

**MULTINATIONALS FROM DEVELOPING COUNTRIES :  
WITH SPECIAL REFERENCE TO INDIA**

**Dissertation submitted to the Jawaharlal Nehru University  
in partial fulfilment of the requirements for  
the award of the Degree of  
MASTER OF PHILOSOPHY**

**ARGHYA KUSUM MITRA**

**CENTRE FOR ECONOMIC STUDIES AND PLANNING**

**SCHOOL OF SOCIAL SCIENCES  
JAWAHARLAL NEHRU UNIVERSITY  
NEW DELHI—110067, INDIA**

**1988**



जवाहरलाल नेहरू विश्वविद्यालय  
JAWAHARLAL NEHRU UNIVERSITY  
NEW DELHI-110067

Centre for Economic Studies and Planning,  
School of Social Sciences,  
Jawaharlal Nehru University.

July, 1988.

Certified that the dissertation entitled,  
MULTINATIONALS FROM DEVELOPING COUNTRIES: WITH SPECIAL  
REFERENCE TO INDIA submitted by Arghya Kusum Mitra in  
partial fulfilment for the award of the degree of Master  
of Philosophy (M. Phil.) of this University, is his  
original work and may be placed before the examiners  
for evaluation. This dissertation has not been submitted  
for the award of any other degree of this University or  
of any other University.



(Prof. DEEPAK NAYYAR)

CHAIRPERSON

(Prof. DEEPAK NAYYAR)

SUPERVISOR

Centre for Economic Studies and Planning,  
School of Social Sciences,  
Jawaharlal Nehru University.

July, 1988.

Certified that the dissertation entitled,  
MULTINATIONALS FROM DEVELOPING COUNTRIES: WITH SPECIAL  
REFERENCE TO INDIA submitted by Arghya Kusum Mitra in  
partial fulfilment for the award of the degree of Master  
of Philosophy (M. Phil.) of this University, is his  
original work and may be placed before the examiners  
for evaluation. This dissertation has not been submitted  
for the award of any other degree of this University or  
of any other University.

(Prof. DEEPAK NAYYAR)

(Prof. DEEPAK NAYYAR)

~~CHAIRPERSON~~ PERSON  
Centre for Economic Studies & Planning  
School of Social Sciences  
Jawaharlal Nehru University  
New Delhi-110067.

SUPERVISOR  
SUPERVISOR  
Centre for Economic Studies & Planning  
School of Social Sciences  
Jawaharlal Nehru University  
New Delhi-110067.

## ACKNOWLEDGEMENTS

A dissertation cannot be in general, the work of an individual. I am grateful for the guidance and co-operation of a number of people.

I am deeply indebted to Professor Deepak Nayyar for initiating me into the subject of 'Third World Multinationals'. But, for his constant encouragement and sustained guidance, this dissertation would never have been completed in time.

I am grateful to Mr. K.V.K. Ranganathan for discussions on Indian Joint Ventures Abroad. My sincere thanks to Mr. K.S. Chalapati Rao for providing me with the Working Papers of the Corporate Studies Group, Indian Institute of Public Administration (IIPA), Sharad for helping me to locating the newspaper clippings for my topic, Sugata and Siddharta for going through the 'proofs' of some of the chapters and Manab and Sitikanthá for comments on my dissertation. I am grateful also to Prof. Haraprasad Ray who was kind enough to write to Indian embassies abroad regarding materials for Indian Joint Ventures. Last, but not the least, thanks are due to Mr. Muralidharan and his wife for their diligent typing.

However, the errors - I fear that there will be quite a few - are solely my responsibility.

21 July 1988

ARGHYA KUSUM MITRA



## CONTENTS:

| i) Abbreviations.  | ii) List of Tables. | Page No.  |
|--|---------------------|-----------|
| A) I. Third World Multinationals(TWMNCs): An Introductory Analysis.        |                     | 1 - 34    |
| A) Introduction  |                     | 1         |
| B) Empirical issues Related to Direct Foreign Investment (DFI)             |                     | 3         |
| C) Theoretical Issues Related to DFI from Developing Countries             |                     | 17        |
| D) Qualitative issues related to DFI. A Perspective.                       |                     | 20        |
| II. Multinationals from Developing countries: Country-wise case studies    |                     | 35 - 79   |
| A) Introduction  |                     | 35        |
| B) Hong Kong   |                     | 38        |
| C) South Korea   |                     | 55        |
| D) Latin America   |                     | 67        |
| III. A profile of DFI by Indian Firms in IJVs abroad                       |                     | 81 - 135  |
| A) DFI by Indian Firms: some qualitative estimate                          |                     | 81        |
| B) Geographical Distribution of Indian Joint Ventures Abroad               |                     | 98        |
| C) Firm and Industry level characteristics of Indian Joint Ventures Abroad |                     | 121       |
| IV. Indian Joint Ventures: Motivations and Characteristics. 136-172        |                     |           |
| A) Introduction  |                     | 136       |
| B) Motivation for Investment by Indian Firm Abd.                           |                     | 139       |
| C) The Role of Large Business Houses in Investment Abroad                  |                     | 158       |
| V. Indian Joint Ventures: An Evaluation                                    |                     | 173 - 203 |
| A) Introduction  |                     | 173       |
| B) Non-Implementation  |                     | 177       |
| C) Abandonment   |                     | 179       |
| D) Profitability   |                     | 185       |
| E) Dealing Numbers   |                     | 188       |
| F) Other Performance Criteria  |                     | 193       |

|      |  |         |
|------|--|---------|
| VI.  | South South Co-operation through JVs.  | 204-232 |
|      | A) Introduction  | 204     |
|      | B) Emergence of TWMNCs a threat to DCMNCs<br>and a boon to developing countries?       | 205     |
|      | C) TWMNCs; An Agent for Host Country<br>Industrialisation?                             | 214     |
|      | D) The Government: A Party to South-South<br>co-operation through TWMNCs?              | 219     |
|      | E) Conclusion  | 231     |
| VII. | A Comparison between Indian and other Third<br>World multinationals : some conclusions | 233 - 2 |
|      | A) Introduction  | 233     |
|      | B) Comparison between Firm-Level characteristics<br>of TWMNCs.                         | 237     |
| B)   | <u>APPENDIX:</u>   | 1 - 19  |
|      | I. Country wise Distribution of JVs (IO & UI)  | 1 - 13  |
|      | II. House wise Distribution of IJVs Abroad (IO&UI)                                     | 14- 17  |
|      | III. A few examples of DFI Not covered by officials<br>lists                           | 18 -19  |
| C)   | <u>BIBLIOGRAPHY:</u>   | 1 -10   |

## ABBREVIATIONS

|               |   |   |
|---------------|---|---|
| MNC           | - | Multinational Corporation                           |
| DCMNC         | - | Multinational Corporation from Developed Countries  |
| TWMNC         | - | Third World Multinational Corporation               |
| DFI/FDI       | - | Direct foreign investment from a developing country |
| LDCFDI        | - | Direct foreign investment from a developing country |
| LDC           | - | Developing Country                                  |
| DC            | - | Developed Country                                   |
| IJV           | - | Indian Joint Venture                                |
| IO            | - | In Operation  |
| UI            | - | Under Implementation                                |
| Other TWMNCs- | - | TWMNC other than those of India                     |
| WOS           | - | Wholly Owned Subsidiaries                           |
| PUC           | - | Paid-up Capital                                     |

LIST OF TABLES:

| <u>Table No.</u>     | <u>Title</u>   | <u>CHAPTER-I</u> | <u>Page No.</u> |
|----------------------|--|------------------|-----------------|
| 1.1                  | Estimates of total stock of DFI by selected developing countries.                          |                  | 5               |
| 1.2                  | Stock of DFI by Major Country of Origin  |                  | 7               |
| 1.3                  | Stock of DFI Abroad by Major Country of Origin   |                  | 8               |
| 1.4                  | Distribution of Parent Companies with DFI by country, 1980                                 |                  | 12              |
| 1.5                  | Stock of DFI from abroad by Major Recipient, Country or area                               |                  | 13              |
| 1.6                  | An index of the significance of inward compared with outward DFI flows; selected countries |                  | 16              |
| 1.7                  | Distribution of developing countries subsidiaries abroad by level of employment            |                  | 26              |
| <u>CHAPTER - II.</u> |  |                  |                 |
| 2.1                  | Hong Kong investment, in the Manufacturing Sector of Indonesia as of December 1976         |                  | 42              |
| 2.2                  | Hong Kong firms' initial investment in approval projects in Indonesia (1980)               |                  | 42              |
| 2.3                  | Hong Kong Investment in Malaysia by Industry(1977)   |                  | 43              |
| 2.4                  | Hong Kong DFI in Malaysia  |                  | 44              |
| 2.5                  | Hong Kong Investment in Taiwan (1964-78)   |                  | 45              |
| 2.6                  | Hong Kong Investment in Taiwan by Industries(1974-79)                                      |                  | 48              |
| 2.7                  | Hong Kong DFI in Taiwan  |                  | 48              |
| 2.8                  | Hong Kong Investment in Singapore by Ind'y.  |                  |                 |
| 2.9                  | Ownership Pattern of Overseas Korean Firms (Number of Firms)                               |                  | 59              |
| 2.10                 | Industrial and Regional Composition of Overseas direct investment by Korean Firms          |                  | 61a             |
| 2.11                 | Korea's Dependence on Overseas Natural Resources   |                  | 70              |
| 2.12                 | LADFI in Manufacturing Sector  |                  | 71              |
| <u>CHAPTER III.</u>  |  |                  |                 |
| 3.1                  | Commencement of Production of IJVs Abroad  |                  | 83              |
| 3.2                  | Yearwise Distribution of IJVs Abroad   |                  | 84              |
| 3.3                  | Pattern of Indian Investment in JVs.(1983)   |                  | 86-a            |
| 3.4                  | Distribution of IJVs according to the Field of operation and the status of the project.    |                  | 88              |

|      |  |       |
|------|--|-------|
| 3.5  | Distribution of IJVs Acc.to share of Indian equity                                 | 88 b  |
| 3.6  | Estimation of total equity involved in IJVs  | 88 c  |
| 3.7  | Distn.of IJVs according to Field of operation and Region                           | 90 a  |
| 3.8  | Industry Analysis of IJVs by Field of Collaboration 7                              | 90 b  |
| 3.9  | Fields of Collaboration for IJVs in 7 Major Host LDCs                              | 91-0  |
| 3.10 | Regional Distribution of IJVs Abroad   | 92-a  |
| 3.11 | Outflows of Indian Equity Share Capital on account of JVs to Important Destination | 100   |
| 3.12 | IJVs in Africa (1976)  | 102 a |
| 3.13 | IJVs in Africa (1976)  | 103 a |
| 3.14 | IJVs in Africa (1982)(Numbers)   | 103 b |
| 3.15 | IJVs in Africa (1982) (Equity)   | 103 c |
| 3.16 | IJVs in Africa (1986)  | 103 c |
| 3.17 | IJVs in S.E.Asia (Highlighty)  | 105 a |
| 3.18 | -do- (1976)  | 105 b |
| 3.19 | -do-   | 105 b |
| 3.20 | -do-   | 105 c |
| 3.21 | IJVs in Middle East (Highlights)   | 108ma |
| 3.22 | -do- 1.1.76  | 108 a |
| 3.23 | -do- 31.3.82   | 108 b |
| 3.24 | -do- 20.8.86   | 108 c |
| 3.25 | IJVs in S.Asia, (Highlights)   | 113 a |
| 3.26 | -do- 1976  | 113 b |
| 3.27 | -do- 31.3.82   | 114 a |
| 3.28 | -do- 20.8.86   | 114 a |
| 3.29 | IJVs in the DCs (Highlights)   | 117 a |
| 3.30 | -do- 1.1.76  | 117 a |
| 3.31 | IJVs in DCs 31.3.1982  | 118 a |

|      |   |       |
|------|---|-------|
| 3.32 | IJVs in DCs 20.8.86   | 118 b |
| 3.33 | Source of Technology of Indian Patent firms and their foreign manufacturing subsidiaries. | 121-a |

#### CHAPTER IV.

|     |  |       |
|-----|--|-------|
| 4.1 | Motivations for Foreign Investments by Indian Firm             | 139 a |
| 4.2 | Main Indian foreign Direct Investors (1979)                    | 162 a |
| 4.3 | Ownership Character of IJVs (Large Indls) Houses               | 164 a |
| 4.4 | Operational Ventures of Main Foreign Direct.Invs.              | 164 b |
| 4.5 | Number of Indian Joint Ventures in the Third World Cumulative. | 165 a |
| 4.6 | Foreign Technological collaboration in India & IJVs.           | 169 a |

#### CHAPTER V.

|     |                     |       |
|-----|---------------------|-------|
| 5.1 | Tariff Assumptions  | 182   |
| 5.2 | Benefits from IJVs. | 196 a |

#### CHAPTER VI.

|     |  |     |
|-----|--|-----|
| 6.1 | Share of Intra-developing Countries<br>Overseas Investment | 209 |
|-----|--|-----|

## CHAPTER - I

### THIRD WORLD MULTINATIONALS (TWMNCs) :

#### AN INTRODUCTORY ANALYSIS

##### A. INTRODUCTION

There was a time when the reality of the Third World Multinationals (TWMNCs) seemed to be a contradiction in terms. However, over the past two decades, the phenomenon of direct foreign investment (DFI) from a few of the comparatively more developed or industrialised among the developing countries is becoming an increasingly important phenomenon. In quantitative terms, the amount of DFI is still not quite significant. But the basic importance attached to the TWMNCs stems from the fact that in certain kinds of technology and in certain kinds of products they have been able to compete successfully with DCMNCs (the multinationals/transnationals from the developed countries). This seems to have enabled the host developing countries (LDCs) to bargain on better terms with the latter. Also, as we shall argue/show, TWMNCs have, to a greater extent, been conducive to the economic development of the host LDCs as compared with DCMNCs.

