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Exploring Foreign Direct Investments and engagements of socialist Multinational Enterprises: A case study of Skoda works in the 1970s and 1980s

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EXPLORING FOREIGN DIRECT INVESTMENTS AND ENGAGEMENTS OF SOCIALIST MULTINATIONAL ENTERPRISES: A CASE STUDY OF SKODA WORKS IN THE 1970s AND 1980s

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IES Working Paper 27/2024

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Exploring Foreign Direct Investments and Engagements of Socialist Multinational Enterprises: A Case Study of Skoda Works in the 1970s and 1980s

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Abstract:

This paper explores foreign engagements of socialist enterprises in non-socialist countries during the late stage of socialism in Central Europe. It shows that, contrary to popular belief, phenomena such as Foreign Direct Investment (FDI) and Multinational Enterprises (MNEs) were relevant in the context of former socialist countries. Using Škoda Works as a case study and drawing upon previously unused archival data, this paper outlines an alternative model of international expansion of firms that prioritizes securing future export markets over the typical capitalist focus on equity and profit. This paper also highlights country-level differences of Skoda Works' activities, the bonuses tied to export quotas and profit targets incentivizing managers to pursue foreign activities, or the considerable autonomy of the enterprise in its foreign operations despite the overarching control of the socialist state, which influenced its activities through high-level bilateral agreements, financing, and foreign exchange targets. By employing the approach of a detailed case study placed within the broader context of the era and the region, the paper contributes to a more comprehensive and nuanced understanding of the subject and it enriches the predominantly Hungary and Poland-focused literature with insights from Czechoslovakia. Additionally, the paper contributes to the ongoing critical debate on the challenges and impacts associated with the operations of international businesses and offers valuable perspectives for future research in this area.

JEL: F23, N74, N84, P31

Keywords: International Business under Socialism, Foreign Direct Investment (FDI), Socialist Multinational Enterprises (MNEs), Socialist Central Europe, Non-equity Foreign Operations, Skoda Works

1. Introduction

For their importance in shaping the economies of the countries in Central Europe, Foreign Direct Investment (FDI) ² and Multinational Enterprises (MNEs) have been intensely studied from various perspectives by scholars in the region. However, when it comes to understanding their historical developments in the region, one has to notice certain gaps in literature and the presence of a somewhat black-and-white understanding of FDI and MNEs before and after the fall of communism in 1989.

Yet, research on socialist MNEs and their foreign engagements holds great promise for advancing our general understanding of the tension between the state and international business activities – a highly topical critical subject. Socialist enterprises were no strangers to FDI and other forms of engagement with entities in capitalist and neutral countries. Driven by the need for foreign exchange and technological advancements, socialist states of Central Europe were gradually issuing legislation supporting various activities of their enterprises in non-socialist countries as well as activities of foreign enterprises within the borders of socialist countries many years before the revolutionary year of 1989.

Existing literature on foreign activities of Central European socialist enterprises focuses predominantly on Hungary and Poland, while Czechoslovakia remains rather poorly mapped. Some studies of FDI and MNEs in Czechoslovakia have been conducted with focus on the pre-WWII era, most notably by Teichová (1994). Subsequently, a more than 40-year-long break follows with very few fragmented notes about the existence and specifics of FDI and MNEs in socialist Czechoslovakia (e.g. in Prucha, 2009, pp. 846–873), after which the subject of FDI and MNEs regains the attention of scholars alongside the massive inflow of FDI into the country starting in the early 1990s.

This paper presents a nuanced story of FDI and MNEs in socialist Czechoslovakia. Besides helping to fill the geographical gap in literature, the contribution of this paper lies in its approach of a detailed case study – an uncommon one in this area of study – which is placed in a broader theoretical context as well as political and economic background. As such, it helps to achieve a more comprehensive and nuanced understanding of FDI and MNEs during late socialism in Central Europe.

The following Chapter 2 discusses the theoretical context of the era and the region, explaining how and why these phenomena developed in socialist Central Europe by drawing upon existing literature. The subsequent Chapter 3 presents the case study of Skoda Works. The case study uses primary archival

²FDI can be defined as a substantial lasting interest of an entity in assets in a foreign country over which the entity possesses a high degree of control. The types of FDI include establishment of joint ventures abroad, substantial investments into existing foreign companies (10% of shares is currently considered a threshold differentiating FDI from simple portfolio investments), and constructing, purchasing or leasing facilities in a foreign country (such as a sales office or a production facility).

data concerning the key Czechoslovak state-holding Skoda Works. It presents specific examples of Skoda Works' foreign engagements in countries outside of the Eastern Bloc during the socialist era, mainly in the 1970s and 1980s.

Skoda Works (the industrial conglomerate, not the car manufacturer), a flagship Czechoslovak state holding, was selected for its size and importance in the then economy, its active international presence providing fruitful grounds for research, and the accessibility of its corporate archive. Unfortunately, the archive is not digitized or indexed which increased the difficulty of the research. In the end, 46 relevant files with hundreds of pages, consisting of financial records, letters, project descriptions, official company statements, or business travel records were identified and studied in order to answer the following four research questions: What forms of engagements with entities from capitalist and neutral countries did Skoda Works take beyond merely foreign trade? Did the forms of Skoda Works' engagement systematically differ for projects in Western countries and the countries of Latin America, Africa, Asia or the Middle East? To what extent was the company autonomous in initiating and implementing these engagements? How were the key company representatives motivated to pursue these engagements?

An initial intuitive hypothesis was that socialist enterprises, such as Skoda Works in the 1970s and 1980s, are vastly different from their capitalist counterparts while in fact, the study shows that they have much in common and can be viewed rather as alternative models of enterprises' international expansion – the capitalist one primarily focusing on equity and profits and the socialist one prioritizing securing markets for its future export.

2. Context of Existence of MNEs and FDI in Socialist Central Europe

Before diving into the details of Skoda Works' foreign engagements, a key general question *"How and why could MNEs and FDI exist in a socialist Central Europe?"* will be addressed in this chapter. The goal is to build a theoretical understanding of the subject as well as to place the case study of Skoda Works into a broader context of the era and the region. The first part of this chapter briefly discusses the concepts of private ownership and enterprises in socialism. The second part presents specific forms of engagement with non-socialist countries and the motivations of socialist states to promote them. The chapter concludes with a brief outline of related legislation.

2.1. Enterprises and Private Ownership in Socialism

However surprising it may sound, enterprises from the Eastern Bloc, whether they were entirely state-owned or private, actively operated in non-socialist markets, in both capitalist and neutral countries. *"Despite their origins and even their self-professed claims (in particular to be nonimperialistic and nonex-*

ploitative), there is precious little to distinguish a COMECON³ multinational from the more familiar western-spawned variety” (Katz, 1988). It wasn’t limited to activities enabled thanks to a “*blind eye of the state*,” socialist states often proactively issued legislation allowing and even supporting the foreign activities of their enterprises or attempting to attract capitalist FDI into their economies (Svetličič, Artisien and Rojec, 1993, p. 4).

