8.4 West Germany

Scores Reflect Average Ratings for Survey
8. How important was each of the following factors in your firm's decision not to engage in a joint venture agreement in the Soviet Union?

<table>
<thead>
<tr>
<th>Factor</th>
<th>Very Important</th>
<th>Somewhat Important</th>
<th>Not Important</th>
<th>Not Sure</th>
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<tr>
<td>Soviet Political Climate</td>
<td>94%</td>
<td>6%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Marketing</td>
<td>21%</td>
<td>31%</td>
<td>48%</td>
<td>0%</td>
</tr>
<tr>
<td>Research and Development</td>
<td>55%</td>
<td>36%</td>
<td>9%</td>
<td>0%</td>
</tr>
<tr>
<td>Home Government Policies</td>
<td>24%</td>
<td>61%</td>
<td>15%</td>
<td>0%</td>
</tr>
<tr>
<td>Trade Barriers</td>
<td>10%</td>
<td>55%</td>
<td>35%</td>
<td>0%</td>
</tr>
<tr>
<td>Capital Investment</td>
<td>73%</td>
<td>25%</td>
<td>2%</td>
<td>0%</td>
</tr>
<tr>
<td>Labor</td>
<td>12%</td>
<td>37%</td>
<td>51%</td>
<td>0%</td>
</tr>
<tr>
<td>Production/Technology</td>
<td>76%</td>
<td>15%</td>
<td>9%</td>
<td>0%</td>
</tr>
<tr>
<td>Information</td>
<td>80%</td>
<td>18%</td>
<td>2%</td>
<td>0%</td>
</tr>
<tr>
<td>World Economy</td>
<td>19%</td>
<td>25%</td>
<td>40%</td>
<td>16%</td>
</tr>
<tr>
<td>Soviet Monopsony Power</td>
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<td>5%</td>
<td>92%</td>
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<td>50%</td>
<td>40%</td>
<td>10%</td>
<td>0%</td>
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<tr>
<td>Repatriation of Profits</td>
<td>57%</td>
<td>39%</td>
<td>4%</td>
<td>0%</td>
</tr>
<tr>
<td>Soviet Infrastructure</td>
<td>73%</td>
<td>25%</td>
<td>2%</td>
<td>0%</td>
</tr>
<tr>
<td>Soviet Financial Barriers</td>
<td>21%</td>
<td>60%</td>
<td>19%</td>
<td>0%</td>
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<tr>
<td>Lack of Agreement on Goals</td>
<td>53%</td>
<td>37%</td>
<td>10%</td>
<td>0%</td>
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<tr>
<td>Managerial Problems</td>
<td>15%</td>
<td>39%</td>
<td>37%</td>
<td>9%</td>
</tr>
<tr>
<td>Personnel Problems</td>
<td>20%</td>
<td>46%</td>
<td>22%</td>
<td>12%</td>
</tr>
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<td>Soviet Legal Barriers</td>
<td>63%</td>
<td>35%</td>
<td>2%</td>
<td>0%</td>
</tr>
<tr>
<td>Governance and Maintenance of Soviet Relationship</td>
<td>83%</td>
<td>16%</td>
<td>1%</td>
<td>0%</td>
</tr>
<tr>
<td>Other: No Responses (Please Specify)</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

N=172 For Each Factor
9. Does your firm's business activity with the Soviet Union require a marketing effort?

52% Yes  48% No

N=172

If you answered yes to Question 9 please answer Question 10. If you answered no to Question 9 please go to Question 11.

10. How much marketing effort is required to sell products or services in the Soviet Union?

48% 1. Much more than average foreign customer.

36% 2. Initial sales require more marketing effort, but repeat sales do not.

0% 3. Not sure.

10% 4. Level of required marketing is about the same.

6% 5. Less expensive than for most foreign customers.

100% Total N=89

11. How reliable are the Soviets in complying with contract agreements?

21% 1. Very reliable.

