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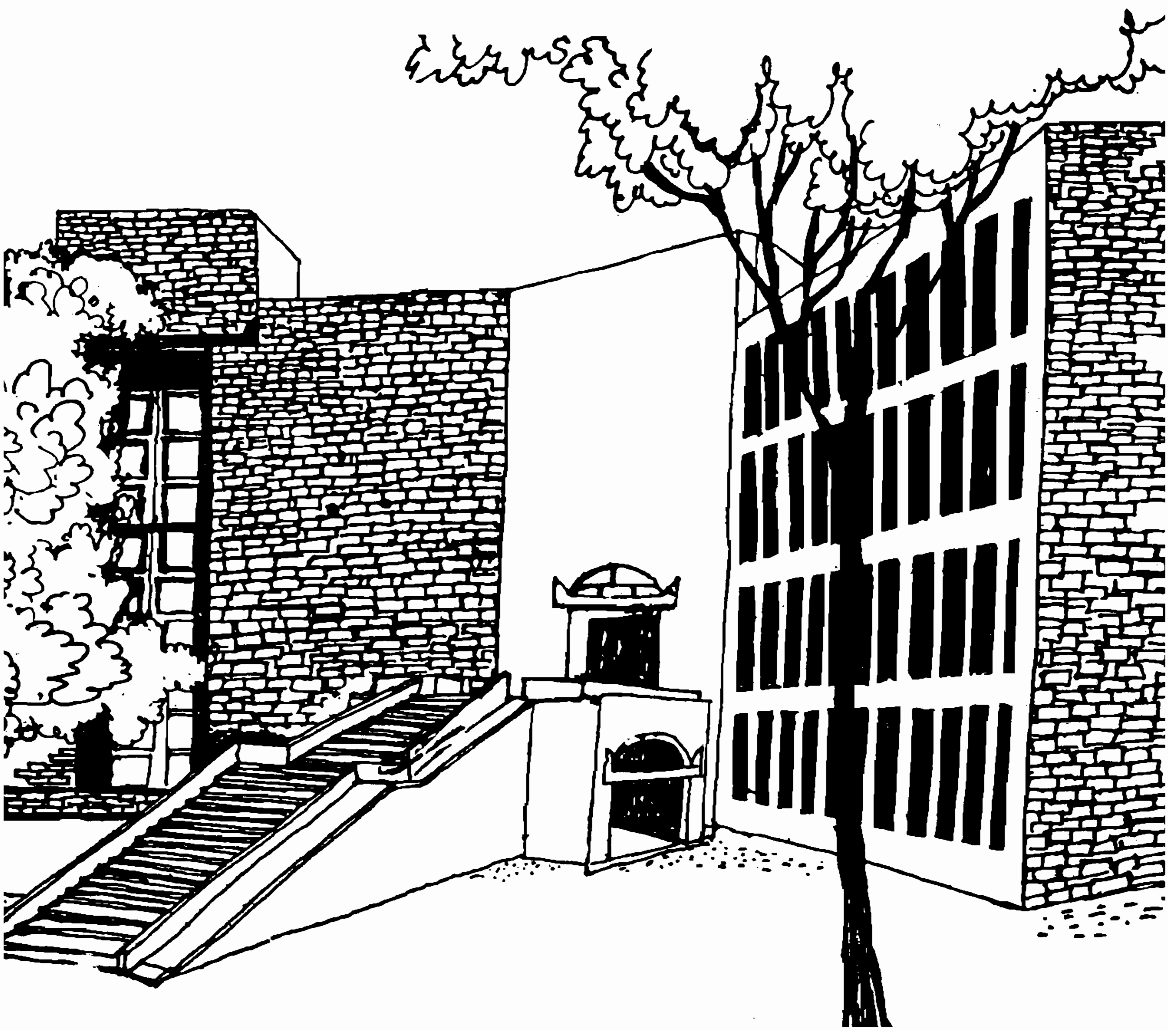

JOINT VENTURES AND TECHNOLOGY TRADE

By

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The fundamental task before a developing country, next only to its security, is that of economic growth, meaning thereby, process of structural transformation i.e. from agro-based to an industrial economy, from importer of finished products to exporter of such products, traditional to modern technology. To bring about such a change in any economy requires huge resources both financial and managerial, besides a total transformation of traditional technology. In the case of developing countries, with their existing low levels of investments the need of mobilising resources through radical and innovative measures is very great.