We shall, to begin with, concentrate on the empirical issues related to the DFI of the MNCs in general—so that we can place the rise of the TWMNCs in its wider perspective. It may be pointed out at the outset that DFI is not simply an export of capital, but an export of a package of inputs including managerial and technical manpower and technology. In the second section, we shall however stress only on the quantitative magnitude of DFI as export of capital.\*

B. EMPIRICAL ISSUES RELATED TO DIRECT FOREIGN INVESTMENT

As yet, unfortunately, the data on the total stock of direct foreign investment from developing countries are limited. There is no single source from which these data can be collected. Often, home country governments do not even collect information regarding the outflow of capital for e.g. Hong Kong. Estimates of different authors,<sup>1</sup> based on different sources, differ. While S. Lall admits that

---

\* In the third section we shall outline the theoretical aspects related to DFI from the developing countries. Lastly, we compare and contrast the qualitative aspects related to DFI of the TWMNCs and DCMNCs.

1. Lall, S. (1982) World Development : The Export of Capital: The Indian Case. Dunning in Khushi M. Khan (ed) 1986: Multinationals of the South, German Overseas Institute, Hamburg.



his evidences are anecdotal, Dunning provides his 'best guess' of the stock of DFI from developing countries (LDCDFI). The latter derived from a variety of sources ("IMF BOP Year Book (various issues) supplemented by data on direct investment income from the same source; data supplied from government departments or agencies and the individual developing countries: estimates by researchers working in the field notably those contained in Lall (1983), UNCTC (1983) and ESCAP/UNCTC (1985)"<sup>2</sup> is provided in Table 1.1. The total stock of LDCDFI ranged between US \$ 29 billion and US \$ 35 billion<sup>3</sup> in 1982. In comparison to the stock of DFI from developed countries (DCDFI) of \$ 497.5 billion in 1980, this figure is quite small. However, what is significant is that the stock of LDCDFI has grown fifteen times since 1960, or a rate of increase about two and a half times that of its counterpart from the developed countries".<sup>4</sup> In 1960, according to

---

2. Dunning (1986) Ibid. p.22.

3. However, excluding oil investments and tax-heaven related investments, it comes to \$12.6 billion - \$ 14 billion.

4. Dunning (1986) Ibid. p.21. We should however, take note of the "small base" phenomenon as far as LDCDFI is concerned.

Dunning and Stopford (1983)<sup>5</sup>, the share of the stock of LDCDFI was one percent of the total stock of direct foreign investment. By 1978, it had increased to 3.2 percent. However, the estimates given by Khan, differ somewhat. According to him, in terms of total foreign direct investments by firms from the South during 1970-2, their share compared with similar investments by multinationals of the North constituted only 0.33 per cent but it multiplied 5 fold in 1978-80 and the growth in numbers during the 1970s was more than 2½ times that of the firms from the North".<sup>6</sup>

Coming to the number of parent firms that have invested abroad, Wells and his associates had compiled a data bank for TWMNCs. The group identified 963 parent firms from developing countries that have invested abroad. In short, there are 963 TWMNCs.<sup>7</sup> However, the story is different if a stricter definition is used. For example, in Harvard Business School's recent Multinational Enterprise Project, a U.S. based firm was not counted as a multinational enterprise unless it had manufactured subsidiaries in six or more foreign countries. By that

---

5. Dunning and Stopford (1983): Multinational Corporations - Company Performance and Global Trends Macmillan London.

6. Khan in Khan (ed) Op.Cit, p.1.

7. Wells, L.T. Third World Multinationals p.9. The data were collected in the period 1975-78.

standard, only 6 of the 963 parent firms would qualify—two from India, two from Hong Kong, one from Colombia, and one from Mexico.<sup>8</sup> (It may be noted that Dunning and Stopford(1983) could identify only 364 parent developing country firms for the year 1980 which show the extent of variation of the estimates from different sources (Table 2))

TABLE 1.1.

Estimates of total stock of DFI by selected developing countries (US \$ million)

| Asia and Pacific <sup>1</sup> |               | Africa <sup>1</sup>      |               |
|-------------------------------|---------------|--------------------------|---------------|
| Hong Kong                     | 2,500 - 3,000 | Algeria                  | 25 - 30       |
| India                         | 150 - 200     | Cameroons                | 35 - 50       |
| Indonesia                     | 100 - 150     | Gabon                    | 80 - 100      |
| Korea                         | 250 - 300     | Kenya                    | 50 - 75       |
| Malaysia                      | 200 - 250     | Seychelles               | 25 - 35       |
| Papua New Guinea              | 20 - 25       | Swoziland                | 35 - 40       |
| Philippines                   | 150 - 200     | Senegul                  | 8 - 10        |
| Singapore                     | 1,500 - 1,750 | Tunisia                  | 50 - 75       |
| Taiwan                        | 300 - 325     | Zimbabwe                 | 100 - 150     |
| Thailand                      | 75 - 100      | Unclassi-                |               |
| Unclassified                  | 750 - 1,000   | fied                     | 1,200 - 1,500 |
| Total                         | 5,995 - 7,300 | Total                    | 1,608 - 2,065 |
| Latin America <sup>1</sup>    |               | Middle East <sup>1</sup> |               |
| Argentina                     | 750 - 1,000   | Egypt                    | 75 - 100      |
| Brazil                        | 1,250 - 1,500 | Israel                   | 120 - 150     |
| Chile                         | 75 - 100      | Kuwait                   | 200 - 250     |
| Colombia                      | 250 - 300     | Libya                    | 100 - 120     |
| Costa Rica                    | 20 - 25       | Unclassi-                |               |
| Jamaica                       | 400 - 450     | fied                     | 300 - 350     |
| Mexico                        | 350 - 400     | Total                    | 795 - 1,120   |
| Venezuela                     | 300 - 350     |                          |               |
| Uruguay                       | 50 - 75       |                          |               |
| Unclassified                  | 750 - 1,000   |                          |               |
| Total                         | 4,195 - 5,205 |                          |               |

|                              |        |         |
|------------------------------|--------|---------|
| Oil investments <sup>3</sup> | 4,000  | - 5,000 |
| Other <sup>4</sup>           | 12,500 | -15,000 |
| Total                        | 29,093 | -34,570 |

---

1. Other than oil investments
2. Of which direct investment in the UK in 1981 was  
\$ 1 billion.
3. Mainly from Middle East, Indonesia, Nigeria and  
Venezuela.
4. Netherlands, Antilles, Panama, Bermuda, Liberia,  
e.g. tax heavens & sh.ppr invest-  
ments and mainly invested in the US.

(SOURCE: Dunning in Khan (ed) 1986, p.23).

TABLE - 1.2

Stock of Direct Investment Abroad by Major Country of  
Origin, 1960-1980. Billions of dollars, end of

| Country of Origin                      | 1960 | 1967  | 1971  | 1975  | 1978  | 1980  |
|--|------|-------|-------|-------|-------|-------|
| <b>DEVELOPED COUNTRIES</b>             | 66.0 | 114.1 | 168.1 | 263.0 | 380.3 | 497.5 |
| United States                          | 32.8 | 56.6  | 82.8  | 124.1 | 162.7 | 215.6 |
| United Kingdom                         | 10.8 | 17.5  | 23.7  | 30.4  | 50.7  | 74.2  |
| Netherlands                            | 7.0  | 11.0  | 13.8  | 19.0  | 28.4  | 39.7  |
| West Germany                           | 0.8  | 3.0   | 7.3   | 16.0  | 28.6  | 37.6  |
| Japan                                  | 0.5  | 1.5   | 4.4   | 15.9  | 26.8  | 37.1  |
| Switzerland                            | 2.0  | 5.0   | 9.5   | 17.6  | 27.8  | 33.0  |
| France                                 | 4.1  | 6.0   | 7.3   | 11.1  | 14.9  | 20.0  |
| Canada                                 | 2.5  | 3.7   | 6.5   | 10.4  | 13.6  | 19.0  |
| Sweden                                 | 0.4  | 1.7   | 2.4   | 4.4   | 6.0   | 7.2   |
| Belgium                                | 1.3  | 2.0   | 2.4   | 3.6   | 5.4   | 6.9   |
| Italy                                  | 1.1  | 2.1   | 3.0   | 3.3   | 5.4   | 6.9   |
| Australia                              | 0.2  | 0.4   | 0.5   | 0.8   | 1.1   | 1.9   |
| <b>OTHER DEVELOPED<br/>  COUNTRIES</b> | 2.5  | 3.6   | 4.5   | 6.4   | 8.9   | 10.5  |
| <b>DEVELOPING<br/>  COUNTRIES</b>      | 0.7  | 3.0   | 4.0   | 8.1   | 12.5  | 14.0  |
| <b>Total</b>                           | 66.7 | 117.1 | 172.1 | 271   | 392.8 | 511.5 |

Sources : UNCTC and Dunning and Stopfords' estimates,  
based on data provided by national governments  
private sources and the IMF.

Our Source : Dunning and Stopford (1983) p.5 Multinationals:  
Company performance and Global Trends.

TABLE 1.3

Stock of Direct Investment Abroad by Major Country of Origin, 1960-1980

| Country of Origin         | Percentage distribution end of |       |       |       |       |       |
|---------------------------|--------------------------------|-------|-------|-------|-------|-------|
|                           | 1960                           | 1967  | 1971  | 1975  | 1978  | 1980  |
| DEVELOPED COUNTRIES       | 99.0                           | 97.4  | 97.7  | 97.0  | 96.8  | 97.3  |
| United States             | 49.2                           | 48.3  | 48.1  | 45.8  | 41.4  | 42.2  |
| United Kingdom            | 16.2                           | 14.9  | 13.8  | 11.2  | 12.9  | 14.5  |
| Netherlands               | 10.5                           | 9.4   | 8.0   | 7.0   | 7.2   | 7.8   |
| West Germany              | 1.2                            | 2.6   | 4.2   | 5.9   | 7.3   | 7.4   |
| Japan                     | 0.7                            | 1.3   | 2.6   | 5.9   | 6.8   | 7.3   |
| Switzerland               | 3.0                            | 4.3   | 5.5   | 6.5   | 7.1   | 6.5   |
| France                    | 6.1                            | 5.1   | 4.2   | 4.1   | 3.8   | 3.9   |
| Canada                    | 3.7                            | 3.2   | 3.8   | 3.8   | 3.5   | 3.9   |
| Sweden                    | 0.6                            | 1.5   | 1.4   | 1.6   | 1.5   | 1.4   |
| Belgium                   | 1.9                            | 1.7   | 1.4   | 1.3   | 1.4   | 1.3   |
| Italy                     | 1.6                            | 1.8   | 1.7   | 1.2   | 1.4   | 1.3   |
| Australia                 | 0.3                            | 0.3   | 0.3   | 0.3   | 0.3   | 0.4   |
| OTHER DEVELOPED COUNTRIES | 3.7                            | 3.1   | 2.6   | 2.4   | 2.3   | 2.1   |
| DEVELOPING COUNTRIES      | 1.0                            | 2.6   | 2.3   | 3.0   | 3.2   | 2.7   |
| Total                     | 100.0                          | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source : As for Table 1.2.

1 and Table 1.3 expresses these magnitudes in percentage terms

We shall now categorise the developing countries into groups according to their size of the stock of DFI.

Although many developing countries have some direct foreign investment in neighbouring territories, Only around twelve of them have emerged as major investors. Hong Kong, a tiny city state is well ahead of the rest with LDCDFI of \$ 2,500 - \$ 3,000 million. In the category of DFI of \$ 750 - \$ 1,750 million belong Singapore, Brazil and Argentina. Next, in the category \$ 250 - \$ 500 million are Jamaica, Mexico, Venezuela, Taiwan, Colombia and Korea. In the group \$ 100 - \$ 250 million belong Kuwait, India, Philippines, Indonesia, Zimbabwe and Israel. The rest belong to the fifth group.