The fact that *international private property* or even simply *private property* was in rather sharp conflict with communist principles does not mean that international capitalist-style engagements, including FDI, were not happening. As Kornai (1992, pp. 409–512) summarizes in his analysis of socialist systems, the *reform phase* of socialism, which is the third and final stage of socialism according to Kornai, could be a system full of paradoxes. In most socialist countries, the reform phase was usually characterized by generally more freedom and greater openness (as demonstrated, e.g. by Gorbachev’s initiatives Glasnost and Perestroika). It also, however, was often plagued by various dilemmas and inconsistencies. In the context of the Eastern Bloc in the 1970s and 1980s, the question of private ownership was one such friction area. Private businesses were gradually rising in some socialist countries (esp. in Poland or Hungary). The state was usually not actively hampering their operations, but at the same time, it continued to claim, in line with the core communist principles, that private property is unacceptable or at least inferior to public ownership. “*It [frictions around the existence of private ownership] is one of the most agonizing and sensitive ideological dilemmas of the reform process. It is no small tactical detail, but as Engels rightly underlined, one of the main demands of the Communists and a cornerstone of the ideology.*” In the reform phase of socialism, private and public firms had a higher degree of freedom in decision-making than in the earlier phases, but they still operated under the state’s indirect yet omnipresent power (Kornai, 1992, p. 445).

2.2. Motivations and Forms of Foreign Engagements

“*Capitalist-style operations*” with foreign entities, including outward and inward FDI, can exist under socialism in its reform phase, and historically speaking, they did. The evolving benevolence of socialist states towards the greater presence of their enterprises in non-socialist markets was driven especially by the need for establishing and sustaining markets for exports and for shrinking the technological gap between the East and the West. The technological gap and Eastern Bloc isolation were impairing the possibility of the countries moving from the export of raw materials or semi-finished goods toward the export of marketable final products of high value. The urgency to sustain and increase exports was driven by the need for foreign exchange and for smoothing the

³The Council for Mutual Economic Assistance, led by the Soviet Union, was composed of the member countries of the Eastern Bloc and other socialist states (Albania, Bulgaria, Cuba, Czechoslovakia, East Germany, Hungary, Mongolia, Poland, Romania, Soviet Union and Vietnam) as well as multiple associate and observing countries.

balance of payments. Among socialist Central European countries, this factor was especially important in Hungary which had been in a massive deficit of balance of payments since the mid-1970s (Pogány, 2009, pp. 142–160; Adam, 1987, pp. 611–626). Finally, the heavy debt burden of Hungary and Poland, which had accumulated since the 1970s and which was partly caused by extensive but mostly unsuccessful investments into obtaining Western technologies through licenses or otherwise, led to a paradoxical outcome: socialist companies were pressured by stern economic reality to trade preferably with the West instead of COMECON, leading to further disintegration of the Eastern Bloc (Lankes et al., 1999, p. 59; Prucha et al., 2009, p. 853). Last but not least, it should be noted that socialist states, with the blessing of the Soviets, sometimes promoted the activities of their enterprises in non-socialist markets for the purpose of obtaining intelligence for secret services. In the context of Central Europe, Hungary, under Kádár’s “*goulash socialism*,” most notably took on the role of a Trojan horse to the West (Borvendég, 2021b, pp. 7–14). As Zsuzsanna Borvendég shows in her detailed analysis (2021a, pp. 59–81), many of the people working at Hungarian foreign trade institutions and international joint ventures were linked in some shape or form to Hungarian state security or military intelligence and had ties with the Soviet Union.

The presence of Central European COMECON countries in non-socialist markets took different forms. Foreign trade, commonly intermediated by dedicated foreign trade companies, should be mentioned in the first place as the most basic form of foreign economic engagements. Second, as noted above, “*The central planners were no strangers to international capital markets*,” especially when it comes to borrowing. COMECON countries had been actively borrowing on the international markets, especially from the 1970s onward (Lankes et al., 1999, p. 59; Prucha et al., 2009, p. 853). Since around the 1960s, industrial cooperations and licensing with foreign firms became a promoted way of establishing linkages with non-socialist enterprises.⁴ At that time, legal limitations designed to safeguard the principles of state ownership restricted these cooperations to non-equity contractual forms of partnership, yet Western partners could still exercise some control over the use of their assets and allocation of resources during the life of the agreement. It is estimated that by 1980 there were roughly 2,600 industrial cooperation agreements with Western firms in European COMECON countries (Artisien and McMillan, 1993, pp. 37–38).

Higher forms of cooperation evolved relatively soon afterward. There are a few cases of outward FDI of COMECON countries (notably Poland) made in Western Europe as early as post-WWII. However, it only became noticeable around the year 1965 (Artisien and McMillan, 1993, p. 40). It is no coincidence that outward FDI was generally happening earlier and in greater volumes than inward FDI. Socialist enterprises were investing abroad at a much earlier stage

⁴Polski Fiat manufacturing cars since the 1960s under license agreements with the Italian Fiat company can be named here as quite a well-known example (Komornicka, 2024, pp. 126–147).

**Number and Geographical Distribution of Selected East European Companies
in the West, end of 1989***

Country	Czechoslovakia	Hungary	Poland	Total
Australia	1	2	4	7
Austria	2	33	12	47
Belgium	3	2	7	12
Canada	5	1	3	9
Denmark	1	1	1	3
FRG	17	32	26	75
Finland	1	1	1	3
France	6	5	8	19
Greece	0	4	2	6
Italy	10	7	2	19
Japan	0	3	2	5
Luxembourg	0	1	1	2
Netherlands	4	3	5	12
New Zealand	0	0	1	1
Norway	1	1	1	3
Portugal	0	1	0	1
Spain	3	3	4	10
Sweden	4	2	6	12
Switzerland	2	7	5	14
United Kingdom	11	16	16	43
United States	4	9	16	29
Total	75	134	123	

* Directly and indirectly owned by Eastern parent organisations.

Figure 1: Number and Geographical Distribution of Selected East European Companies in the West, end of 1989 (Source: East-West Project, Carleton University, Ottawa, Canada; taken from Artisien and McMillan, 1993)

than accepting FDI since outward FDI did not conflict with the ideology quite as much and was less restricted by it than inward FDI. *“A widespread form of activities abroad was creating affiliations and mixed businesses by Czechoslovak ventures in OECD countries. In the middle of 1970s, there were about fifty ventures active outside the Czechoslovak border”* (Hallon and Londák, 2009, p. 239). Socialist Poland, Hungary and Czechoslovakia invested primarily in West Germany, the UK, Italy and Austria (see Figure 1) and they focused predominantly on trading, financial services or the representation of parent companies in foreign markets (see Figure 2).