In the context of the shrinkage of availability of resources through official development agencies, joint ventures, particularly those which bring in foreign investment, play an important role in bridging the gap in resource requirements. Joint ventures have been recognised by the UN, World Bank and almost all the countries of the world, as an important mechanism of not only technology and capital transfer, but also providing much needed managerial and organisational skills and access to international markets.

international economic and technical cooperation is the sine-qua-non of economic and industrial growth of any country. Traditionally there has been cooperation, though in varying degrees, between developed and developing countries. Transnational corporations played a key role in the flow of technology and capital in such cooperation. While international cooperation is recognised, the role of transnational corporations has been the subject matter of debate at the U.N. Commission on TNCs, necessitating the evolution of a Code of Conduct for TNCs. There has been a well entrenched view that heavy dependence on transnational corporations carries a high price and should be avoided as far as possible. One of the conclusions drawn is that the economic cooperation among the South or developing countries will have to be strengthened. The need for greater interdependence and collective self-reliance among developing countries themselves, has now been fully recognised.

This concept gathered momentum in 1970s. At the conference held at Lusaka in 1970, developing countries pledged themselves for a programme of fostering mutual cooperation among the developing countries to impart strength to their material endowments and to contribute to their economic and social progress. the Second General Conference of UNIDO held in LIMA (1975) adopted LIMA Declaration for raising industrial production and achieving greater cooperation among developing countries. Special mention was made of the Utilisation of know-how, skills, material resources, technology and funds available within the developing countries.

India has played an active role in promoting the above concepts. This approach is based on the realisation that trade relations with developing countries had to be fostered in a wider perspective commensurate with their economic aspirations. This concept was translated into practice by India's ability to undertake technology transfer and project exports. This capability was achieved through remarkable progress made by India in all industrial fields through successive Five Year Plans. During this period, India has not only undergone a rapid transformation from an agro-economy to an industrial nation but also emerged as one of the leading industrialized countries among the developing countries. The industrial and economic progress achieved by India has helped in the development of an extensive infrastructure and a sound technological base. India not only absorbed these technologies, but also adapted them to suit her own requirements in the context of a very large pool of trained labour available in the country. India thus developed high technologies in certain fields and also some technologies which do not require high degree of sophistication either in the method or management or in actual operation of the plant. This latter type of technologies are considered as ideally suited to the economic and social conditions of many developing countries, as they are relatively cheap, could easily be absorbed as they are "appropriate" to their needs.

With economic advancement, India gradually assumed a certain amount of responsibility to share her experience and expertise of its industrial and technological development with other countries. It was also increasingly recognised that Joint Ventures were a most significant means to this end and also could contribute to her balance of payments since promotion of joint ventures besides projecting India's image as a supplier of capital goods and technology, would also bring continuous benefits in the form of dividends, know-how, royalties, and additional exports. And above all, this will foster and strengthen economic relations with other developing countries.

The policy of the government of India with regard to Indian overseas ventures has always been consistent with the broad economic aspirations of the developing nations, and at the same time, does not involve any unacceptable strain on the Indian economy. Special care has been taken to ensure that the Indian entrepreneurs participate in the joint ventures as partners in "development" and are not exploitative.

In early 60s, the Indian Government policy for approval of joint ventures abroad was in a formulative stage and was open and flexible. Approvals were granted liberally. However, it was realised later by hindsight that during this initial phase, many Indian companies embarked on joint ventures without an in-depth study of all aspects of their joint ventures in proper perspective, resulting in either abandonment or failure of some of these joint ventures.

Adequate tax concessions and fiscal incentives are given to Indian promoters for establishment of joint ventures abroad.