Table 1.2 provides the stock of DFI by major countries of origin which are without exception the developed countries. Comparing Tables 1.1 and 1.2/1.3, We arrive at relative magnitudes of the stock of DFI for developed and developing countries. U.S. heads the list with the stock of DFI amounting to \$ 215.6 billion (42.2%) followed by U.K. with \$ 74.2 billion (14.5%), Netherlands with \$ 39.7 billion (7.8%), West Germany with \$ 37.1 billion (7.4%) and Japan with \$ 37.1 billion

(7.3%) in 1980. The developed countries enbloc accounted for 97.3% of the DFI abroad in 1980. Thus DFI from developing countries which, as we shall see, are important in their own right, still constitute only a miniscule proportion of the investment by firms from DCs. However, one should not underestimate the qualitative significance of DFI by firms from the developing countries : the time dimension is too narrow to allow any final judgements.

Table 1.4 presents the distribution of parent companies with DFI. Here also USA heads the list with 21.3 per cent of the parent companies followed by West Germany (14.%) and U.K. (13.6%). The developed countries account for 96.5 per cent of the parent firms. However, the data in Table 1.4 are deficient in that they exclude firms based in the Indian sub-continent, Central or S. America, Africa, the Middle East and the Comecon countries. If we take them into account, we see that 86.1 per cent of the parent firms come from the developed market economies, 7.8 per cent from COMECON countries and 6.1 per cent are TWMNCs.

As far as the distribution of the subsidiaries/joint ventures is concerned there is even a greater degree of divergence as when compared to that of the distribution of parent companies. This is due to the fact that the top 5 percent of the MNCs - all DCMNCs - account for 80



per cent of the affiliates (i.e. subsidiaries/joint ventures).

Countrywise, the U.S. dominance in the internationalisation of firms has been declining since the early 60's on account of the growing importance of the DFI of West German and U.K. based firms in the 60's followed by a spate of DFI from other DMEs. TWMNCs have been in the international scene for a pretty long time thanks to DFI by Argentine based firms for the past sixty years. However, it was only since the 70's that the academic and business community have taken note of the growing importance of TWMNCs. It was expected<sup>9</sup> that the 80's would be the decade of the TWMNCs and its capital stake would rise faster than that of DCMNCs. However, because of debt crisis in most developing countries (especially Latin American countries who are also parents to many TWMNCs), capital outflow to a large extent gets channelised through debt and interest repayments and not through the parent TWMNCs investing abroad. Also expenditure reducing policies restrict the rate of growth of Latin American economies to a barely 1 per cent<sup>10</sup> in the 80's so that the growth of the market—a remarkable feature of the 60's and

---

9. Wells (1983). Also, Dunning and Stopford (1983).

10. World Dev. Report, 1988. Quoted in ET: July 7, 1988.

TABLE 1.4

Distribution of Parent Companies with Direct Foreign Investments by country, 1980<sup>1</sup>

| Name of Country      | Number of Parents | Percentage to total |
|----------------------|-------------------|---------------------|
| United States        | 2,185             | 21.3                |
| West Germany         | 1,443             | 14.0                |
| United Kingdom       | 1,398             | 13.6                |
| Switzerland          | 723               | 7.0                 |
| France               | 596               | 5.8                 |
| Japan                | 572               | 5.6                 |
| Netherlands          | 571               | 5.6                 |
| Canada               | 407               | 4.0                 |
| Others               | 2,380             | 23.2                |
| Of Which:            |                   |                     |
| Singapore            | 133               | 1.3                 |
| Hong Kong            | 97                | 0.9                 |
| Malaysia             | 74                | 0.7                 |
| Taiwan               | 18                | 0.2                 |
| Thailand             | 12                | 0.1                 |
| Philippines          | 10                | 0.1                 |
| Portugal             | 8                 | 0.1                 |
| Indonesia            | 8                 | 0.1                 |
| South Korea          | 6                 | 0.1                 |
| Total                | 10,275            | 100.0               |
| Of Which:            |                   |                     |
| DEVELOPED COUNTRIES  | 9,911             | 96.5                |
| DEVELOPING COUNTRIES | 364               | 3.5                 |

Source: Dunning and Stopford (1983).

TABLE - 1.5

Stock of Direct investment from abroad by Major Recipient country or area, 1960- 1980

| Billions of dollars and percentage of that, end of |       |       |       |       |       |       |       |       |
|--|-------|-------|-------|-------|-------|-------|-------|-------|
| Host Country                                       | 1960  |       | 1971  |       | 1978  |       | 1980  |       |
|  | \$ bn | %     | \$ bn | %     | \$ bn | %     | \$ bn | %     |
| DEVELOPED COUNTRIES                                | 36.7  | 67.3  | 108.4 | 65.2  | 251.8 | 69.6  | 313.7 | 71.1  |
| United States                                      | 7.6   | 13.9  | 13.9  | 8.4   | 42.5  | 11.8  | 68.4  | 15.5  |
| Canada   | 12.9  | 23.7  | 27.9  | 16.8  | 43.2  | 11.9  | 45.5  | 10.3  |
| Western Europe                                     | 12.5  | 22.9  | 47.4  | 28.5  | 136.2 | 37.7  | 166.0 | 37.7  |
| DEVELOPING COUNTRIES                               | 17.6  | 32.3  | 51.4  | 30.9  | 100.4 | 27.8  | 117.4 | 26.6  |
| Latin America                                      | 8.5   | 15.6  | 29.6  | 17.8  | 52.5  | 14.5  | 62.3  | 14.9  |
| Africa   | 3.0   | 5.5   | 8.9   | 5.3   | 11.1  | 3.1   | 12.4  | 2.8   |
| Asia   | 4.1   | 7.5   | 7.8   | 4.7   | 25.2  | 7.0   | 30.3  | 6.9   |
| Southern Europe                                    | 0.5   | 0.9   | 1.7   | 1.0   | 3.4   | 0.9   | 4.1   | 0.9   |
| Middle East  | 1.5   | 2.8   | 3.5   | 2.1   | 8.2   | 2.3   | 8.3   | 1.9   |
| OTHER UNALLOCATED                                  | -     | -     | 6.5   | 3.9   | 9.5   | 2.6   | 9.8   | 2.2   |
| Total  | 54.5  | 100.0 | 166.3 | 100.0 | 361.7 | 100.0 | 440.9 | 100.0 |

Source: As for Table 1.2

1. Indicates data not available

70's has but stopped. In this scenario, but for Hong Kong, Singapore<sup>11</sup> and probably S. Korean MNCs, TWNNCs enbloc are not likely to have a smooth run.

So far, we were looking at empirical evidence on DFI from the point of view of the parent country. Now, we shall look at it from the host country point of view. Table 1.5 provides the stock of direct investment from abroad by major recipient country or area, 1960-80. Table 1.6 on the other hand, provides the ratio of inward DFI to other to a country to its outward DFI in 1960-80. We note that the DCs have received about 68 per cent of DFI (both from DCs and LDCs) and the LDCs have received around 29 per cent of DFI (the remaining 3 per cent is unallocated). About 50 per cent of the 29 per cent of DFI received by LDCs has been received by Latin America. (Table 1.5). From Table 1.6 we note that while there has been a net outflow of DFI from DCs as a whole, there has been a net inflow of DFI into LDCs as a whole. On an average, the inward DFI into DCs constituted 63 per cent of DFI from the DCs in 1979-80 (which means at least 37 per cent of DFI from DCs went to LDCs in 1979-80). However, as far as the developing countries are concerned, the inflow of

---

11. Singapore is enjoying a BOP surplus with US to a huge extent so that the US is compelled to do away with Singapore's preferential access to US markets (ET, July 7, 1988).

DFI into them was 16 times the outflow in 1979-80<sup>12</sup> (Taking developing countries individually we see that for Singapore, Malaysia, Brazil, Colombia and S. Korea, the inflows of DFI into them were 100, 21, 11, 10 and 2 times respectively the outflow in 1979-80) According to S.Lall, India is an exception among the LDCs: "it is probably the only developing country from which direct investments overseas exceed investment by foreigners into it. In the period 1969-80 the Government of India approved gross foreign investment amounting to a paltry US \$ 70 million into the country. By comparison, Brazil had a net inflow of such funds amounting to US \$ 22 billion in 1978 alone".<sup>13</sup> (It is to be noted that in September 1979, India had a significant direct equity stock exceeding US \$ 90 million<sup>14</sup>)

To conclude this section, we note that while TWINCs is a recent phenomenon, its importance has grown over time (a) in terms of the number of parent firms, (b) stock of DFI abroad-both in absolute as well as in relation to

---

12. In Table 1.6 the figure is 1604 in 1979-80 which is derived as follows: Index =  $\frac{\text{Inward DFI}}{\text{Outward DFI}} \times 100$

13. R. Lall (1984) p.4 quoting S. Lall p.302 in Bhagwati and Ruggie (eds) S. Lall (1984) also makes this observation in World Development No.5/6, 1984.

14. S. Lall (1982) World Development; Expert of Capital: the Indian experience.

TABLE - 1.6

An Index of the significance of Inward compared with Outward Foreign Direct Investment flows, selected countries, 1960-1980

| Inward direct investment flows as a percentage of<br>Outward direct investment flows, average between : |         |         |         |         |          |          |          |
|---|---------|---------|---------|---------|----------|----------|----------|
| Country   | 1960-62 | 1963-65 | 1966-68 | 1969-71 | 1972-74  | 1975-77  | 1978-80  |
| <b>DEVELOPED COUNTRIES</b>  | 59.4    | 58.4    | 58.4    | 51.5    | 53.4     | 49.7     | 63.0     |
| United States   | 11.5    | 7.8     | 12.5    | 15.1    | 29.9     | 27.7     | 48.8     |
| Canada  | 833.9   | 306.6   | 491.6   | 294.5   | 114.7    | 27.6     | 46.9     |
| United Kingdom  | 73.6    | 64.5    | 66.0    | 63.0    | 51.0     | 47.4     | 59.7     |
| West Germany  | 147.7   | 246.6   | 214.6   | 83.0    | 125.6    | 59.0     | 31.8     |
| France  | 67.6    | 107.6   | 87.6    | 234.1   | 121.1    | 107.3    | 125.9    |
| Italy   | 157.8   | 254.3   | 188.4   | 276.1   | 279.6    | 148.6    | 184.4    |
| Netherlands   | 48.1    | 111.1   | 80.5    | 105.8   | 85.0     | 42.9     | 33.5     |
| Belgium   | N.A.    | N.A.    | 891.0   | 807.8   | 323.8    | 387.9    | 370.4    |
| Sweden  | 66.4    | 88.0    | 147.3   | 54.4    | 21.9     | 8.6      | 18.2     |
| Japan   | 37.4    | 93.8    | 33.1    | 39.9    | 10.4     | 6.6      | 4.2      |
| Australia   | 1,765.7 | 2,121.0 | 1,176.2 | 834.2   | 449.0    | 454.6    | 551.6    |
| <b>DEVELOPING COUNTRIES</b>   | N.A.    | N.A.    | N.A.    | 1,581.9 | 744.0    | 1,169.3  | 1,603.7  |
| Brazil  | N.A.    | N.A.    | 8,050.0 | 8,275.5 | 1,904.2  | 1,090.6  | 1,121.5  |
| Colombia  | N.A.    | N.A.    | 2,300.0 | 1,286.1 | 1,460.1  | 450.2    | 1,055.8  |
| S.Korea   | N.A.    | N.A.    | 1,100.0 | 1,037.6 | 125.9    | 1,137.0  | 189.8    |
| Malaysia  | N.A.    | N.A.    | 7,400.0 | 4,550.0 | 4,820.0  | 3,533.3  | 2,163.3  |
| Singapore   | N.A.    | N.A.    | 9,000.0 | 8,200.0 | 11,100.0 | 64,714.4 | 10,083.3 |

Sources : UNCTC based on data provided by OECD for 1960-77; and the IMF (for 1978-80);  
IMF BOP Year book, supplements 1974 & 1981 for developing countries

Our Source: Dunning & Stopford (1983) p.15.

DCMNCs. Had there been no balance of payments problems with repercussions on the foreign exchange outflow, one would have expected a continuation of this trend in the 80's as well. It is obviously difficult to forecast with certainty at this juncture. However, the South East Asian MNCs from Hong Kong and Singapore are likely to surge ahead, unencumbered as they are, by foreign exchange bottlenecks.

C. THEORETICAL ISSUES RELATED TO DIRECT FOREIGN INVESTMENT FROM DEVELOPING COUNTRIES

In this section, we propose to briefly sketch the theoretical highlights related to DFI from developing countries.