34% 2. Meets agreements, but exploits loopholes.

0% 3. Uncertain.

36% 4. Sometimes does not meet agreement.

9% 5. Never meets agreements.

100% Total N=172
12. In what area of industry does your firm primarily conduct business in the Soviet Union?

- **22%** 1. Chemical
- **35%** 6. Machinery/Heavy Industry
- **18%** 2. Energy (oil, gas, other)
- **8%** 3. Computer/
- **0%** 4. Food
- **0%** 5. Service (hotels, tourism, etc.)
- **0%** 8. Agriculture
- **2%** 9. Medical
- **0%** 10. Other (Please Specify):

Total N=172

13. In which Soviet Republic is does your firm primarily conduct business?

- **79%** 1. Russia
- **5%** 2. Estonia
- **4%** 3. Ukraine
- **3%** 4. Georgia
- **4%** 5. Lithuania
- **2%** 6. Belorussia
- **1%** 7. Armenia
- **0%** 8. Uzbekistan
- **0%** 9. Azerbaijan
- **0%** 10. Molvavia
- **2%** 11. Latvia
- **0%** 12. Kazakhstan
- **0%** 13. Kirghizia
- **0%** 14. Turkmenistan
- **0%** 15. Tazdzhikistan

Total N=172

14. To what market is the final products of your firm's business activity in the Soviet Union targeted?

- **56%** 1. Soviet domestic market.
- **15%** 2. Home domestic market.
- **29%** 3. World market.
- **0%** 4. Other (please specify). No Responses.

Total N=172
15. What is the estimated initial capital investment for your firm's business activity in the Soviet Union?

   _1%_ 1. Over $30 million  
   _2%_ 2. $20 - 29 million  
   _31%_ 3. $10 - 19 million  
   _22%_ 4. $1 - 9 million  
   _16%_ 5. $500,000 - 1 million  
   _23%_ 6. $100,000 - 500,000  
   _5%_ 7. Under $100,000  
   _100%_ 8. Total  N=172

16. What is the estimated annual operational costs for your firm's business activity in the Soviet Union?

   _1%_ 1. Over $30 million  
   _4%_ 2. $20 - 29 million  
   _9%_ 3. $10 - 19 million  
   _49%_ 4. $1 - 9 million  
   _19%_ 5. $500,000 - 1 million  
   _16%_ 6. $100,000 - 500,000  
   _2%_ 7. Under $100,000  
   _100%_ 8. Total  N=172
17. What is the estimated annual revenue for your firm's business activity in the Soviet Union?

- 0% 1. Over $30 million
- 3% 2. $20 - 29 million
- 39% 3. $10 - 19 million
- 30% 4. $1 - 9 million
- 23% 5. $500,000 - 1 million
- 4% 6. $100,000 - 500,000
- 0% 7. Under $100,000
- 100% 8. Total N=172

18. How does your firm plan to repatriate profits from its business activity in the Soviet Union?

- 72% 1. Barter arrangements.
- 28% 2. Trading goods from the joint venture on the international market.
- 0% 3. Hard currency auctions.
- 0% 4. Consortia.
- 0% 5. Other (please specify). No responses.
- 100% Total N=172

19. What type of technology is required for your firm's business activity in the Soviet Union?

- 67% 1. General purpose or standardized technology.
- 33% 2. Transaction-specific technology (see note).
- 100% Total N=172

NOTE: Transaction-specific technology is technology that is idiosyncratic to a particular business relationship, the loss of this relationship would result in significant excess capacity and other associated losses.
20. Of the following Western government policies, which has had or will have the most adverse effect on your firm's business activity in the Soviet Union?

- **25%** 1. Trade barriers (e.g., export and import controls).
- **13%** 2. Controls and legal restrictions on extending credit to the Soviet Union.
- **22%** 3. Failure to give the Soviet Union most favored nation (MFN) status.
- **40%** 4. Multilateral restrictions agreed upon by GATT and the OECD (e.g., anti-dumping and countervailing duty laws).
- **0%** 5. Other (please specify). No responses.