Interestingly, there were very few examples of *“East-East”* joint ventures (i.e. joint ventures within the Eastern Bloc). *“Their development encountered several obstacles, including strong centripetal tendencies from the ex-Soviet Union, which often insisted on ‘Soviet-centered’ joint ventures, as well as the traditional problem of rouble convertibility”* (Gutman, 1993, p. 57).

Establishing joint ventures and subsidiaries in non-socialist countries was fulfilling various objectives on the macro level, such as establishing and maintaining markets for export from the home country, obtaining technology, securing hard currency and smoothing the balance of payments. The goal of obtaining intelligence and funding for state security or military intelligence should be mentioned here as well as one of the states’ objectives with regard to the promotion

Distribution by Activity of selected East European Companies in the West, end of 1989*				
Activity	Czechoslovakia	Hungary	Poland	Total
GROUP A				
Representation	5	7	24	36
Trading	51	76	66	193
Trading/distribution	5	8	9	22
Trading/servicing	17	0	6	23
Trading/product mod.	0	0	1	1
Total	78	91	106	
GROUP B				
Financial services	5	12	29	46
Transport services	3	6	19	28
Eng./const. services	1	7	4	12
Technical services	0	2	2	4
Business services	0	11	4	15
Consumer services	2	11	7	20
Total	11	49	65	
GROUP C				
Fisheries	0	1	1	2
Resource extraction	1	1	0	2
Total	1	2	1	
GROUP D				
Manufacturing	3	16	2	21
Total	3	16	2	

* For companies which engage in multiple activities, each activity is counted separately.

Figure 2: Distribution by Activity of Selected East European Companies in the West, end of 1989 (Source: East-West Project, Carleton University, Ottawa, Canada; taken from Artisien and McMillan, 1993); *Note: FRG stands for the Federal Republic of Germany, i.e. West Germany*

of outward FDI. From the companies' point of view, FDI was working, among other things, as a substitution for foreign trade transactions, allowing companies to avoid existing restrictions in foreign exchange and foreign trade (Svetličič, Artisien and Rojec, 1993, p.13). Outward FDI from socialist countries was, however, often hindered by a lack of foreign exchange and managerial limitations (Artisien and McMillan, 1993, p. 48). When speaking of outward FDI of socialist enterprises, one has to also stress the differences between the parent entity and the foreign subsidiary. The subsidiaries, relatively out of direct sight of the socialist state, were operating within different economic environments, to which they had to adjust in order to thrive. In other words, the subsidiaries operating in capitalist markets had to adjust to the capitalist rules of the game, otherwise, they would risk failure (Katz, 1988). However, despite the relatively high degree of freedom of the subsidiaries, the goals imposed on parent enterprises by Eastern planners were still reflected in the subsidiaries' operations, e.g. they were forced to maximize sales rather than profits in order to fulfil export targets of the parent company dictated by foreign trade organizations or by the state (Artisien and McMillan, 1993, p. 49).

Gradually, as the need for the inflow of capital and Western technology increased, socialist Central European countries started introducing policies and

legislation which were supposed to attract inward FDI. Hungary was a pioneer among the European COMECON countries, initiating some efforts in this sense from the later 1970s but more significantly in the 1980s. As the country's indebtedness and balance of payments deficit were deepening (resulting in the need to be often selective in obtaining Western licenses and in imports) hand in hand with technological outdatedness and a limited ability to export marketable products of high value, Hungary searched for ways to obtain capital and advance its technologies and production without increasing its indebtedness (Pogány, 2009, pp. 149–158; Adam, 1987, pp. 611–626). Inward FDI appeared as an optimal way forward and respective legislation was put in place during the 1980s. Hungary also had its “*offshore bank*,” Central European International Bank (est. 1979), in which Western shareholders held a majority of the shares and whose purpose was to finance exports, lease financing and promote joint ventures with foreign capital in Hungary (Pogány, 2009, p. 158; Lewis, 1981). However, the desired effects were not achieved in Hungary. The country's inward FDI remained insignificant and was directed mostly toward tourism instead of bringing the desired improvements in manufacturing (Pogány, 2009, pp. 155–158).

Last but not least, there was also a security aspect driving the increased openness of the socialist Central Europe towards inward FDI since some technologies needed to be managed directly by locals in the host country instead of being purchased in the form of a license or otherwise.⁵

2.3. Legislation

The legislation allowing inward FDI was rather cautious at first. For example, the initial legislation in Poland from 1976 allowed the establishment of foreign joint ventures in Poland only to foreign citizens of Polish origin (these became known as “*Polonia*” firms). This constraint was lifted in 1979 but several other critical constraints remained in place, including the 49% limit of foreign equity, the mandatory selling of 15%–25% of hard currency earnings to a Polish foreign exchange bank, the requirement that top management positions could only be occupied by Polish citizens or restrictions on the repatriation of profits. Between 1987 and 1989, many of these constraints were gradually eased up to a level where foreigners could occupy the top management positions, foreign equity could reach 100%, repatriation of all hard currency profits plus a portion of profits from domestic sales was allowed without further constraints and foreign joint ventures, in addition, obtained various tax incentives such as 3–6 year tax holidays (Bochniarz, Jermakowicz, 1993, pp. 123–132; Hany, 1995). As noted above, Hungary was a pioneer in this area and started the process of opening

⁵A good example is Sicontract, a joint venture of Siemens AG in Hungary. “*Accomplishing the cooperation with Siemens was important not just because this was the best way to ensure the most modern technology developed by the German company made it into the country (when conducting simple trading deals, there was a better chance of phased-out products being given to the Hungarians), but also because it meant that Hungarian engineers, local specialists trained by the manufacturer, carried out the servicing of Siemens computers used by institutions in areas that state security considered sensitive*” (Borvendég, 2021a, p. 72).

up to inward FDI even earlier than Poland, while Czechoslovakia, on the other hand, started the process with a rather significant delay. The legislation in Czechoslovakia supported inward FDI from 1985 and gradually lifted its initial constraints until it allowed a majority FDI regime in 1988 (Gutman, 1993, pp. 61–63). Yet, as Hallon and Londák (2009, p. 239) point out, this legislation was preceded by legislation from 1980 allowing the establishment of representative offices of foreign companies and banks in Czechoslovakia introduced in the hope of overcoming the danger of technological underdevelopment.