The orthodox 2x2x2 Heckscher-Ohlin-Samuelson theory is incapable of explaining most aspects of the international economic involvement that lead to DFI. The model assumes perfect competition, free mobility of factors across the economic sectors of a country and complete immobility of factors of production across countries. In this model, trade in goods on the basis of relative factor endowment differences in the two countries operates as a substitute for movement of factors of production. Hence, there is no role for DFI which implies,

among other things, a movement of capital across the country's borders. However, Mundell's reformulation of H-O-S theory allows DFI to occur. But here DFI (i.e. capital outflow) acts only as a substitute for trade in goods. And the ultimate equilibrium position of the international commodity and factor prices remain the same as compared to the orthodox H-O-S post-trade equilibrium situation.

In a dynamic and historical situation however, one notes that DFI can act as either a substitute or a complement to trade. The real world negates the static and ahistoric assumptions of orthodox neoclassical economics. For external economies, barriers to trade, risk and uncertainty may exist; the market for information and capital may be imperfect; and firms may reap monopolistic advantages. Hence an alternative paradigm other than the one provided by neoclassical economics is necessary. It should allow for market failure which necessitates a firm to internalise transactions by global production. Also, the ownership specific advantages enjoyed by a particular firm over another - which may be firm or country-specific - need to be stressed. These depend on size, diversification, monopoly power, technology, trade marks, management, favoured accessibility of information and inputs, economics of joint scale production, ability to reduce costs, etc. Besides, there are locational advant-



ages : advantages derived in choosing a production base in one particular base over another. The choice depends on the relative input (including transport) costs, productivity, market characteristics and government policies of alternative locations. This eclectic theory which takes into account the ownership specific, locational and internalisation advantages in explaining DFI as a preferred choice over other forms of international involvement (e.g. exports and licensing) is referred to as the OLI (organisation, location and internalisation) paradigm and is attributable to Dunning.<sup>15</sup>

This approach takes into account all the variables that may be relevant in the strategy of the decision-making MNCs. However in a particular concrete situation certain factors may be more important than others and one requires to find the relative importance of factors. In addition, reasons for the differences in the relative importance of these factors from situation to situation need to be found. It seems that a complex MNC's behaviour cannot be captured by a simple behavioural and theoretical model. For reality to be captured adequately, simplicity needs to be sacrificed.

---

15. See Dunning (1979), (1981), (1986).

In the next section, we shall try to find out the broad firm and industry level characteristics of the TWMNCs based on the OLI paradigm. The country level characteristics for South Korea, Hong Kong and Latin American countries, will be discussed in details in the second chapter. Also the firm/industry/country level characteristics for India will be discussed in the subsequent chapters.

D. QUALITATIVE ISSUES ON DIRECT FOREIGN INVESTMENT :  
A COMPARATIVE PERSPECTIVE

In this section, we raise and seek answers to the following questions:

1. What are the general characteristics of MNCs and DFI?
2. Which of these are possessed by TWMNCs and which are not?
3. Where do these TWMNCs compete with and where are they complementary to the activities of DCMNCs?
4. Are the factors underlying DFI by firms from the two sets of countries different?

(1) The most important general characteristic of the MNCs is that they must possess certain advantages over local based firms for they have to incur certain additional costs in establishing a subsidiary in a foreign

territory which the local firms do not have to bear. The need to communicate between the subsidiary and the home office, a lack of familiarity with the local environment including business practice and laws, probable discriminatory policies of host governments in favour of local firms against MNCs etc., are the costs which local investors do not have to face, while MNCs have to.<sup>16</sup> To meet these, the firms must have certain advantages in generating which the home country's market specific factors play an important role. Thus, while American firms had ownership specific advantages in high income markets in products that saved on skilled labour, and European and Japanese firms in products that save on capital and raw materials,<sup>17</sup> a majority of TWMNCs seem to possess competitive advantage in low-priced labour intensive, small scale, standardised products in using local raw materials as input<sup>18</sup> although there are some foreign activities by TWMNCs in fairly sophisticated and in advanced technological sectors as well, e.g. pharmaceuticals and electronics.<sup>19</sup>



TH-2641

16. Wells (1983) Ch.2.
17. Vernon (1966) QJE and (1979) Oxford Bulletin of Econ and Statistics.
18. Wells (1983), Jo (1981), White (1981), Lecraw (1977).
19. S.Lall (1982) and S.Lall (1984).

DISS

338.88854

M6972 Mu



TH2641

Thus, while the nature of advantages reaped by MNCs from these sets of countries are different, what they have in common is that, their home-market specific characteristics have provided them different types of ownership advantages which they could reap through investing abroad.

(2) Now we shall compare and contrast DCMNCs and TWMNCs - in terms of technological adaptations to correspond to the needs of the home market, and related factors.

The TWMNCs are quite different, in this respect, from the DCMNCs. Some of the differences lead to hopes that such investors can make a special kind of contribution to the development of poor countries. The technologies that they transfer and the products that they make are generated from the conditions of the home countries and thus might be especially well suited to the needs of the other developing countries. Thus, some of these firms offer "appropriate technology" and "appropriate products"<sup>20</sup>. Often the technology - especially in skill and capital intensive activities - are scaled down, disseminated and adapted to the developing country's technological and market requirement.

---

20. L.T.Wells (1983) p.3. See also Francis Stewart (Technology and underdevelopment)

The host country market is generally small but the DCMNCs are generally unable to scale it down because their large home market does not provide them any incentive to learn the adaptations necessary to do so for the host market. As a result, they were faced to operate at only 26 percent of their capacity compared to 48 percent of the TWMNCs.<sup>21</sup> There are similar examples for other host developing countries also. Secondly, most developing countries are labour-surplus but capital and foreign exchange constrained. Hence technological adaptations and product and process innovations that involve less automation—thereby using more labour and save on scarce capital—are desirable.

"Thus India's small scale sugar mills for example, employ about three times the workers and a half or a third the capital for the same volume as a mill from an advanced country."<sup>22</sup> Moreover, as Wells (1983) pointed out, scarce capital is not expended in

---

21. L.T. Wells (1983) p.22. citing Lecraw's work on Thailand: unpublished dissertation, Harvard Business School.

22. L.T.Wells (1983) p.22.

building gorgeous offices and factories which DCMNCs are prone to do as they feel that buildings give a boost to their "image".

Moreover "the salaries paid to managers and technicians of the foreign subsidiaries of firms from developing countries appear strikingly low compared to those paid by a multinational firm from an industrialised country."<sup>23</sup> To the extent that these earnings are repatriated, it seems that the "drain on wealth" by TWMNCs is much less as compared to DCMNCs.

Also, while TWMNCs in general prefer joint ventures (JVs) and technology licensing, DCMNCs prefer wholly owned subsidiaries (WOS). The latter can reap organisational and internalisational advantages to a greater extent through Wholly Owned Subsidiaries (WOS). Many of them invest in R&D, advertising and marketing-intensive non-standardised products where they have their own brand names and patent rights. They fear the loss of quality, control, technology, informational advantage and above all, monopoly profits if they are to form JVs with LDC partners'. On the other hand, MNCs with standardised technology, undifferentiated

---

23. L.T.Wells (1983) p.33.

products and without a well-established distribution network, prefer a local partner, and their bargaining position over ownership and control also is not all that strong. Most TWMNCs belong to this category and without any brand name or patents do not, have anything to lose by forming joint ventures with a host firm. Wells has observed that although JVs repatriate profits in the form of dividends, royalties, etc., the amount repatriated by a joint venture is much less as compared to a WOS. Another way by which TWMNCs save on scarce foreign exchange of host governments is a greater extent of use of local resources. The vertically integrated global production structure facilitates taking advantage of transfer of DCMNCs pricing as well as having a standardised input norm. (for uniformity in quality) reflecting the norm in the DCs and thus alien to the raw material base and market conditions of the host developing countries.<sup>24</sup>

From the above discussion, we can conclude that unlike DCMNCs, a majority of TWMNCs' ownership specific advantages lie in having small firms, (see table IV) flexible production with a smaller

---

24. Wells, Op.Cit. p. 40-41.

TABLE - 1.7

Distribution of developing countries' subsidiaries abroad by level of employment (%)

---

|  | <u>Small Sized</u> |         | <u>Medium Sized</u> |          | <u>Large Sized</u> |
|--|--------------------|---------|---------------------|----------|--------------------|
| Developing Countries'<br>Subsidiaries employing: | upto 100           | 100-200 | 200-500             | 500-1000 | Over 1000          |
| Percentage                                       | 43                 | 10      | 20                  | 11       | 16                 |

---

Source: M. Svetličič(1986) in Khan (ed).



run of a greater variety of production, more optimal capacity utilisation, product, and process innovation subject to host country requirements like less automation/use of local raw materials. They produce more or and less standardised goods in perfectly competitive markets and rely less on product differentiation and brand name promotion. They are, therefore, more inclined to form JVs and are amenable to the host country's aspiration of promoting a self-reliant, industrial strategy than DCMNCs.

(3) It may seem, from the previous discussion of the ideal-typical OLI characteristics of TWMNNCs and DCMNCs, that their fields of operations will be different and they do not compete against each other. We note that this is not actually the case. Some of them like San Miguel of Philippines and Inca Cera of Peru have developed international brand names. According to Wells, "to picture (developing country) firms in these countries as being solely copiers of technology from elsewhere would be quite incorrect."

..... These products are occasionally effective competitors against the global products of the

advanced country multinational, even outside the Third World firms' home market."<sup>25</sup>

However, the most severe competition between DCMNCs and TWMNCs occurs only at the "tail of the product cycle". Wells has this to say; "Often with lower costs and with preferential treatment from local government in many cases, local firms become serious competitors for the traditional multinationals in the richer developing countries". They have now ventured abroad and are "providing competition for the traditional multinationals much like that posed by the Europeans to the Americans especially in the late-1950's, and by the Japanese to both the Europeans and the Americans, from say the mid-1960's".<sup>26</sup>

However, according to S.Lall, competition is not confined to the tail end of the product cycle. Thus Indian and Brazilian MNCs have ~~posed~~ competition in skill and capital-intensive middle range of the technological spectrum.<sup>27</sup> However, while qualitatively

---

25, Wells (1986) in Khan (ed)p.199

26. Wells. *ibid.* p.201.

27. S.Lall (1982)

important , their magnitude is still not all that significant in quantitative terms.

We also note that, often DCMNCs and TWANCs have played a complementary role to each other: they have not only carved out market segments for themselves (this will be discussed in the chapter VI in details) but have also collaborated to establish a joint venture in a third country. Apart from the fact that the presence of a Third World partner might, soften the political reaction to DFI from the North, the TWANCs were better equipped with cheap managerial and technical personnel and knowledge of running a unit in the third world conditions. On the other hand, the DC partner provided access to marketing channels, capital and technology which were in its control. However, these joint ventures have proved to be "not very stable"<sup>28</sup>. Conflicts have arisen over allocation of production, transfer pricing, quality standards and choice of inputs. However, certain other lesser form of collaboration, according to Wells, were likely to generate fewer conflicts between partners.<sup>29</sup> And foundation for collaboration is likely to be strong

---

28. Wells (1986) Op.Cit. p.203

29.Ibid p.204

where it is based on "complementary skills"<sup>30</sup> and where the co-operative game played by the two parties provide a stable equilibrium at a higher level of profits for both parties.

(4) By now it is apparent that the factors underlying DFI are not similar. The permissive factor is provided by whether or not there is a BOP constraint having implications on the permissible amount of outflow of foreign exchange. With regard to this factor, the DCMNCs have a greater advantage than TWMNCs - especially, those from West Germany and Japan.

The causal factors are derived from the home market characteristics of the parent firms. Thus the DCMNCs invest in sophisticated capital-intensive industries with a high R & D and advertising intensity. For TWMNCs it is the other way round. Thus, as far as R & D is concerned, "about 58 percent of the subsidiaries of the firms from the developing countries are in industries characterised by low R & D expenditures (calculated in the United States as less than 1 per cent of sales). Such industries account for only 30 per cent of subsidiaries of

---

30. Ibid. P. 209

American multinationals and about 36 per cent of subsidiaries from other industrialised countries. The figures are almost exactly the reverse for high R & D industries (2.5 per cent or more of sales spent on R & D). Only 26 per cent of subsidiaries of Third World Multinationals are in high R & D industries, whereas almost 55 per cent of the subsidiaries of American multinationals and 52 per cent of the subsidiaries of the multinationals from other industrialised countries are in such industry".<sup>31</sup>

As regards advertising intensity, "multinationals from developing countries have 89 per cent of their subsidiaries in industries characterised in the U.S. by advertising expenditures of under 1 per cent of sales. American based multinationals have only 74 per cent of their subsidiaries in such industries. The contrast is sharper at the upper end ( 2 per cent or more spent on advertising). The Third World Multinationals have 2.7 per cent of their subsidiaries, American Multinationals have more than four times the proportion".<sup>32</sup> The figures however, show that the contrast between DCMNCs and TWMNCs - at least at the lower end - is much less as compared to what the available literature on TWMNCs seems to suggest.