100% Total N=172

21. How would your firm describe the impact of Western governments' policy on your firm's decision not to engage in a Soviet joint venture?

- **45%** 1. Greatly limits.
- **37%** 2. Somewhat limits.
- **12%** 3. Somewhat promotes.
- **6%** 4. Greatly promotes.

100% Total N=172
22. The costs of information, including the supplying and the learning of the terms on which transactions are to be carried out (the rules of the game), are frequently associated with market exchange. Contracts and laws are the formal means by which firms and governments attempt to limit the strategic use of information and thereby reducing the costs of information. How would your firm describe the contractual agreement(s) with its Soviet business partner(s) in limiting the strategic use of information by all parties involved, thereby reducing the costs of information?

0% 1. Greatly limits and reduces the strategic use and costs of information.

30% 2. Somewhat limits and reduces the strategic use and costs of information.

0% 3. Uncertain.

55% 4. Somewhat ambiguous and provides minimal opportunity for the strategic use of information.

15% 5. Very ambiguous and substantially increases the opportunity for the strategic use of information.

100% Total N=172

23. What mechanism is provided for in your firm's contractual agreement(s) with its Soviet business partners to ensure the proper governance and maintenance of the business relationship?

0% 1. Arbitration.

18% 2. Direct negotiations between all parties of the joint venture agreement.

0% 3. Adjudication.

82% 4. Abrogation of the joint venture agreement if any of the contracting parties renege.

0% 5. Other (please specify). No responses.

100% Total N=172
24. How do you think the mechanism selected in Question 23 will effect the costs of maintaining and governing your firm's business activities in the Soviet Union, and the potential for opportunism and defection by all parties involved in the agreement?

0% 1. Greatly reduces the costs and the potential for opportunism and defection.

38% 2. Somewhat reduces the costs and the potential for opportunism and defection.

0% 3. Uncertain.

50% 4. Somewhat increases the costs and the potential for opportunism and defection.

12% 5. Greatly increases the costs and the potential for opportunism and defection.

100% Total N=172

25. In length of years, what is the average contract term of your firm's business activities in the Soviet Union?

10% 1. 10 years or more.

50% 2. 5 - 9 years.

38% 3. 1 - 4 years.

2% 4. Less than a year.

26. What were the biggest surprises or unanticipated costs of your firm's business activities in the Soviet Union?

Level of cooperation and willingness to work exhibited by Soviet co-workers.

27. If your firm had the opportunity to do it all again, what would your firm do differently as it negotiated and engaged in business activities in the Soviet Union?

Seek greater control over business activity.
28. What aspect of Soviet policy would have to change to make your firm reconsider its decision not to engage in a joint venture agreement in the Soviet Union?

- 30% 1. Convertible ruble.
- 25% 2. Implementation of market economy in USSR.
- 11% 3. Increased economic efficiency and improvement in the quality of Soviet products and services.
- 3% 4. Improved business hospitality in the Soviet Union (e.g., better hotels, services, entertainment).
- 6% 5. More political reform.
- 22% 7. Other (please specify).

100% Total N=172

29. Which of the following Western government policies had the most impact on your firm's decision not to engage in a joint venture project in the Soviet Union?

- 35% 1. Trade barriers (e.g., export and import controls).
- 15% 2. Controls and legal restrictions on extending credit to the Soviet Union.
- 21% 3. Failure to give the Soviet Union most favored nation (MFN) status.
- 29% 4. Multilateral restrictions agreed upon by GATT and the OECD (e.g., anti-dumping and countervailing duty laws).
- 0% 5. Other (please specify).

100% Total N=172
30. Which of the following Western government policies would most definitely have to change to make your firm reconsider its decision not to engage in a joint venture project in the Soviet Union?