Government has kept under constant review the guidelines for approval of joint ventures and has carried out changes and modifications keeping in view various operational aspects of joint ventures. General guidelines governing Indian participation in joint ventures were formulated and announced in 1970s, which were reviewed at regular intervals. In order to remove some of the constraints, and shortcomings experienced during the operations, the guidelines have recently been revised based on the practical experience gained and feedback received from entrepreneurs.

The salient features are as under:

1) Indian participation in equity should be in the form of indigenous machinery and equipment, equity participation by way of capitalisation of fees, royalties, and other entitlements being allowed on merits.

2) Machinery exported should of Indian make and new.

3) No cash remittance towards equity will ordinarily be allowed except for small amounts (i) for preliminary expenses and (ii) for trading and consultancy ventures.

4) Indian equity participation should be in accordance with the laws of the host country.

5) Indian promoter should be a corporate entity and should have necessary expertise in the area of operation.

Recently Government is considering liberalising these guidelines. They are contemplating to allow Rs. 2.5 crores as equity participation with automatic clearance within a period of 90 days. Also the directorship of joint ventures abroad would be permitted automatically once the project is approved. This will help a great deal in encouraging establishment of joint ventures abroad by Indian companies.

In essence what is necessary is the concept of single window clearance should be fully implemented so as to encompass all approvals required including FERA, RBI, Companies Act, which can be accorded by the Secretariat of the IMC with advance to all concerned.

The beginning of direct investment abroad by an Indian company may be associated with the Establishment of a textile mill in Ethiopia in 1955 by the Birla Group. Since then the concept of joint ventures slowly picked up and a number of entrepreneurs lined up to establish joint ventures. Over all, Africa seems to be the major host to such an Indian activity before 1970. Next in importance are clearly South East Asian Countries, U.K., and Iran.

The dramatic increase in exposure of Indian firms overseas has been matched by a simultaneous shift in geographical focus. Although investment from India in the early 50s started with entry into Africa, the position of Indian joint ventures as on 31.12.1988 showed that out of a total of 179 joint ventures, 59 are for joint ventures in South East Asia, 27 for South Asia, 15 for West Asia, 31 for Africa, 41 for Europe and USA, and 6 for Oceania. Of these, 152 ventures are in operation and 27 under implementation.

Other salient features are:

* The total Indian equity in the 152 joint ventures in operation amounts to Rs. 9678 lakhs. The share of Africa in this is Rs. 4063 lakhs, while that of South East Asia is Rs. 4012 lakhs, South Asia Rs. 826 lakhs, USA and Europe Rs. 474 lakhs, West Asia Rs. 274 lakhs and Oceania Rs. 29 lakhs. The mode of contribution of the equity is as below :

Through Export of Machinery	Rs. 4889.5 lakhs
Know-how	Rs. 520.7 lakhs
Cash	Rs. 2574.6 lakhs
Others - capitalisation of fees royalties and other entitlements	Rs. 507.0 lakhs
Bonus shares	Rs. 1586.3 lakhs

* The approved Indian equity in the joint ventures under implementation amounts to about Rs. 1679 lakhs.

* The Indian equity is thus concentrated in Africa and South East Asia. Within these two principal region shifts in focus may be expected.

* The focus in Africa is shifting from East Africa to West Africa (Nigeria). Within South East Asia, Thailand, Singapore, and Malaysia are again becoming the principal focus.

* Indian Joint ventures are dispersed over 37 countries. More than 80 per cent of operating ventures are concentrated in twelve countries such as Malaysia 17, Sri Lanka 16, UK and Nigeria 13 each, Singapore 12, Indonesia 11, Thailand 9, Kenya and Nepal 8 each and UAE and USA 7 each.

* Indian joint ventures abroad cover both the Industrial and the service sectors.

* While there are a large number of projects in relatively simple, low technology areas, there are a significant number of projects in the large scale and technologically sophisticated areas. These include projects set up to manufacture jeeps, trucks, precision tools, steel tubes, mechanical seals, fertilisers, pharmaceuticals, diesel engines, man-made fibres, carbon black, and mini computers. The diversity of these projects points to an important process of technology development and skills accumulation by Indian firms, and their ability to transfer them effectively. The developmental trends in the developing countries will provide many more opportunities of this nature if a scientific study is continuously carried out to identify the technologies needed by developing countries and technological developments in India, for which a suitable mechanism has to be evolved.