---

31. Ibid., p.198.

32. Ibid., p. 198.

Moreover DCMNCs have a vertically integrated production structure i.e. they represent the integration across countries of successive stages of the production chain and they maximise global profits. So any particular subsidiary/joint venture in which DCMNCs invest, is of 'marginal' significance to their profit calculus. This is the antithesis of TWMNCs for which a unit<sup>is</sup> a separate one independent from the rest. This is so, as their investments are of the horizontal type. They set up additional units abroad to produce similar labour intensive items to those already produced at home. Hence we conclude that because of the underlying nature of the investment based on DCMNCs' motivation of maximising global profits, they have much to gain by internalising their transactions unlike TWMNCs often at the cost of the host developing countries.

The 'push' factor, namely, to protect the export market when the firms' exports are threatened (for whatever reasons) have also motivated both DCMNCs and TWMNCs to invest abroad. This factor will be discussed in details in the context of the TWMNCs in the next chapter.

Moreover, the 'ethnic' ties ('pull' factor) for TWMNCs especially for Indians and Chinese (from Hong Kong and Taiwan) have been an important factor for investing

abroad. Similarly, the need to diversify risks arising from political and economic <sup>factors like</sup> instability at home ( and <sup>factors like</sup> also host country) by putting eggs in more than one basket were the added factor that motivated TWMNCs to venture overseas. These two factors were not important for DCMNCs. That the political risk factor was not important seems to suggest that DCMNCs can exert greater power and pressure over their home and host country governments than TWMNCs, so that the former do not find the risk factor as an important motivation for investing abroad.<sup>33</sup>

To conclude, the TWMNCs are emerging as an important force in the international economy, although, at present, their role is not too significant. They often compete with (as substitutes for) DCMNCs. Often they are complementary as well. They also collaborate with DCMNCs. Their characteristics are such that they can, in principle, render greater benefits to the TW host countries. Costs associated with TWMNCs will be discussed in the chapter on South-South co-operation. Their OLI advantages and their underlying characteristics of investment are, in general, different from those possessed by DCMNCs. However, we may agree with Chen that although the complex factors present in DCMNCs and TWMNCs will not allow us to lump them

---

33. Lecraw's study of 200 MNCs hosted in Thailand - 180 DCMNCs and 20 TWMNCs in his unpublished doctoral dissertation, HBS, cited in Wells (1983).

into a homogenous category and thereby does necessitate a reconsideration of the existing theories of DFI when applied to TWMNCs, "we may not need a completely new theory". But we "do need a general theory synthesising the existing theories ".<sup>34</sup>

---

34. Chen (1981) in Kumar and Mcleod (eds) p.97.



CHAPTER - II

MNCs FROM DEVELOPING COUNTRIES:

COUNTRY-WISE CASE STUDIES

A. INTRODUCTION

As in the last chapter, by multinational firms we mean firms operating in more than one country. This definition is much less restrictive than the definition provided by the Harvard Business School where a Transnational Corporation is one which operates in at least six countries. Infact if we apply this definition to the TWMNCs, there will be very few corporations/firms which conform to such a definition.

The rise of the TWMNCs is a recent phenomenon and their countries of origin are as yet confined to the more developed and the industrialised among the developing countries. It is to be noted that there are hardly any multinationals from Africa. In terms of origin and location of TWMNCs, the South seems to be subdivided into two distinct geographical regions - Latin America and Asia (especially South East Asia) and there is hardly any evidence of a Latin American firm investing in an Asian country and vice-versa (with a few exceptions). The geographical distance, difficulties in transport and communications, (India, for e.g., does not have a direct shipping line with a Latin American country), ethnic, linguistic

and cultural differences account for this. Thus, while discussing the phenomenon of TWMNCs, we can treat them as two separate entities. Their only space for convergence seems to be Africa where MNCs from both continents/regions have exported their capital and technology.

In this chapter we propose to undertake country-case studies of South Korea and Hong Kong. We shall also examine/consider the nature of intra Latin American DFI by firms from the Latin American countries. It was not possible to undertake country-case studies for particular Latin American countries as enough material was not available. Moreover, we must point out at the outset that this chapter is not an ambitious one : its sole objective is to serve as an introduction to the detailed discussion on Indian joint ventures which we shall initiate in the next chapter.

The data problem relating to the study of the investments made by TWMNCs seems to be an unsurmountable one.

(i) there are problems of conflicting data from different sources. For example; estimates of DFI by firms from Latin American countries differ from author to author.

E. White,<sup>1</sup> S.Lall<sup>2</sup> and J.H.Dunning<sup>3</sup> have provided different estimates. Lall himself pointed out that his evidence are 'anecdotal' and Dunning mentioned that his estimates were his 'best guess'. There is no uniformity in the methodology of the collection of data.

(ii) Many governments of the parent countries do not employ an adequate statistical personnel to collect and compile data. Data for HongKong's DFI is not obtained from HongKong: one has to piece together, whatever information one can, from the respective host country governments where HongKong firms have invested. Latin American governments have not shown much interest towards collection of data. Even for India, as S.Morris pointed out, there are no officially compiled data for the 250-odd subsidiaries of Indian firms abroad. Even the official data on IJVs. Abroad suffers from certain limitations.

(iii) In order to escape government restrictions of exchange control, many parent firms do not report the outflow of capital to their parent governments. Often

---

1. White,E(1981) in Kumar and McLead(eds)

2. Lall(1982)

3. Dunning(1986)

subsidiaries of parent firms establish further subsidiaries without the parent government's approval or knowledge.

(iv) Often where certain sectors are excluded from foreign investment by a host country government or for the purpose of circumventing parent country restrictions regarding the outflow of capital, the parent firm taking into advantage the ethnic ties in the host country establish firms with a domestic rather than foreign status.

(v) As far as DFI from HongKong is concerned, it includes investment by HongKong based firms (with overseas capital) which are practically British. Thus the figure over estimates DFI by ethnically Chinese firms. However, most, of the DFI in manufacturing is made by ethnically Chinese firms and not by individuals or foreign owned subsidiaries in Hong Kong.

These limitations should be kept in mind for the discussion and analysis that follows.

#### A. HONGKONG

HongKong, a tiny city state, <sup>with</sup> one of the highest per capita incomes among the non-oil exporting developing countries, accounts for the largest amount of DFI from

the developing countries. Dunning estimates the total stock of DFI by Hong Kong-based firms in the range of U.S. \$2,500 - \$3,000 million for the year 1982.<sup>1</sup>

A1. Geographical orientation of Hong Kong firms.

Hong Kong firms started to invest overseas in the manufacturing sector noticeably in the early 60's but a rapid growth in the DFI has occurred only since the mid 70's.<sup>2</sup> Most of the DFI in the late 70's was concentrated in Indonesia, Malaysia, Singapore and Taiwan.<sup>3</sup> Many Hong Kong firms have also established subsidiaries in other Asian countries such as the Philippines, Sri Lanka and Thailand and in African countries, such as Nigeria, Ghana and Mauritius.<sup>4</sup> China, since its pursuing a 'new' economic policy has also become an important host to Hong Kong MNCs in the late 70's.

- 
1. Dunning in Khan (Ed.) (1986) p.23.
  2. E.K.Y. Chen (1981) Hong Kong Multinationals in Asia; Characteristics and Objectives in Kumar and McLeod (eds.): Multinationals from Developing Countries. p.80.
  3. S. Chishti p.100 Table 5.3 in Trade Expansion among countries of the South in Khan (ed.) In Indonesia, upto 1976, as high as 22 percent of investment accrued was contributed by TWMNCs.
  4. Chen (1981) Ibid and L.T. Wells (1983).

During the period 1967-76, Hong Kong's total investment in Indonesia amounted to U.S.\$210 million which represented 11.7 percent of all DFI in Indonesia, and was second only to Japan<sup>5</sup>: As far as the host Malaysia was concerned Hong Kong ranked fourth after Japan, Singapore and U.K. in the amount of total DFI in Malaysia at the end of 1977.<sup>6</sup> In Taiwan for the period 1952-78, Hong Kong's DFI amounted to U.S.\$223 million, representing 11.6 percent of total DFI in Taiwan during that period. Hong Kong ranked third after U.S. and Japan in the amount of foreign investment, in Taiwan<sup>7</sup>. Singapore in 1973 accounted for U.S. \$1549 million of Hong Kong investment<sup>8</sup>.

A2. Industrial Distribution of Hong Kong firms' DFI

It is unfortunate that because of data limitations, we do not know the proportion of Hong Kong firms' investment in the manufacturing and the non-manufacturing sector. Also, we do not know the amount of the percentage of investment in a particular industry.

---

5. Chen (1981) p.80

6. Chen (1981) in Kumar & Molod (eds.) p.82

7. Ibid pp.84-85

8. See Yeshikara (1976) Table 7.3. Foreign investment and Domestic Response. Singapore: Eastern Universities Press, Cited by Chen p.87.

within the manufacturing sector as far as Hong Kong MNCs are concerned. However, it is possible to compare the relative importance of different industries in Hong Kong's DFI for some particular host countries. (Table 2.1 for Indonesia, Table 2.3 for Malaysia, Table 2.5 for Taiwan and Table 2.8 for Singapore).

One can discern a sectoral change within the manufacturing sector over time in Hong Kong's DFI. In the 60's Hong Kong's direct investment was concentrated primarily in textiles. Later, in the 70's, it diversified into chemicals, electrical products and electronics. As of December 1976, textiles constituted 55.3 per cent of Hong Kong's DFI in the manufacturing sector of Indonesia (Table 2.1). The figure was 57.9% for Malaysia on December 31, 1977 (Table 2.3) and 61 per cent for Singapore in 1973 (Table 2.8). Chemicals accounted for 14.6 per cent of Hong Kong DFI in Indonesia (Table 2.1), 8.3 percent in Malaysia (Table 2.3) 52.9 per cent in Taiwan<sup>9</sup> (Table 2.6) and 7.2 per cent in Singapore (Table 2.8). Besides, electrical products and electronics constituted 8.3 per cent in Malaysia, 28.8 per cent in Taiwan and 7.5 per cent in Singapore. Other sectors - manufacturing-in which Hong-Kong firms also invested - although to a lesser extent -

---

9. For the period Jan '74 to July '79.

TABLE - 2.1.

Hong Kong investment in the Manufacturing Sector of Indonesia as of December 1976

| Industry            | Percentage of total |
|---------------------|---------------------|
| Food                | 7.1                 |
| Textiles            | 55.3                |
| Paper               | 1.3                 |
| Chemicals           | 14.6                |
| Minerals and metals | 6.5                 |
| Basic metals        | 4.4                 |
| Metal products      | 9.2                 |
| Others              | 1.6                 |

Source : Bank of Indonesia Cited in Chen, p. 81.

TABLE - 2.2

Hong Kong firms' initial investment in approved projects in Indonesia as of June, 1980

| Sector         | Amount<br>(U.S. \$ million) | As percentage of<br>total DFI in Indonesia |
|----------------|-----------------------------|--|
| Agriculture    | 6.3                         | 34.1                                       |
| Forestry       | 7.7                         | 12.1                                       |
| Fishery        | 1.1                         | 8.7  |
| Mining         | 0.1                         | -  |
| Manufacturing  | 26.5                        | 7.6  |
| Construction   | 7.8                         | 30.5                                       |
| Trade/Hotel    | 12.8                        | 51.2                                       |
| Transportation | -                           | -  |
| Services       | 2.2                         | 25.0                                       |
| <b>Total</b>   | <b>64.4</b>                 | <b>10.6</b>                                |

Source: Capital investment co-ordination Board, Government of Indonesia. Cited in World Development (1984) p.483.



TABLE - 2.3.

Hong Kong investment in Malaysia by Industry, December  
31, 1977

---

| Industry                            | Percentage of total |
|-------------------------------------|---------------------|
| Food manufacturing                  | 9.1                 |
| Textiles and textile products       | 57.9                |
| Wood and wood products              | 6.3                 |
| Chemicals and chemical products     | 8.3                 |
| Electrical products and electronics | 8.3                 |
| Others                              | 10.1                |
|                                     | -----               |
|                                     | 100.0               |
|                                     | -----               |

---

Source: Malaysia Commission, Hong Kong.