Considering this relatively slow adoption of legislation in Czechoslovakia, it should be kept in mind that Czechoslovakia was in a slightly different political mindset than Poland and Hungary. As Dolezalova (2022) points out, the reform ideals of the 1980s represented by Gorbachev’s perestroika likely reminded the Czechoslovak government of the “*Prague Spring reformists’ fantasies*,” and the willingness of the government (which had been in power since the Prague Spring’s violent suppression precisely for the reason that they were openly against its ideals) to promote reforms was rather low. Yet, the fact that the Czechoslovak government was not officially proclaiming things like openness to private capital and foreign investments does not necessarily mean it was not happening. There is a difference between what is officially proclaimed and what is pragmatically done to fulfil the state’s economic needs, and as discussed above, there is also a difference in the approach of socialist states towards inward and outward FDI. Czechoslovakian shares in phosphate projects in Morocco as well as the British company King’s Lynn, or multiple Skoda Works joint ventures can be named here as examples (Prucha et al., 2009, pp. 846–873).

3. Case Study: Skoda Works

The following chapter is divided into three parts. The first part outlines methods and objectives of the case study. The second part presents findings related to the forms of Skoda Works’ foreign engagements and discusses differences between the engagements with Western entities and with entities from the countries of Latin America, Asia, Africa and the Middle East. Two examples of foreign engagements, namely the water turbines project in Argentina and extensive projects in India, are presented in more detail in order to better illustrate the general findings. The third part focuses on insights about Skoda Works’ autonomy in initiating and implementing its activities in non-socialist countries and briefly discusses its incentives to pursue them.

3.1. Methods and Objectives

The research uses standard methods of economic and business history – a case study that allows us to understand the foreign operations of the selected socialist enterprise, Skoda Works, in the full picture. Skoda Works was selected for multiple reasons: its size and importance within the Czechoslovak socialist economy, its numerous activities in foreign markets, and the accessibility of its corporate archives.

The case study aims to answer the following questions: What forms of engagements with entities from capitalist and neutral countries did Skoda Works take beyond merely foreign trade? Did the forms of Skoda Works' engagement systematically differ for projects in Western countries and the countries of Latin America, Africa, Asia or the Middle East? To what extent was the company autonomous in initiating and implementing these engagements? How were the key company's representatives motivated to pursue these engagements?

The Skoda Works archive in Klaster u Nepomuku provides a rich depository of the archival material of the company. This research focuses specifically on the socialist era, primarily its last two decades (1970s and 1980s). Unfortunately, the archive is not digitized and there is no digital or paper-form list of available archival materials. Instead, it was necessary to start with the organization of the available material by exploring card indexes where each paper card represented a single archival document. The following indexes were explored: The Directorate (*"Ředitelství"*), The Economic Assistant Director and Planning (*"Ekonomický náměstek a plánování"*), Foreign Business Trips by Country (*"Služební cesty do zahraničí podle země"*) and Manufacturing Division (*"Výrobní úsek"*). A special emphasis was placed on business- and economic-relevant records while purely technical records were only briefly noted but not further examined. This initial exploration helped to select the potentially most insightful 46 files with hundreds of pages, consisting of financial records, letters, project descriptions, official company statements, or business travel records. All potentially relevant records were subsequently studied in detail and photographed for future reference. Some material provided a rather broader context on the Skoda Works foreign activities while other documents revealed details of specific cooperations and projects. For these, variables such as countries involved, name of the partner(s), year and type of cooperation were studied.

Some archival records (such as official yearbooks or announcements) need to be taken with a grain of salt considering the then propaganda, but most of the records can be considered accurate and truthful given their straightforward nature focused on solving various managerial and technical issues. Scranton (2019) even underscores the fruitfulness of this kind of reliable *"raw material"* for research about the socialist era.

3.2. *Forms of Engagements and Country-Level Differences*

The amount of Skoda Works' travel reports to non-socialist countries suggests that the relationships of Skoda Works with non-socialist countries were indeed rich. The travel reports describe various travels to visit partners, clients, international conferences or training in countries all across the world. ⁶ Cooperation

⁶Records of contact (related to trade and other foreign engagements during the socialist era) with the following countries outside of the Eastern Bloc were found: Algeria, Argentina, Australia, Austria, Bangladesh, Belgium, Brazil, Canada, Chile, Denmark, Egypt, Finland, France, Greece, Iceland, India, Indonesia, Iraq, Iran, Ireland, Italy, Japan, Kuwait, Lebanon, Libya, Luxembourg, Morocco, Nigeria, Nepal, the Netherlands, Norway, Pakistan, Peru, the

of Skoda Works with companies from outside of the Eastern Bloc took various forms. The companies were either local distributors for Skoda Works' products, direct customers of Skoda Works (sometimes with a mutual trade requirement, "*protiobměr*" in Czech), partners in international consortia bidding for various public tenders, users of Skoda Works licenses or joint venture partners for projects in third markets. The foreign trade company ("*podnik zahraničního obchodu*" in Czech) Skodaexport, or to a lesser extent Strojimport or Pragoinvest, represented a common intermediary in Skoda Works' foreign activities (SOA v Plzni, Archiv Škoda, ZVIL-2221, K1723). Besides these, Skoda Works was also represented in host countries through its multiple affiliated entities such as Skoda India Pvt. Ltd. (established in 1930), Skoda Platense in Buenos Aires (established in 1936 as Skoda Works' subsidiary),⁷ Skoda do Brasil Ltda. (established in 1971), Industry Skoda in Nigeria or Irano Skoda in Teheran (established in 1933 as Skoda Works' subsidiary)⁸ (SOA v Plzni, Archiv Škoda, ZVIL-2221, K-1723; Valentova, 2015). The most common products and services that Skoda Works was offering in different forms on the foreign markets during the 1970s and 1980s included constructing and maintaining different types of power plants and their components, manufacturing facilities for semi-finished goods and other industrial facilities, or for example fleets of vehicles for public transportation.

The study of individual Skoda Works projects abroad leads to a decisive conclusion that Skoda Works was not involved in outward FDI in the sense of establishing extensive production facilities abroad with entitlement to the factory's future profits and control over it. Instead, it was focused on establishing and maintaining relationships with various affiliated foreign companies with the promise of increasing and sustaining exports to the given region. Specifically speaking, when Skoda Works was building a new factory or a power plant in a foreign country, that country's government or state-owned enterprise was merely a customer, not a partner in a joint venture or a host country accepting FDI. The involved joint venture ("*smíšená společnost*") or consortium was related to the formation of multiple entities whose purpose was delivering joint products and services to such customers.

These entities were either Western companies seeking business or production cooperation. Such cooperation of Skoda Works with Western companies, e.g. from Austria, West Germany, Italy, Denmark or France, was not usually focused on the country of the partner's origin. Instead, the goal was to jointly enter third

Philippines, Portugal, SAR, Spain, Sudan, Syria, Sweden, Switzerland, Turkey, UAE, UK, USA, Venezuela and West Germany.