* Regarding the type of Indian entrepreneurs that have been involved in joint ventures which are implemented, it is observed that the field is predominantly dominated by businesses with a

sound track record and well established presence at home. Some of these firms tend to be a part of large industrial houses.

* A newly emerging feature of Indian joint ventures abroad has been the establishment of a few ventures with third country participation. In other words these schemes have collaboration with not only the local promoter but also with companies of other developed countries. Association with these developed nations helps India to contribute in projects where otherwise India would not have participated. Such projects have been set up in Indonesia, Thailand, Malaysia and Singapore.

The Indian Joint Ventures abroad have been steadily improving their performance in the last few years. The cumulative dividend from equity of Indian Investment came to Rs. 1759 lakhs and the fees repatriated (cum.) came to Rs. 4828 lakhs and the additional export generated (cum.) came to Rs.- Rs.21,672 lakhs.

The additional exports by way of spares and components etc., were made possible only because of the promotion of these ventures. Apart from this some of the Indian ventures have done very well and were able to get bonus shares issued. The prorata allotment of bonus shares to the Indian companies has exceeded Rs. 1586 lakhs.

If one look at the performance of joint ventures the concept and performance of joint ventures vindicates the reality of economic cooperation within the developing countries and points to its untapped potential. A number of projects operating successfully have contributed in a significant measure to the economic growth of the country concerned besides being instrumental in promoting and forging new economic links and strengthening the existing ones between India and the host nations. Some of the ventures which are operating successfully and which have not only made a name for themselves but also contributed to the economy of the country concerned are :

i. Newsprint project operating in Kenya promoted by Birla Group and the textile unit of JK group.
ii. Steel furniture unit sponsored by Godrej in Malaysia.
iii. Palmoil refining unit sponsored by Birlas in Malaysia.
iv. Spinning unit by Kwality Textiles in Malaysia.
v. Synthetic fibre unit and carbon black unit by Birlas, Pulp unit by Thapars, Dyestuff unit by Mafatlal and Pharmaceutical unit by Ranbaxy in Thailand.
vi. Steel bar unit by ASC Enterprises, Steel file unit by JKs, Textile by Birlas in Indonesia.
vii. Pharmaceutical unit by Ranbaxy, Consultancy units by Birlas, Telecommunication Consultants India Ltd., in Nigeria.
viii. Assembly and manufacture of commercial vehicles by Tatas in Malaysia.
ix. Machine tool complex by HMT in Nigeria.
x. Hotels by the Oberois in Australia, Egypt, Nepal and Singapore.
xi. Manufacture of electric motors and diesel engines by Kirloskars in Malaysia.

As regards the failure which are often asked to make a case against promotion of joint ventures, a critical examination of various studies undertaken and discussions with experts in the field that the failures are not confined to the small ventures or those with low level of equity of Indian entrepreneurs. Nearly 45 per cent of the ventures which have been not implemented or abandoned had fairly significant Indian financial participation.

Many of the internal reasons such as lack of proper planning and management, inadequate pre-investment preparation, insufficient understanding of the conditions prevailing in the host countries, lack of expertise in financial management and of commitment are the principal factors that have contributed to the failure of joint ventures. The external factors include unfavourable changes in economic conditions in, and policies of, some of the host countries and lack of understanding with the joint venture partners.

As regards the financial difficulties one of the reasons attributed is the restriction on remittance of fresh capital out of India to revamp joint ventures which were in obvious financial difficulties. Fortunately the policy has now been revised and adequate support will be given to the Joint Ventures by the Government.

If you take the example of some of the developing countries it is interesting to note that these countries have established incentive schemes which offer a broad range of facilities to their investors for investment in developing countries.

Some of the investment incentives provided and measures taken by the OECD countries are: Investment guarantee scheme, fiscal benefits, investment income, promotional activities and official financial support.