TABLE - 2.4

Hong Kong's DFI in Malaysia (as on 31.12.1979)

| Sector                             | Amount<br>(M \$ '000) | As percentage of total<br>DFI in Malaysia |
|------------------------------------|-----------------------|---|
| Food                               | 20,038                | 5.2                                       |
| Beverages & Tobacco                | 16,605                | 9.7                                       |
| Textiles                           | 141,964               | 32.7                                      |
| Wood                               | 17,381                | 14.8                                      |
| Paper and Printing                 | 1,046                 | 3.6                                       |
| Chemicals                          | 26,722                | 11.1                                      |
| Petroleum & Coal                   | 24,400                | 22.8                                      |
| Rubber                             | 8,083                 | 8.0                                       |
| Plastics                           | 2,465                 | 6.5                                       |
| Non-Metallic minerals              | 2,647                 | 1.0                                       |
| Basic metals                       | 3,668                 | 4.0                                       |
| Fabricated Metal                   | 8,508                 | 10.3                                      |
| Machinery                          | 54                    | 0.1                                       |
| Electric & Electronics             | 22,640                | 10.6                                      |
| Transport equipment                | 1,126                 | 0.8                                       |
| Scientific and measuring equipment | 3,106                 | 8.5                                       |
| Hotel, Tourism                     | 5,798                 | 11.0                                      |
| <b>Total</b>                       | <b>281,898</b>        | <b>10.9</b>                               |

Source: Office of the Commissioner for Malaysia, Hong-Kong. Cited in World Development (1984) No.5/6

TABLE - 2.5

Hong Kong Investment in Taiwan, 1964-78

| Year | Cases <sup>a</sup> | Amount <sup>b</sup><br>(US \$ Million) | As a percentage of Foreign<br>Investment in Taiwan |
|------|--------------------|--|--|
| 1964 | 16                 | 2.8                                    | 14.1   |
| 1965 | 19                 | 2.7                                    | 6.5  |
| 1966 | 29                 | 4.6                                    | 15.7   |
| 1967 | 86                 | 12.0                                   | 21.1   |
| 1968 | 153                | 17.6                                   | 19.6   |
| 1969 | 48                 | 6.8                                    | 6.2  |
| 1970 | 51                 | 8.6                                    | 6.0  |
| 1971 | 44                 | 21.3                                   | 13.1   |
| 1972 | 77                 | 12.5                                   | 9.9  |
| 1973 | 130                | 30.0                                   | 12.1   |
| 1974 | 45                 | 21.7                                   | 11.5   |
| 1975 | 21                 | 29.5                                   | 25.0   |
| 1976 | 25                 | 17.3                                   | 12.2   |
| 1977 | 26                 | 11.3                                   | 6.9  |
| 1978 | 22                 | 16.5                                   | 7.8  |

Source: Industrial Development and Investment Center, Taiwan.

a: Indicates the number of new projects.

b: Indicates the total amount including new projects and the expansion of existing projects.

(Cited in Chen (1981) p. 84).

TABLE 2.6

Hong Kong Investment in Taiwan, by Industries, Jan 1974  
to July 1979

| Industries                            | Cases | As a percentage of Hong-Kong's Total Manufacturing Investment in Taiwan |
|---------------------------------------|-------|---|
| Electronics and electrical appliances | 15    | 28.8  |
| Chemicals                             | 8     | 52.9  |
| Garments and footwear                 | 2     | 4.7   |
| Textiles                              | 0     | 2.6   |
| Machinery, equipment & Investment     | 2     | 2.9   |
| Metal                                 | 2     | 2.6   |
| Others                                | 5     | 5.5   |
| Total                                 | 34    | 100.0   |

Source : Same as Table 2.5, p.85.

were food, paper, metal products, machinery, garments, footwear etc.

Tables 2.2, 2.4 and 2.7 show the amount of Hong Kong investments in Indonesia, Malaysia and Taiwan respectively and the percentages of total DFI in the different sectors in these countries. Hong Kong's share in total DFI in Indonesia, Malaysia and Taiwan were 10.6 per cent (June 1980), 10.9 per cent (Dec. 1979) and 8.9 per cent (Dec. 1979) respectively. Of the total DFI in trade/hotel in Indonesia by MNCs-DCMNCs & TWMNCs - Hong Kong's share was 51 per cent. Similarly, Hong Kong's share in textiles in Malaysia was 32.7 per cent (Table 2.4) and Hong Kong's share in pulp+paper in Taiwan was 56 per cent (Table 2.7) Thus in certain sectors, Hong Kong's share in DFI by the MNCs from all countries was quite considerable.

### A.3 Motivations for Investment:

Hong Kong is a tiny state and a British protecto- rate. It is over populated and with a rapid economic development is facing on increasing land and labour costs with a negative impact in its export competitiveness. It is an open economy and both exports and imports exceed GNP. This is because of its importance as a prime centre for entrepôt trade. A small city state with a poor natu-

TABLE - 2.7

Hong Kong's DFI in Taiwan (Dec. 1979)

| Sector                    | Amount<br>(US \$ '000) | As percentage of total<br>DFI in Taiwan |
|---------------------------|------------------------|---|
| Agriculture & Forestry    | 353                    | 11.9                                    |
| Fishery & husbandry       | 2,895                  | 25.3                                    |
| Mining                    | 49                     | 8.5                                     |
| Food & beverages          | 3,918                  | 5.3                                     |
| Textiles                  | 28,327                 | 28.9                                    |
| Garment & footwear        | 17,585                 | 43.9                                    |
| Lumber                    | 3,862                  | 15.9                                    |
| Pulp paper                | 9,157                  | 56.3                                    |
| Leather                   | 6,912                  | 66.4                                    |
| Plastic & Rubber          | 18,031                 | 21.1                                    |
| Chemicals                 | 21,546                 | 6.1                                     |
| Non-metallic minerals     | 8,809                  | 2.6                                     |
| Basic and other metals    | 9,238                  | 4.2                                     |
| Machinery & Equipment     | -                      | -                                       |
| Electronics & electricals | 15,787                 | 1.7                                     |
| Construction              | 53,065                 | 51.5                                    |
| Trade                     | 2,904                  | 36.4                                    |
| Banking & Insurance       | 6,810                  | 6.3                                     |
| Transportation            | 25,494                 | 64.3                                    |
| Services                  | 17,289                 | 4.7                                     |
| Others                    | 15,627                 | 21.3                                    |
| <b>Total</b>              | <b>276,393</b>         | <b>8.9</b>                              |

Source : Industrial Development and Investment Centre,  
Taiwan.

(Cited in World Development. May/June 1984)

TABLE - 2.8

Hong Kong Investment in Singapore by Industry,  
1966 and 1973

| Industry                            | As a percentage of Hong-Kong's Total investment in Singapore Industry |              |
|-------------------------------------|---|--------------|
|                                     | 1966  | 1973         |
| Food and Beverages                  | 27.8  | 9.1          |
| Textiles and garments               | 38.8  | 61.0         |
| Chemicals                           | 25.6  | 7.2          |
| Electrical products and electronics | 5.5   | 7.5          |
| Others                              | 2.3   | 15.2         |
|                                     | <u>100.0</u>  | <u>100.0</u> |

Source: Chen (1981) p.87.

ral resource base but with cheap managerial talent and skilled labour power, it has emerged as the most important foreign investor from the LDCs. The political uncertainty on account of the status of Hong Kong after it ceases to be a British territory in 1997 and incorporated into main land China, has provided an added push to its investors to venture abroad.

With this macroeconomic background, we can analyse as to why Hong Kong firms invest abroad in the manufacturing sector. The motives are both defensive-to protect its share in the export market, and aggressive-to expand into new markets and new manufacturing sectors.

As far as defensive motives are concerned, we can distinguish between two cases: (a) need to protect the host country's market in which the Hong Kong based firm is located. These are import-substituting ventures as far as the host country is concerned and (b) need to protect the third country market from international and domestic competition. These are meant to facilitate exports to DCs by relocating production bases in LDCs to take advantage of cheap labour, land, etc.

For Hong Kong, the defensive motive was related to (b) and not (a). While Hong Kong's exports of manufactu-



red goods was primarily to the DCs, its DFI in manufacturing mostly in third world countries. The rising labour and land costs which were rendering exports internationally uncompetitive provided the push to Hong Kong firms to locate their subsidiaries in the poorer countries like Malaysia, Indonesia, Sri Lanka and Mauritius.<sup>10</sup> Reaping 'cost advantages' for the purpose of rendering exports internationally competitive were the most important motivation for Hong Kong firms to venture overseas.<sup>11</sup> The cost-saving effect was derived from combining the relatively cheap management skill of the parent firm with the relatively cheap labour and land costs in the host countries. Another associated motivation was that Hong Kong firms could repaint and export the second hand machinery rendered obsolete and non viable due to increasing labour costs.<sup>12</sup> This motive was especially true for textiles. In order to reduce costs of production at home, Hong Kong firms have also developed a vertically integrated production structure as far as host China is concerned where Hong Kong firms have engaged in subcontracting its labour

---

10. L.T. Wells (1983), Chen (1981).

11. Thus Hong Kong firms have established subsidiaries in Taiwan whenever the export oriented industries in Hong Kong are being challenged by the exports of Taiwan and S. Korea.

12. L.T. Wells (1983).

intensive production processes.

The second motivation was to evade quota restrictions imposed by DCs on Hong Kong's exports by locating some of their production in countries not yet under such restrictions. This factor initially gave the push to Hong Kong textiles and garment firms to locate their production bases in Singapore in the 1960's.<sup>13</sup> While the export quota perse did not provide the motivation, the increasing degree of categorisation of the annual quota did. (For e.g. in 1964, the original four-category U.K. quota was split into thirty four). Unable to adjust their production for exports, within a short time, Hong Kong firms relocated their production bases where either the quota had not yet been imposed or were less harsh. Singapore "still enjoyed the benefit of commonwealth preference" and "had better shipping and financial facilities". Hence it provided the initial choice. Later with increasing land and labour costs in Singapore also, Hong-Kong firms relocated its base in the 70's in Malaysia, Indonesia, Sri Lanka and Mauritius. The Mauritius was a favourable base as it received a preferential treatment in the EEC market.

---

13. Chen. p.87.

(3) The third motivation arises out of 'environmental considerations'<sup>14</sup> which prevented Hong Kong firms to establish production bases in chemicals in the 70's.

Taiwan was the most preferred locational base as its government encouraged DFI in this sector.

(4) Hong Kong firms invest abroad in raw materials and consumption necessities (food, metals, minerals and lumber industries) in Taiwan, Indonesia and Malaysia to serve its domestic market.

(5) Ethnic ties, raw materials or consumption necessities have also motivated Hong Kong firms to invest abroad. There is a large overseas ethnic Chinese community in all the South East Asian countries where Hong Kong firms have invested significantly. That this ethnic factor is important is suggested by the fact that while both Korea and Taiwan enjoy lower land and labour costs and greater government assistance than Hong Kong firms and purely economic motivations for Hong Kong firms to invest in these two countries are likely to be similar, Hong Kong investment in Korea has not been important. This fact suggests that in making DFI, cultural and ethnic ties, familiarity with local conditions and languages, .. can be as important as pure economic considerations".<sup>15</sup>

---

14. Chen. p.87.

15. Chen. p.86.

(6) Political factors have also been significant in motivating Hong Kong firms to invest abroad. This has been in the nature of diversification of risks. Also, political stability of the host country is one of the most important reasons for choosing a particular location over another. Thus "the rapid increase in Hong Kong investment during 1966-88 is mainly due to political factors. The riots in Hong Kong in 1966 and 1967 led to an exodus of capital from Hong Kong to Singapore. Taiwan was not preferred because the political futures of both Hong Kong and Taiwan were considered to be closely related".<sup>16</sup> Again although China was emerging as an important host to foreign MNCs, Hong Kong MNCs had reservations regarding political stability in China fearing a reversal of China's "new" economic policy. (in the late '70's).<sup>17</sup>

A.4. Ownership Character and size of Hong Kong  
MNCs in the Manufacturing Sector

Hong Kong MNCs may establish either wholly owned subsidiaries or have joint ventures with host country firms. They seem to have preference for establishing joint ventures in the manufacturing sector. In Malaysia where Hong Kong MNCs concentrate in the export oriented

---

16. Ibid. p.88.

17. Ibid. p.89-90.

industries (textiles, garments and electronics), both leading as well as the small and obscure Hong Kong MNCs have invested in joint ventures with Malaysian companies.<sup>18</sup> In China, a law on Joint Ventures was to be enacted in the early 80's after which Chen expected that Hong Kong MNCs by establishing joint ventures would participate in Chinese industrialisation.

As far as size of joint ventures and subsidiaries is concerned, We do not have any data. Chen however mentions the size of the companies making foreign investments. Not many of them can be considered "large firms" but are "medium in size", employing 200 to 1,000 workers. This can perhaps be explained by the fact that the keenest competition in Hong Kong is among these medium-sized firms. "Another reason, a circumstantial one, is that many of the larger businesses are foreign owned subsidiaries and as such they do not fall into the category of Hong Kong multinationals".<sup>19</sup>

#### B. SOUTH KOREA

The internationalisation of South Korean firms was rather recent . While the earliest overseas direct in-

---

18. Ibid. p.82.

19. Ibid. p. 97.

Vestment occurred in 1959, it was "around 1967 when out-flow of overseas direct investment began to be discernible as anew pattern of international operation".<sup>20</sup> It was, however, only in the second half of the 70's that DFI gathered momentum. Table 2.9 which shows overseas direct investment by Koreans reflects this trend. In 1978, the cumulative total/DFI by Korean MNCs aggregated to US \$ 111 of million. According to Dunning,<sup>21</sup> Korea in 1982 had a total DFI in the range US \$ 200 - \$ 250 million.