35% 1. Trade barriers (e.g., export and import controls).

15% 2. Controls and legal restrictions on extending credit to the Soviet Union.

21% 3. Failure to give the Soviet Union most favored nation (MFN) status.

29% 4. Multilateral restrictions agreed upon by GATT and the OECD (e.g., anti-dumping and countervailing duty laws).

0% 5. Other (please specify). No responses.

100% Total N=172

31. What factor do you think would contribute significantly to the Soviet Union becoming a major actor in the world economy?

34% 1. Convertible ruble.

46% 2. Implementation of market economy in USSR.

13% 3. Increased economic efficiency and improvement in the quality of Soviet products and services.

7% 4. Stable political climate.

0% 5. Other (please specify) No responses.

100% Total N=172

32. How would your firm describe the current political climate in the Soviet Union?

26% 1. Very stable.

14% 2. Somewhat stable.

30% 3. Somewhat unstable.

30% 4. Very unstable.

100% Total N=172
33. How would your firm describe the impact of Soviet government policy on your firm's decision not to engage in a joint venture?

27% 1. Greatly limits.

45% 2. Somewhat limits.

19% 3. Somewhat promotes.

9% 4. Greatly promotes.

100% Total N=172

34. Of the following events, which one would have to occur and negatively alter the Soviet political climate in order for your firm to end all business relations with the Soviet Union?

4% 1. Secession of the Soviet Republics.

16% 2. The ouster of Mikhail Gorbachev as President.

80% 3. Civil War in the Soviet Union.

0% 4. Economic depression.

0% 5. Other (please specify). No responses.

100% Total N=172

35. Please provide any comments about doing business with the Soviet Union or this survey you think might be helpful:

No responses.
36. General Information:

Name and title of person answering survey:
Name_____________________ Title_________________

Company Address:


Phone Number:____________

THANK YOU FOR YOUR ASSISTANCE WITH THIS SURVEY. ALL INFORMATION AND SPECIFIC IDENTIFYING INFORMATION IS CONFIDENTIAL AND WILL NOT BE MADE PUBLIC.
APPENDIX 3
MULTIVARIATE REGRESSION OF SOVIET JOINT VENTURE MODEL

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Coefficient</th>
<th>S.E.</th>
<th>T-Score</th>
</tr>
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<tr>
<td>CONSTANT</td>
<td>.41</td>
<td>.08</td>
<td>5.063</td>
</tr>
<tr>
<td>TAC</td>
<td>.08</td>
<td>.05</td>
<td>1.755*</td>
</tr>
<tr>
<td>INTBUS</td>
<td>-.21</td>
<td>.06</td>
<td>-3.633**</td>
</tr>
<tr>
<td>WESTPOL</td>
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<td>F-Value</td>
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<td>4.756**</td>
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<td>Number of Cases</td>
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</table>

*P< Significant at .10 level
**P< Significant at .05 level

In order to assess the positive and negative signs of the coefficients in the logistic analysis of the Soviet joint venture model a multivariate regression analysis was run. The results were similar with the coefficients for TAC and WESTPOL being positive, while the coefficients for INTBUS, SOVPOL, and SOP were negative. The overall model was statistically significant with a F-value of 4.756 (prob. = .0003). In addition, like the logistic analysis, TAC and INTBUS were the only significant variables in the model. However, the key fact is that the Soviet joint venture model does help explain cooperation in the liberalization of Soviet-Western political economy.
VITA

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  Liberalization of Soviet-Western Trade:
  A Transaction-Cost Analysis of Soviet
  Joint Ventures with the West

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  Area: International Trade and Finance

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Middle Eastern Politics
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Approved:

[Signature]
Major Professor and Chairman

[Signature]
Dean of the Graduate School

EXAMINING COMMITTEE:

[Signature]
Co-Chair

[Signature]
[Signature]
[Signature]

Date of Examination: July 8, 1991