⁷Skoda Platense was transferred in the post-WWII era under the administration of the foreign trade company KOVO.

⁸Irano Skoda was transferred in the post-WWII era under the administration of the foreign trade company Transakta. From then on, Skoda Works used Irano Skoda only as an intermediary in some projects in the region but, unlike in the case of Skoda do Brasil or Skoda India, it did not have a direct link to the company anymore (SOA v Plzni, Archiv Škoda, ZVIL-2221, K1719).

markets in Latin America, Asia, Africa or the Middle East,⁹ or in some cases to enter Eastern Bloc markets through Skoda Works¹⁰ (SOA v Plzni, Archiv Škoda, ZVIL-2172, B-2592; ZVIL-2221, K-1714; ZVIL-1711; ZVIL-1782, A1352). Usually, the partnering organization collaborated either in business operations or production where each of the partners was responsible for manufacturing a certain component of the final product according to its own production means. A slightly different form of suggested production cooperation can be noted when it comes to the Spanish company Idima from 1979, which wanted to manufacture Skoda Works' products according to Skoda Works' guidelines but instead of producing them under a license, it wanted Skoda Works to purchase the products and sell them in foreign markets (SOA v Plzni, Archiv Škoda, ZVIL-2172, B2572). This would be an example of a *platform FDI* where a company invests in another country in order to expand its production capacities while the products are then sold on third markets. Unfortunately, no further information on this case was found, hence its implementation cannot be confirmed.

Local enterprises from countries purchasing Skoda Works' products and services can be named as another group of partnering entities. Their close engagements with Skoda Works were sometimes requested directly by the customer in order to involve local industry in as early a stage of the project as possible. This was the case for projects in Latin America or India (SOA v Plzni, Archiv Škoda, ZVIL-2221, K1725; ZVIL-2221, K1713).

Last but not least, Skoda Works had affiliated entities from the pre-WWII era, such as Skoda Platense Buenos Aires or Skoda India, as well as newly formed ones, such as Skoda do Brasil, which was established in 1971. These entities, usually in cooperation with the dedicated foreign trade company Skodaexport and sometimes with additional local partners, functioned as platforms promoting Skoda Works' export to the respective countries and regions by providing local expertise, conducting market research and supporting the bureaucratic processes.

The noticeable difference between Skoda Works' engagements with Western countries and countries of Latin America, Asia, Africa and the Middle East was the fact that the cooperation with Western partners was mostly aimed at third countries while engagements with entities from Latin America, Asia, Africa and the Middle East were targeted at their respective home markets. That does not mean that Skoda Works was not exporting to Western countries. It was exporting to these countries as well, but the delivered products and services were rarely as extensive in scope¹¹ and as intense in cooperation as was often the case in Latin America, Asia, Africa and the Middle East. Usually, it was limited to the export of components, machines delivered to established facilities or purchases of licenses for a specific technology, while in other countries Skoda

⁹Cooperation with Austrian enterprise Voest Alpine on projects in Abu Dhabi can be named as an example (SOA v Plzni, Archiv Škoda, ZVIL-2172, B-2592; ZVIL-2271, B2347).

¹⁰For example the French company Alsthom wanting to enter the locomotive markets in the Soviet Union (SOA v Plzni, Archiv Škoda, ZVIL-1782, A1352).

¹¹Extensive exports to Finland can be named here as an exception.

Works was delivering whole power plants or factories (the whole investment units, “*kompletní investiční celky*” in Czech, as the company called it). Another observable difference is the fact that Skoda Works was delivering its services to Western countries through its own channels, usually through Skodaexport or with the support of local representative offices,¹² not through local partners. In countries of Latin America, Asia, Africa and the Middle East, on the other hand, cooperation with local partners as well as customers (usually governments or state-owned enterprises) was in general more intensive and focused on ambitious projects aimed at building local manufacturing and industrial capabilities or energetic self-sufficiency of the respective countries. Skoda Works was not only building the facilities and providing maintenance, but it was involving local partners, sharing its technological know-how by sending Czechoslovak experts to the foreign facilities, local educational centres and schools and by hosting foreign engineers in Skoda Works facilities in Czechoslovakia, as well as otherwise supporting the initial phases of the foreign facilities’ operations by e.g. helping to establish managerial practices and salary policies.

An example worth mentioning in more detail is certainly the build-up of water turbine factories in Argentina in the early 1970s. Skoda Works was promised by the Argentinian side to be assigned this extensive task without a need to bid in a public tender under the requirement that Czechoslovakia would be directly involved in Argentina’s industrial development. The subsequent agreements related to this project articulate points such as establishing a local joint venture, Skoda Works promising to integrate Argentine suppliers as much as possible into the development works, or Argentina agreeing to oblige by the technological norms of Skoda Works, which were basically creating foundations for a long-term connection to (or even dependency on) Czechoslovak import (SOA v Plzni, Archiv Škoda, ZVIL-1777, A-362; ZVIL-2964, 2-B; ZVIL-2964, 2-A). These agreements and requirements paint a picture of the FDI-seeking process as is common in the capitalist context, where a host country attempts to attract FDI through the channels of foreign MNEs in order to advance its industrial capacities and bring in an inflow of foreign capital. In the case of Skoda Works in Argentina, there are however two differences that need to be considered. First, despite the central role of Skoda Works in this story as a vehicle presumably bringing technological advancement into the host country (or FDI spillovers, to put it in economics terminology), these engagements were happening under the patronage of the governments on the highest political level, which may but also need not be present in the context of FDI between purely capitalist MNEs in a capitalist host country. Second and more importantly, despite establishing a local joint venture in Argentina and intensely engaging with the host country, it is not an FDI in the sense of investing vast amounts

¹²A good example is the representation office of Skoda Works in Paris, which was planned to become a relatively independent joint-stock company or a joint venture. However, it remains unconfirmed whether it did in the end (SOA v Plzni, Archiv Škoda, ZVIL-1782, A1384; ZVIL-1782, A1353; ZVIL-1782, A134).

of money into the development of the facilities for the purpose of obtaining future continuous profits from these facilities. Instead, the short-term goal of the Czechoslovak side is simply to get paid for the work and know-how provided to the host country, and the long-term goal is to secure future exports into the region of Latin America by establishing a strong presence in and relationships with the host country and its enterprises. The purpose of the joint venture is then to intermediate and smoothen the operations between Skoda Works and local entities, engage in business development activities in the region and secure lasting export to the region from Skoda Works' facilities in Czechoslovakia.