### B.1 Characteristics of Korea's Overseas Direct Investment

The analysis presented in this section is draws upon the work of Jo. His analysis "was mainly based on the industry-wide grouped data available from the unpublished sources of the Bank of Korea".<sup>22</sup> The terminal date for the data used in the tables was the end of 1978.

#### (a) Industrial and Regional Distribution:

Only 19 out/a total of 243 overseas ventures<sup>23</sup> are of in manufacturing. In non-manufacturing sector, as many

---

20. Sung-Hwan Jo (1981) Overseas Direct Investment by South Korean firms: Direction and Pattern in Kumar & Mc Lead (eds) p.53.

21. Dunning (1986) in Khan (ed).

22. Jo (1981) p. 63.

23. Including subsidiaries. See 'ownership pattern of Korean MNCs'.

as 149 are trading ventures, followed by 23 in fishing and 16 in construction (see Tables 2.9 and 2.10).

(1) Manufacturing : Korean firms did not have DFI in manufacturing in the DCs. 49 per cent/all manufacturing of investments were in S. E. Asia, 38 per cent in Africa & 7 per cent in Oceania.

(2) Non-Manufacturing:

(i) Trading: DFI occurred in both DCs and LDCs. In terms of numbers it was concentrated in DCs (74 per cent), but in terms of value, in the LDCs (45 per cent in Africa and 12 per cent in Southeast Asia).

(ii) Fishing: While investment in fishing was diffused throughout the world, 80 per cent was concentrated in Africa followed by Latin America (12 per cent) and N. America (6.5 per cent).

(iii) Construction: 43 per cent of DFI in construction was made in USA followed by 35 per cent in Middle East.

(iv) Timbering: This was exclusively confined to South East Asia.

(v) Transportation and warehousing: This was concentrated in Middle East (81 per cent) and N. America (19 per cent.)

(b) Size Distribution:

The overall average size of investment was US \$ 372,000. The average size of trading firms was US \$ 66,000, while that of timbering and construction firms was US \$ 2,981,000 and US \$ 901,000 respectively the average size of manufacturing firms was US \$ 129,000.

(c) Ownership Pattern:

Table 2.9 shows the ownership pattern of Korean DFI. We note that

(i) About two-thirds of the overseas direct investment was comprised of subsidiaries, 23 per cent joint ventures with Korean majority ownership (more than 50 per cent) and 11 per cent joint ventures with Korean minority ownership.

(ii) Subsidiaries of Korean firms were concentrated in such on-site service areas as trading, banking, real estate, and transportation and warehousing.

(iii) Joint ventures were the predominant form of overseas direct investment by Koreans in fishing, timbering, mining, manufacturing and construction.

B.2 Motives for Investment

(a) It will be more convenient to discuss the motives for investment and their changes over time if we relate



TABLE - 2.9

Ownership Pattern of Overseas Korean Firms (number of Firms)

| Industry                        | 100% | More than<br>50% | Less than<br>50% | Subtotal |
|---------------------------------|------|------------------|------------------|----------|
| Mining                          | 1    | -                | 1                | 2        |
| Timbering                       | 1    | 6                | -                | 7        |
| Fishing                         | 1    | 10               | 12               | 23       |
| Manufacturing                   | 2    | 11               | 6                | 19       |
| Construction                    | 5    | 9                | 2                | 16       |
| Transportation<br>& warehousing | 4    | 2                | 1                | 7        |
| Trading                         | 134  | 12               | 3                | 149      |
| Others                          | 5    | 6                | 1                | 12       |
| Real estate                     | 8    | -                | -                | 8        |
| Subtotal                        | 161  | 56               | 26               | 243      |
|                                 |      |                  |                  | (total)  |

Source: Jo. p.67.

them to the Korean macroeconomic structure and the changes it has experienced over time. We shall begin from the early 50's when the Korean War was over. Korea inherited an open, dualistic and labour surplus economy.<sup>24</sup> Thus, an overwhelming role of foreign trade, agriculture-industry imbalance and population pressure characterised S. Korea. It embarked on an import-substitution led industrialisation since 1950, directed, mainly at consumer goods sector. Scarcity of raw materials and a lack of capital goods base necessitated their imports. Through inducing relative price distortions and other import-restrictive measures, this import-substitution led industrialisation continued upto 1965. In this period, almost all industrial activities were domestic market oriented and exports occupied only a small fraction of GNP. According to Jo, the manufacturing production structure was " import-inducing and capital intensive relative to Korea's labour-rich factor endowment".<sup>25</sup> Exports were sluggish and imports grew rapidly in 1955-65. In the period 1962-67, 80 per cent of DFI into S. Korea was also concentrated in import-substituting industries.

---

24. Jo (1981) p.56.

25. Ibid. p.58.

Once import-substitution led industrialisation reached its saturation level, a subsequent and decisive break through was made in the growth of labour-intensive industrial exports by the existing import-substituting enterprises and newly established export enterprises. This period reflected the maturity of entrepreneurship which had developed in the import-substitution phase, and a shift in the government policy package from direct controls to a "more market-oriented and export-oriented system" (including devaluation and lessening of import restrictions). The fast growth of the GDP was accompanied by a rapid rise in the export ratio from 1965 onward. "This period (1965-75) is referred to as the period of export-substitution (ES) growth in that the growth of the gross domestic product was led by the continuous substitution of the "new" export of labour-intensive industrial products for the "traditional" export of land-based primary products and by that of the "new" export of sophisticated labour-intensive industrial goods for the "old" export of simple labour-intensive industrial products."<sup>26</sup>

It was during the ES phase of growth that some of externally oriented Korean firms began to make overseas

---

26. Ibid. p.59.

TABLE - 2.10

Industrial and Regional Composition of Overseas Direct Investment by Korean Firms  
(Thousands of US dollars)

| Industry                               |        | S.E.<br>Asia | Middle<br>East | North<br>America | Latin<br>America | Europe | Africa | Oceania | Sub-<br>Total |
|--|--------|--------------|----------------|------------------|------------------|--------|--------|---------|---------------|
| Mining                                 | Cases  | 2            | -              | -                | -                | -      | -      | -       | 2             |
|  | Amount | 386          | -              | -                | -                | -      | -      | -       | 386           |
| Timbering                              | Cases  | 7            | -              | -                | -                | -      | -      | -       | 7             |
|  | Amount | 20,871       | -              | -                | -                | -      | -      | -       | 20,871        |
| Fishing                                | Cases  | 1            | -              | 4                | 8                | 1      | 9      | -       | 23            |
|  | Amount | 90           | -              | 493              | 881              | 40     | 6,090  | -       | 7,594         |
| Manufacturing                          | Cases  | 11           | 3              | -                | 3                | -      | 1      | 1       | 19            |
|  | Amount | 8,847        | 560            | -                | 441              | -      | 7,000  | 1,348   | 18,196        |
| Construction                           | Cases  | 8            | 6              | 1                | -                | -      | 1      | -       | 16            |
|  | Amount | 3,003        | 5,079          | 6,200            | -                | -      | 137    | -       | 14,419        |
| Transporta-<br>tion & ware-<br>housing | Cases  | -            | 1              | 6                | -                | -      | -      | -       | 7             |
|  | Amount | -            | 800            | 184              | -                | -      | -      | -       | 184           |
| Trading                                | Cases  | 31           | 3              | 71               | 2                | 39     | 2      | 1       | 149           |
|  | Amount | 2,621        | 487            | 5,875            | 80               | 2,674  | 9,596  | 50      | 21,383        |
| Others                                 | Cases  | 4            | 3              | 2                | -                | 1      | 2      | -       | 12            |
|  | Amount | 2,877        | 574            | 12,542           | -                | 10     | 13     | -       | 16,016        |
| Real Estate                            | Cases  | 2            | -              | -                | 3                | 1      | 1      | 1       | 8             |
|  | Amount | 8,203        | -              | -                | 396              | 210    | 71     | 460     | 9,840         |
| Subtotal                               | Cases  | 66           | 16             | 84               | 16               | 42     | 16     | 3       | 243           |
|  | Amount | 46,898       | 7,500          | 25,294           | 1,798            | 2,934  | 22,906 | 1,858   | 109,189       |

(total)

TABLE - 2.11

Korea's Dependence on Overseas Natural Resources  
(percentage imported)

| Year          | Crude<br>Oil | Iron<br>Ore | Alu-<br>minium | Tim-<br>ber | Raw<br>sugar | Wool  | Cot-<br>ton | Rub-<br>ber |
|---------------|--------------|-------------|----------------|-------------|--------------|-------|-------------|-------------|
| 1976          | 100.0        | 75.1        | 100.0          | 82.8        | 100.0        | 100.0 | 100.0       | 100.0       |
| 1981<br>(est) | 100.0        | 86.6        | 100.0          | 84.8        | 100.0        | 100.0 | 100.0       | 100.0       |

Source: Jo. p.60.

direct investment in trade-related, on-site service and processing facilities to ensure continued expansion of the industrial exports. Several prominent aspects of Korea's changing factor endowment and growth process during the period of ES have provided motivations for DFI by Korean firms. We shall discuss them now.

- (b) (i) Table 2.11 illustrates Korea's almost complete dependence on overseas natural resources. This dependence over time has increased as a result of rapid domestic industrialisation. Also, because of 'resource nationalism'<sup>27</sup> on the part of resource-rich countries, Korea was apprehensive of non-availability of a stable supply of raw materials. Hence, DFI in the primary sector- comprising mining,

27. Ibid. p.62. Also, world-wide energy crisis occurred in 1973&1979.

timbering and fishing-has resulted in order to provide the local market an assured supply of raw materials. These sectors account for 25 per cent of the DFI by Korean firms.(Table 2.10).

(ii) Because of an over-whelming dependence on imports as well as foreign capital for accelerating the rate of growth of economy as well as promoting investment, Korea had to pursue its exports aggressively. DFI by Korean firms was a means of promoting exports. In fact 60 per cent of DFI (Table 2.10) occurred to provide such on-site services as trading, warehousing and banking in the developed as well as developing countries in order to market exports effectively. Thus DFI for Korea was complementary to exports - "designed to expand home-based production".\*

(iii) About 15 per cent of the DFI was in manufacturing labour-intensive goods- mainly to cater to the host LDC market. Typical manufactures involves apparel, cotton and synthetic cloth weaving, iron bars, plastic moldings,

---

\* "Faced with growing protectionism in developed countries against industrial exports from the LDCs and with growing competition from other developing countries in the overseas export markets, Korean exporters have stepped up their export-marketing drive by building up their own overseas branch offices, warehousing facilities, distribution channels and on-site processing facilities". (Jo. p.63).

paper, tyres, cement etc. Korean firms were thus engaged in horizontal investment in the production of labour-intensive, standardised products".<sup>28</sup> A motivation for investment in manufacturing is to realise the economies of scale by optimal utilisation of large scale plants by manufacturing and exporting plants and equipments to Korea's joint venture manufacturing projects abroad.

(iv) It is interesting to note that Korea's insular tradition (before WWII) does not have a history of migration of Koreans to the rest of the world. As such ethnic and cultural ties are absent and they have not provided any motivation for DFI.<sup>29</sup>

(v) There are a few cases where South Korean MNCs have been motivated to take over DC firms for learning technical knowhow. For e.g. the take over of a U.S. research and development firm in U.S. was motivated to use the "wholly owned R&D firm as an overseas base for the development and import of appropriate technological knowledge, new processes, and new product designs to serve the Korean market for sophisticated technology".<sup>30</sup>

---

28. Ibid. p.73.

29. Ibid. p. 71.

30. Ibid. p.74.

### B.3 Comparative Advantage of Korean manufacturing

#### Firms

"The main advantage of the Korean firms engaged in manufacturing activities over potential local and multinational competitors: seems to be derived from firm-specific adaptation of foreign technology and/or standardised process to a relatively small scale of operations and some adaptation of product designs to the LDCs' conditions."<sup>31</sup> Such adaptations were the result of small modifications in technology and product designs emanating from the machine shops and assembly lines of Korean plants in the labour-intensive home environment through the long process of learning by doing. Evidence indicates that most of these modifications consist of labour-using innovations peripheral to the machine or core process, including handling, packaging, storing, and so on, together with greater manual quality control (for example, plywood production), more intensive machine maintenance, and the upgrading of lower-quality raw materials into quality inputs via manual sorting (for example, wool and cotton yarn). Korean firms may have advantages over the multinationals from advanced countries in the lower labour costs of the local technicians, the semiskilled

---

31. Ibid. p.73.



APPENDIX

Licensed direct investment in manufacturing, by sector and region of destination  
(cumulative upto Dec. 1981)

|  | Value (thousands of U.S. dollars) |                       |             |               |             |               | No. of case |
|--|-----------------------------------|-----------------------|-------------|---------------|-------------|---------------|-------------|
|  | OECD countries                    | Asia, excluding Japan | Middle East | Latin America | Africa      | Total         |             |
| Food, beverages & Tobacco              | -                                 | 6696                  | 255         | -             | -           | 6951          | 2           |
| Textiles, Apparel & Leather            | 450                               | 1288                  | 263         | 450           | -           | 2451          | 7           |
| Wood & wood products                   | 1348                              | 6735                  | -           | -             | -           | 8083          | 4           |
| Paper Products & Printing              | 60                                | -                     | -           | -             | -           | 60            | 2           |
| Chemicals, rubber & Plastic Products   | -                                 | 1276                  | 541         | -             | 7000        | 8817          | 4           |
| Non-metallic mineral products          | -                                 | 28,743                | 1520        | -             | -           | 39,263        | 4           |
| Basic metals                           | -                                 | 100                   | -           | -             | -           | 100           | 1           |
| Metal products, Machinery & equipments | 500                               | 5,668                 | 2280        | -             | 306         | 8,754         | 8           |
| Other manufacturing                    | -                                 | 1,111                 | -           | -             | -           | 1,111         | 2           |
| <b>Total value</b>                     | <b>2358</b>                       | <b>51,617</b>         | <b>4859</b> | <b>450</b>    | <b>7306</b> | <b>66,590</b> | <b>34</b>   |
| <b>Total No. of Cases</b>              | <b>5</b>                          | <b>20</b>             | <b>6</b>    | <b>1</b>      | <b>2</b>    | <b>34</b>     | <b>-</b>    |

Source: Compiled by Westphal, Rhee, Kim & Amsden on the basis of data made available by the Bank of Korea (World Development, 1984, p.521.)

and unskilled workers, and the more flexible business attitudes associated with their small size and informal organisation.<sup>32</sup>

### C. LATIN AMERICA

We have noted at the outset that data problems constitute an almost impregnable obstacle in carrying out a detailed research on Latin American Direct Foreign Investment (LADFI). In this section, we shall try to piece together whatever information that is available on LADFI.