Recently South Korea had also initiated steps to promote joint ventures in other developing countries. For this purpose, it has set up an Overseas Investment Promotion Centre to provide information to Korean firms about investment opportunities in other developing countries. It has also eased the restrictions on overseas investments by South Korean firms. In India EXIM Bank is also providing various facilities to the services of other sectors. such as export credit to Indian promoters for their equity contribution to overseas joint ventures, deferred payment terms to their clients. EXIM bank also provides finance in foreign currency upto 50% of the cost of activities such as market research, minor product adaptation, justified overseas travel by Indian company executives, product inspection services, training related to export marketing etc. Assistance would be in the form of grants. The balance 50% would have to be met by the Indian company seeking finance.

These financial facilities though targeted to promote exports are also of direct assistance to overseas investment component of Indian joint ventures.

International Financial Institutions like IFC (Washington) and Asian Development Bank also give selective assistance for promotion of joint ventures in developing countries.

What is required for promotion of joint ventures abroad is a well planned strategy for investment as well as transfer of technology from India to developing countries and vice-versa. It will induce new dynamism into Indian industry and also contribute to its own accelerated industrial growth.

South-South joint ventures have a sound economic basis. The growing involvements of Indian firms in developing countries cannot be ascribed only to political considerations.

In addition the technology transferred from one developing country to another is easier to absorb. This absorption of technology again leads the developing country to a higher level of self-reliance, an accepted goal of the United Nations. India should evolve a positive and forward looking policy instead of a passive joint venture policy; promoting sound joint ventures abroad rather than reacting to proposals which may be made by our entrepreneurs. The importance of joint ventures is increasing, parallel to the growing recognition of the need for a globally more competitive and productivity oriented development strategy. Experience in the European community and the Nordic Council as also in Latin America suggests that cooperation in development often becomes a cumulative process of growth from within, with expanding coverage and a degree of tolerance of differences of political and economic systems. Developing countries like India, Korea, Hong Kong and Taiwanese provinces of China, and Singapore in Asia, Egypt in Africa, Brazil, Mexico and Argentina in Latin America should survey opportunities for joint ventures and overseas investment cooperatively and thus help their companies in every possible manner in promoting them and also nurturing them.

As far Transfer of Technology is concerned Technological development is taking place in the developed countries to the extent of about 90 per cent of technological development. It is, therefore, necessary to import technology from abroad keeping in mind the interest of the development of the indigenous technology. Government have recently liberalized policy for import of technology giving much freedom to the importers. Similarly considerable technological development has taken place in India in the selected fields and a conscious programme should be drawn up for technological development in such a manner that apart from meeting the requirements of the country, the technologies can be exported to other developing countries to developed countries. Technology should be considered as a "commodity" for export just as agricultural commodities which are exported from the country.

The various observations made above find enough support from international organisations like UNCTAD and others. In one of the recent reports on Transfer and Development of Technology in a Changing World Environment, prepared by UNCTAD, it is stated that "The transfer and development of technology is an essential component of a successful strategy of sustainable development. The application of environmentally sound technologies -- whether imported or developed locally -- can contribute significantly to raising the productivity and sustainability of resources in such areas as agricultural production, renewable energy generation and pollution control. A large part of the challenge will be to assure the widest possible diffusion of the technologies, overcoming such obstacles as lack of knowledge and ability to pay for them..... Acquisition of knowledge through technology transfer permits a country to complement its own efforts by taking advantage of the accumulated experience of others. Technological dynamism and participation in the international trading system reinforce one another reciprocally. On the one hand, attainment of a certain level of technological capability helps a country's enterprises meet the price and quality standards required in order to penetrate international markets; on the other hand, the very struggle to become more internationally competitive stimulates the efficient accumulation of skills and drives its enterprises to seek and adopt new innovations.

It will thus to be seen that with the concept of globalisation, India should launch a special programme for attracting foreign investment and technology as well as for promotion of joint ventures abroad and transfer of technology and management and marketing skills to the other countries of the world, both developed and developing. Such a planned strategy will make substantial contribution in its accelerating the pace of its industrial development and sustaining its economic growth.