Activities of Skoda Works in India should be mentioned in more detail as well. Cooperation between Czechoslovakia and India was established on the highest political level thanks to bilateral cooperation agreements in the mid-1950s. In 1959, Czechoslovakia also provided India with 350 million Czechoslovak korunas as credit for industrial development and donated an additional 10 million to support the establishment of a new technological institute. From then on, Skoda Works had been active in India playing a pivotal role in the buildup of factories in Hyderabad, Tiruchirapalli and power plants in Hyderabad and Ranchi over the course of the 1960s-1980s. The projects were implemented in collaboration with Skodaexport and Skoda India as well as local enterprises, mainly BHEL, which was also interested in joint projects with Skoda Works in third markets, for example in Singapore. Besides the extensive construction work and commissioning of facilities which required Skoda Works workers to relocate to India for the duration of the projects, Skoda Works supported the local entities in ensuring the long-term financial rentability of the facilities, it shared its technical as well as managerial know-how, trained the local staff to gradually completely take over operations, but also participated in educating new generations of engineers through lecturing in various educational centres (SOA v Plzni, Archiv Škoda, ZVIL-2221, K1721; ZVIL-2221, K1713; ZVIL-1782, A1343; ZVIL-1782, 211/a; ZVIL-1782, 513/a; ZVIL-2271, B2314; ZVIL-1782, K62; ZVIL-2221, K1724).

3.3. The Enterprise's Autonomy and Incentives

The role of the state in Skoda Works' foreign activities was substantial. The state handled and decided upon important international projects on the highest political level, such as the extensive water turbine factories project in Argentina (as described above), as part of which the Czechoslovakian and Argentine ministers repeatedly met and signed bilateral agreements. There are also a few records of Skoda Works receiving subsidies, e.g. in the case of financial failure on a project in Abu Dhabi (SOA v Plzni, Archiv Škoda, ZVIL-2963, B3695). The state (resp. the state bank) was often also involved in extensive international projects as a creditor (SOA v Plzni, Archiv Škoda, ZVIL-1711). Except for high-level bilateral agreements between the states, the state's role in the provision of financing and the enforcement of alignment with the state plan (e.g. in terms of requirements on foreign exchange), the archival material indicates that Skoda Works was quite autonomous in initiating and implementing

its activities in the foreign markets – of course always within the limits of the then political environment of the post-1968 normalization era that required, for example, careful political checks of people in all key positions in the state enterprise and enforced adherence to guidelines when it came to the enterprise’s representatives travelling to capitalist countries (SOA v Plzni, Archiv Škoda, ZVIL-1652, HU444).

According to Adam (1987, pp. 611–626), the state and its planning still had a paramount role in the economy even in Hungary, which was undergoing significant reforms during the 1980s towards a greater autonomy of enterprises and expansion of private ownership. He claims that apart from various instruments for influencing enterprise decision-making directly, *“the authorities can use enterprises’ dependence on their benevolence (enterprises may need government loans, support in securing foreign exchange and construction capacity and, last but not least, subsidies, exemptions or reductions) in order to assert their wishes. [...] Formally, enterprises had the right to make decisions about investment. In practice their decision making was greatly limited by their dependence on bank credit. The bank did take into consideration the effectiveness of an investment, but it gave more weight to the extent to which the project was in line with the objectives of the plan.”*

In line with the literature on factors motivating socialist states to cooperate with non-socialist countries, it appears that foreign exchange (*“devizové prostředky”* in Czech) stands at the centre of Skoda Works’ activities in non-socialist markets. To give some specific examples, a guideline from 1984 states that *“preparation of the plans of export to non-socialist countries must be driven by the fact that this export is a prerequisite for releasing foreign exchange to cover for imports in 1985.”* Multiple letters from the Federal Ministry of Finance have requested confirmation from Skoda Works’ representatives to confirm the realistic outlooks for hard currency to be obtained in the foreseeable future and urged them to stick to the targets for foreign exchange. Various sales summary reports interestingly distinguish between two types of international trade, *“cooperative trade”* and trade connected with *“foreign exchange regulation;”* and strategic guidelines for export from 1980 declare that Skoda Works should prioritize delivery of its products and services to countries paying in hard currency over other countries (SOA v Plzni, Archiv Škoda, ZVIL-2221, K1699).

Since foreign economic activities and joint ventures were critical for the fulfilment of some of the state’s key economic objectives (as discussed in the first chapter), there was a need to create sufficient incentives for managers and directors of socialist enterprises to focus on activities in this regard. Bonuses dependent on fulfilling export quotas (to both socialist and non-socialist countries) or profit targets were one such measure. An interesting piece of information is the calculation of the yearly bonus for one of the Skoda Works’ directors from the summer of 1989, in which reaching the profits target had a coefficient of 2, export to socialist countries 1.2 and export to non-socialist countries 1.5 (SOA v Plzni, Archiv Škoda, ZVIL-2283, B-2617).

4. Conclusions

The study presented a nuanced and comprehensive story of FDI and MNEs, phenomena that – at least in Central Europe – tend to be connected exclusively with the post-communist era. Using the example of Skoda Works, this paper showed that these phenomena are also relevant in the socialist context, although with certain specificities compared to typical capitalist-style foreign operations – most notably when it comes to its non-equity nature, and it discussed the theoretical context as well as the political and economic background, explaining how and why they developed in socialist Central Europe.

To summarize, the paper aims to fill gaps in understanding the historical developments of FDI and MNEs within the context of socialist Central Europe. It contributes to existing literature by exploring this subject in the so-far rather poorly covered Czechoslovakia and by taking a “micro-level” case study approach grounded in the context of the era and the region, using primary archival data of a single enterprise. As such, it contributes to a more comprehensive and nuanced understanding of the operations of socialist enterprises in foreign markets. It also provides valuable insights for future research exploring how socialist governments navigated the complexities of taxation concerning international business activities or what the impacts of socialist MNEs’ foreign operations on host countries were.

The research showed that Skoda Works’ activities included various forms of foreign engagements such as licensing, joint ventures, and consortia. Unlike typical FDI nowadays, Skoda Works’ foreign activities were not equity-focused and did not attract inward FDI to Czechoslovakia. Skoda Works affiliates across the world – some of which were established as joint-stock companies before WWII and then transferred under the administration of Czechoslovak foreign trade companies, losing their original tight affiliation to Skoda Works, while others maintained direct connections with Skoda Works – played an intermediary supporting role in Skoda Works’ expansion to Brazil, Argentina, India, Iran, or Nigeria. The studied Skoda Works’ projects indicate that Skoda Works was expanding its international network of partnerships and joint projects primarily in order to create and expand markets for maintaining the export of Skoda Works products manufactured in Czechoslovakia.

The research also underscores the differences in Skoda Works’ interactions with Western countries compared to those in Latin America, Asia, Africa, and the Middle East. While partnerships with Western entities typically aimed at penetrating third markets, collaborations with non-Western countries concentrated on ambitious projects to develop local industrial capabilities and achieve energy self-sufficiency. Notable examples include large-scale projects in Argentina and India, where Skoda Works formed local joint ventures, integrated local suppliers, and offered extensive technological and managerial support to ensure sustained cooperation and reliance on Czechoslovak imports. Skoda Works operated with considerable autonomy despite the overarching control of the socialist state, which influenced its activities through high-level bilateral agreements, financing, and foreign exchange targets. Skoda Works’ managers were incentivized with

bonuses tied to export quotas – where export to non-socialist countries was at some point worth more than export to the Socialist Bloc – and profit targets, a rather new observation which has not been noted anywhere in the studied literature.

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6. Appendices

Appendix 1: Extracts from an official announcement to a Skoda Works' director regarding the bonuses policy (SOA v Plzni, Archiv Škoda, ZVIL-2283, B-2617).

Výměr
Upravující osobní hmotnou zainteresovanost v roce 1989
ředitele závodu Hutě s. Maška

V návaznosti na doporučení státního podniku a po pro-
jednání s PV RDH Vám stanovují podmínky osobní hmotné zainte-
resovanosti pro rok 1989 takto:

I.

Základní výše roční prémie

1. Za předpokladu dostatečného zdroje ve fondu odměn koncer-
nového podniku k 31. 12. 1989 a při splnění rozhodujících
ukazatelů:

- zisk
- doba obratu regulovaných zásob
- ztráty z vnějších vadných výrobků z objemu odbytu
- ztráty z vnitřních vadných výrobků z objemu VZ
- vývoz do SZ ve FCO (realizace)
- vývoz do NSZ ve FCO (realizace)
- plnění interních subdodávek

Vám bude vyplacena roční odměna odpovídající násobku skuteč-
ně vyplacených tarifních mezd v roce 1989 (dále jen výpočtová
základna) a základní sazby roční prémie ve výši 29 %.

Hlediska pro zvýšení roční odměny za komplexní hodnocení
hospodářské a řídicí činnosti ředitelů závodů

a) Hodnocení prováděné odbornými náměstky:

- technický náměstek
plán VIR
snížení nákladů
- výrobní náměstek
rovnoměrnost
řešení rozporů (výponoce, IS)
limit devizových prostředků
- ekonomický náměstek
přesčasová práce
plnění norem
sestavení plánu vč. bilancování
platební neschopnost a splátkování
celkové náklady
- obchodní náměstek
deklární rovnoměrnost
skluzy na HS
rozpory HS a výrob. zásobníku
- náměstek pro kádrovou a personální práci
využití kádrových rezerv
- investiční náměstek
uvolňování ZP
čistota a pořádek

b) Další hlediska hodnocení úspěšnosti řídicí činnosti pomocí matematických
metod

	váha ukazatele
zisk	2
UVV	1,5
výroba zboží	1,0
doba obratu zásob	1,2
vývoz do SZ	1,2
vývoz do NSZ	1,5
limit fakturace	1,0

- 2 -

2. Základní sazba roční prémie bude krácena v případě nesplnění
některého ze stanovených rozhodujících ukazatelů o poměrnou
část ukazatele (při pěti ukazatelích o 1/5), při nesplnění
ukazatele "zisk" o dalším průběhem za každé 1 % nesplnění
o 2 body až do výše 1/3 základní sazby.

3. V případě hlubšího neplnění rozhodujících ukazatelů může ře-
ditel k. p. rozhodnout o dalším krácení základní sazby pré-
mie, popř. prémie nepřiznat.

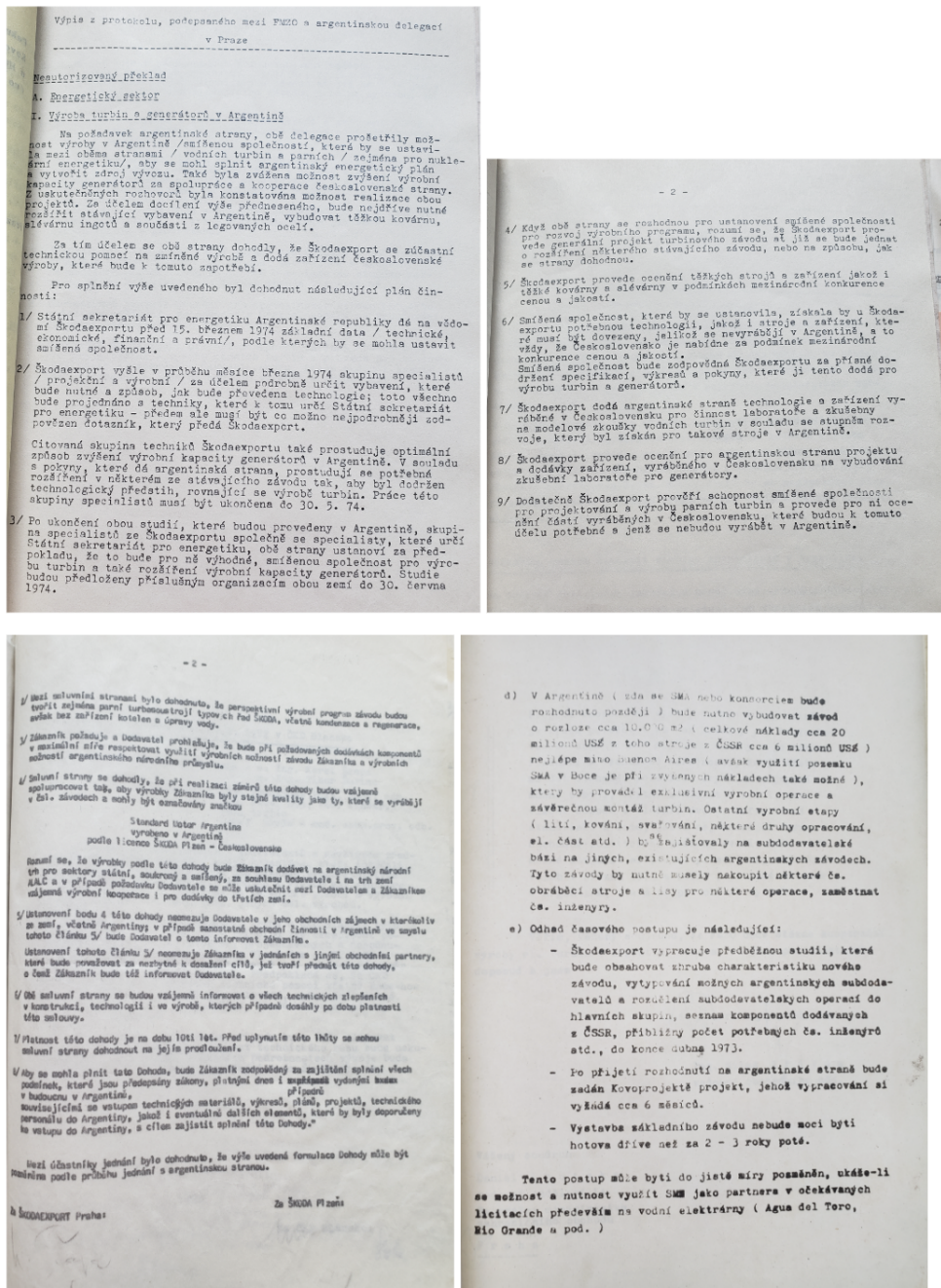
4. U ukazatelů uvedených v článku 5 podnikové směrnice č. 21/86
"Promitání ztrát způsobených nejakostní výrobou do hospodář-
ských výsledků" se od dosažené skutečnosti odečítá výše těch-
to ztrát do částky nepřesahující 2 % výkonů.

II.

Osobní hmotná zainteresovanost na konečných výsledcích hospodaření

V případě lepšího splnění než plánovaného výsledku v uka-
zateli bilanční zisk lze základní sazbu roční odměny zvýšit
po skončení roku až o 20 % výpočtově základny s přihlédnutím
ke splnění tohoto ukazatele, jeho dynamice a rentabilitě vý-
robních fondů.

Appendix 2: Extracts from documentation relating to the extensive project in Argentina (SOA v Plzni, Archiv Škoda, ZVIL-2964, 2-A and ZVIL-2964, 2-B).



Appendix 3: Extracts from a travel report in regards to the establishment of Skoda Works' presence in Paris from October 1967 (SOA v Plzni, Archiv Škoda, ZVIL-1777, HU-401).

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Úkoly, které byly pro cestu vytýčeny, byly zcela splněny. Po dohodě s vedoucím obchodního oddělení s. Vnoučkem je možno za předpokladu souhlasu MZO zřídit v Paříži počínaje lednem příštího roku kancelář VHM Škoda, jejíž činnost a vnější vztahy by se vyvíjely v několika etapách.

V první etapě se předpokládá jako nejúčelnější zřídit delegaturu, která bude působit pod hlavičkou obchodního oddělení, přičemž bude od obchodního oddělení místně oddělena a bude i hospodářsky samostatná (období afilace). Pro toto období platí zásady dohodnuté v záznamu s obchodním řádem s. Vnoučkem, který je uveden v příloze.

Pokud jde o umístění předpokládaném zejména pro první etapu je možno využít kladného stanoviska obchodního oddělení, které je ochotno pronajmout prostory v č.p.28 Avenue d'Eylau v 5. patře. Obchodní oddělení je vlastníkem těchto prostor, takže cena za pronájem je výhodnější nežli k tomu, že za postoupení nájemní smlouvy od soukromníka nebo od realitní kanceláře by bylo nutno zaplatit odstupné nejméně ve výši 500.000 franků.

Tyto prostory potřebují určité úpravy, které je možno provést na základě oboustranné dohody tak, že obchodní oddělení jako vlastník prostor zajistí potřebné devizové náklady na úpravu a diety řemeslníků. Z naší strany pak je požadováno vyslání jednoho po případě dvou řemeslníků pro provedení příslušných prací včetně drobnějšího materiálu, výhodněji nakoupeného v tuzemsku (barvy apod.). Úpravy místností by měly být provedeny do vánoc t. r. tak, aby činnost v kanceláři mohla být zahájena v lednu 1968. S kanceláří souvisí také bytové prostory pro vedoucí naší kanceláře.

Jako druhá etapa je předpokládáno osamostatnění kanceláře v působnosti obchodního oddělení. Forma tohoto osamostatnění např. smíšená společnost, samostatná odbočka, samostatná akciová společnost Škoda spol. nebyla dosud upřesněna, protože zvolení formy je velmi důležité a bude spočívat na podrobném a dlouhodobém prozkoumání situace, které může provést po několikaměsíčním pobytu vedoucí kanceláře a připravit potřebný návrh.

Zejména důležitá bude volba vhodných partnerů. Pokud by bylo rozhodnuto ustavit smíšenou společnost, obchodní rada s. Vnouček upozorňuje na nutnost, aby v případě budoucích úvah o smíšené společnosti bylo pamatováno na to, že rozhodující kapitálovou účast má mít VHM Škoda a nikoliv minoritní účast, jak je tomu v případě nedávno zřízené společnosti Strojimportu pod názvem Stimfrance.

Appendix 4: Extracts from a brochure summarizing outcomes of the sixth and plans for the seventh five-year plan (SOA v Plzni, Archiv Škoda, ZVIL-246, K-1910).



Appendix 5: Extracts from a summary of the director of Skoda do Brasil Ltda. (SOA v Plzni, Archiv Škoda, ZVIL-2221, K-1722).

tepelné elektrárny Jorge Lacerda III v Santa Catarině. V této výstavbě je již plněn požadavek brazilské strany na vzrůstající zapojení brazilského národního průmyslu do nových investic. U dalšího energetického bloku s výkonem 350 MW elektrárny Jorge Lacerda, na jehož kompletaci se ŠKODAEXPORT podílí zejména dodávkou generátoru značky ŠKODA, brazilská účast dosáhla 70%.

Tyto požadavky širšího zapojení v rámci mezinárodní dělby práce se zvyšující se účastí národního průmyslu vedly k nutnosti nových forem spolupráce brazilských i československých organizací. Znamená to přenos inženýringu a výrobní technologie, výrobu některých dílů podle společné výrobní dokumentace a úzkou projekční a prováděcí spolupráci se všemi konzorciálními partnery.

Proto byla v roce 1971 založena brazilská firma ŠKODA DO BRASIL Ltda., která si jako svůj cíl předsevzala zajišťování těchto nových forem spolupráce včetně projednávání rozdílů, vyplývajících z platných norem v Brazílii, z používání materiálů a z nutnosti vlastní koordinace investice jako celku. Další etapou činnosti ŠKODA DO BRASIL je zajištění operativních servisních služeb s případnou možností výroby náhradních dílů pro provozovaná československá zařízení podle československé technologie a československé dokumentace přímo v teritoriu svého působení.

I když hlavním oborem činnosti zůstávají i nadále dodávky pro brazilskou energetiku, sleduje ŠKODA DO BRASIL i možnosti uplatnění zařízení ostatních výrobních sektorů z československé socialistické republiky pro vývoz do Brazílie, jako například v sektoru dopravy, dolování a těžby, v chemickém a potravinářském průmyslu a podobně.

Každý nový kontrakt, který je podepsán na dodávky československého zařízení, se stává dalším důkazem o hodnocení vysoké úrovně československých strojů, neboť na brazilském trhu se dnes soustřeďuje světová konkurence všech rozhodujících výrobců.

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