#### C.1 Characteristics and Geographical Distribution of LADFI

(i) LADFI and transfers of technology are almost completely limited to nationally owned firms of the investing countries. Despite their great contribution to exports, particularly of manufactures,<sup>33</sup> subsidiaries of DCMNCs play only a minor role in these operations.<sup>34</sup>

---

32. Ibid. p.73.

33. INTAL estimated that by the late 1960s, 44 per cent of intra-LAFTA manufactured exports was controlled by foreign-owned firms. See J.C Casas, *Las Multinationales y el Comercio Latinoamericano* (CEMLA, 1971).

34. Eduardo White: *The International Projection of Firms from Latin American Countries* in Kumar and McLeod (eds). p.161.

(ii) The nature of LADFI is mostly intra-regional i.e. confined within the Latin American countries themselves. For example, more than 90 per cent of the Argentine projects were located in other Latin American countries.<sup>35</sup>

(iii) In Latin America, the different levels of development among countries coincide with their different positions and roles with regard to the outflow and inflow of intra-regional DFI (1) Brazil is probably the most impressive case of aggressive internationalisation of domestic firms in Latin America. It had a total stock of a DFI of US \$ 1,250 - \$ 1,500 million in 1982 according to Dunning,<sup>36</sup> and next to Hong Kong and Singapore, is the largest direct foreign investor among the developing countries. Brazil is followed by Argentina with US \$ 750 - 1,000 million. In terms of the stock of DFI, Jamaica (US \$ 400-450 million), Mexico (\$350-400 million) and Venezuela (\$300-350 million) are the other leading direct foreign investors. (2) Besides, firms from Colombia, Chile, Costa Rica and Uruguay have also invested abroad. The latter (especially Chile and Colombia) are the 'middle-sized' and 'intermediate' countries of the region and have played a balanced role as sources and recipients of regional foreign investment. (3) But the 'small or

---

35. Ibid. p.157. For Colombia, it was 77 per cent. (Ibid. p.159).

36. Dunning (1986) in Khan (ed).

less-developed economies (Paraguay, Ecuador, Bolivia) in the region' have played, almost exclusively the role of host countries. In For Ecuador, as a host, LADFI accounted for 11.5 percent of the total investment made in the country in 1977. For Bolivia, LADFI was 9 per cent of all foreign investments approved by the government during 1972-76.<sup>37</sup>

(iv) In LADFI, both private and public sector firms have been operative. In contrast with Argentine and other Latin American companies, where foreign investment has been largely made by private companies following the market impulses, the Brazilian performance seems to be closely linked to the role of some public corporations like INTERBRAS (a trading company), BRASPETRO (oil exploration company), SIDERBRAS (iron and steel company).

(v) Table 2.12 shows the intra-regional DFI in Latin America. It shows that the most developed countries like Brazil and Argentina have inter-country DFI between themselves. This accounts for a significant chunk of the intra-regional DFI in Latin America.

---

37. E. White (1981): Ibid. p.159.

TABLE 2.12

INTRAREGIONAL FDI IN LATIN AMERICA : REGISTERED (BY HOST COUNTRIES) ACCUMULATED FLOWS  
(Thousands of U.S. Dollars)

| Countries of Origin   | Host countries      |                 |                  |                     |                 |                    |                   |                 |                      | Total          |
|-----------------------|---------------------|-----------------|------------------|---------------------|-----------------|--------------------|-------------------|-----------------|----------------------|----------------|
|                       | Argentina<br>8/1976 | Bolivia<br>1976 | Brazil<br>6/1978 | Colombia<br>12/1978 | Chile<br>8/1978 | Ecuador<br>12/1977 | Mexico<br>12/1978 | Peru<br>12/1977 | Venezuela<br>12/1978 |                |
| Argentina             | -                   | 441             | 20,031           | 1,062               | 662             | 10,846             | 986               | 1,771           | 2,058                | 37,857         |
| Bolivia               | 2,605               | -               | 17               | 5                   | 133             | -                  | -                 | 431             | 49                   | 3,240          |
| Brazil                | 16,889              | 1,301           | -                | 2,404               | 13,969          | 4,752              | 734               | 949             | 338                  | 41,336         |
| Colombia              | 22,043              | -               | 244              | -                   | 50              | 10,347             | -                 | 695             | 1,449                | 34,878         |
| Chile                 | 355                 | 271             | 273              | 195                 | -               | 11,097             | 218               | 1,240           | 82                   | 13,731         |
| Ecuador               | -                   | -               | 148              | 17,620              | 100             | -                  | -                 | 825             | 21                   | 18,714         |
| Mexico                | 762                 | -               | 7,650            | 4,142               | 2,552           | 4,771              | -                 | 1,156           | 1,846                | 22,879         |
| Paraguay              | -                   | -               | 1                | -                   | -               | -                  | -                 | -               | 77                   | 78             |
| Peru                  | 8                   | 594             | 14               | 1,719               | 47              | 1,186              | 133               | -               | 193                  | 3,894          |
| Uruguay               | 7,930               | -               | 16,475           | 1,110               | 300             | -                  | -                 | 2,256           | 3,812                | 31,884         |
| Venezuela             | 10,090              | -               | 13,333           | 26,123              | 5,697           | 5,525              | 1,205             | 2,011           | -                    | 63,989         |
| Other Central America | -                   | -               | 194              | 278                 | 82              | -                  | -                 | 38              | 731                  | 1,323          |
| <b>Total</b>          | <b>60,682</b>       | <b>2,607</b>    | <b>58,380</b>    | <b>54,659</b>       | <b>23,592</b>   | <b>48,524</b>      | <b>3,276</b>      | <b>11,372</b>   | <b>10,706</b>        | <b>273,798</b> |

Source : Edwards White in Kumar & McLeod (Eds.) 1981. p.160.

TABLE 2.13

## LADFI in Manufacturing Sectors

| Sector                                | Percent |
|---------------------------------------|---------|
| Food Products                         | 16.2    |
| Textiles                              | 8.1     |
| Agro Chemicals                        | 4.1     |
| Agricultural equipment                | 8.1     |
| Printing                              | 5.4     |
| Chemicals & Pharamaceuticals          | 10.8    |
| Steel and inputs for steel production | 4.8     |
| Electromechanical                     | 10.8    |
| Automaking and components             | 8.1     |
| Others                                | 21.6    |
| Total                                 | 100.0   |

Source: 77 cases identified in the study by INTAL, E. White, J. Campos and G. Ondards, Las Empresas Conjuntas Lationoamericanas (INTAL, 1977), p.26.

\*\*\*\*\*

C.2 Industrial Distribution of LADFI

The LADFI is diversified in a wide range of activities including manufacturing, mining petroleum, agriculture, building, consulting, trade, banking and insurance services. The information available with the Argentine Ministry and the Central Banks of Ecuador, Colombia

Venezuela show that, of the total LADFI occurring in these host countries, there is a concentration of investment in manufacturing, (44.5 per cent) followed by trade (15 per cent) and banking (15 per cent).<sup>38</sup> Table 2.13 shows LADFI in the manufacturing sectors based on data on 77 cases identified in a study by INTAL. The specialisation identified from the table are consistent with the general pattern of industrial production in Latin America. A high proportion of the investment is backward or forward linked with agro-business (agrochemicals, agricultural machinery, textiles and food products).

### C.3 Ownership Character of LADFI

(1) The majority of cases of DFI and transfer of technology involve medium or large ( in Latin American terms) private firms, although public corporations are also active, particularly in projects in the basic industries, such as steel, mining and petrochemicals, as well as in physical integration projects, such as hydroelectricals or transport ventures.<sup>40</sup>

(2) Joint ventures with local partners or associates are the most frequent organisational form of LADFI. Among the 313 cases identified by the INTAL study, around 65 percent

---

38. Ibid. p.162.

40. White, Campos and Ondarts; *Las Empresas Conjuntas Latinoamericanas*, pp.20-25 (Cited by White, p.184).

adopted such an arrangement. The percentage was higher for the manufacturing sectors and lower for banking, building and trade.<sup>39</sup> The joint venture preference is corroborated by official country records. Of the Argentine firms that registered investments abroad in 1967-76, 60 per cent declared that they had local partners in the host countries.<sup>41</sup> There are no data for other countries.

C.4 Macroeconomic Factors Responsible for the  
Emergence of LADFI

Although the emergence of the first direct foreign investment by Latin American firms goes back to the turn of the century, when some Argentine firms started moving abroad, this phenomenon grew into a significant sustained trend only during the last two decades. A high rate of growth, expansion of industrial capacity and the growth of manufactured exports, were the permissive factors underlying internationalisation of the domestic firms. Between 1965 and 1973, real output increased over 7 per cent annually in Latin America. The process of industrialisation, initiated in countries like Argentina, Brazil, Chile

---

39. A sample of 29 cases in the INTAL study included none with less than 100 employees; 47 per cent of the parent companies had more than 1,000 employees. (Cited by White. Ibid p.184).

41. Ibid. p. 161.



and Mexico well before World War I extended to the less advanced regions after World War II. The manufacturing base became diversified and relatively advanced and grew at the rate of 6.9 per cent per annum in 1960-65 and 7.5 per cent per year in 1965-70. Manufactured exports increased by an average of 26 per cent for the region during 1965-73 for Latin America as a whole.<sup>42</sup> While the most dynamic sectors (which were also capital intensive and technologically advanced) were the preserve of the DCMNCs, Latin American firms attained a significant role in several medium-sized industries such as food, textiles, metal working, in traditional branches of chemicals and electronics and in certain basic industries, such as steel and petrochemicals. During the late 1960s, when Latin American governments became aware of the limits and problems of import substitution as an industrial strategy, they decided to promote the diversification of exports through incentive programmes and changes in their exchange-rate policies, many local firms responded to the new objectives.

The regional integration<sup>43</sup> schemes and their trade liberalisation measures have offered a wider role for LANNCs, although subsidiaries of DCMNCs have taken greater advantage of the opportunities provided by tariff cuts.

---

42. Ibid. p.163.

43. Ibid. p.164-165.

and related measures. Regional groups such as LAFTA, Andean Group and CACM have stimulated LADFI. The Andean Group is promoting joint ventures within Latin American countries. This has been instrumental in lessening the traditional distrust of host Latin American governments towards LADFI. The availability of a wide regional market and the different levels of economic development in terms of industrial modernisation and technological capacity have given the firms from the more advanced Latin American countries the impetus to invest in less-advanced sectors and countries of Latin America.

#### C.5 Motives for Investment

(1) The permissive factor responsible for LADFI is an increase in the stock of foreign exchange reserves in the '70s which stimulated foreign investments of many of these countries. However, in the 80's, the severe BOP crisis may have adversely affect the scenario.

(2) The 'push' factor to LADFI has been a result of political uncertainty in many Latin American countries like Argentina (1973-76), Chile and Peru so as to diversify risks by putting eggs in more than one market. However, such types of investment, unguided as they were, by economic considerations, were short-term in nature and often, the shares were sold to the local investors after

a few years.

(3) Preservation of export markets arising out of policies of the home government (measures that discriminate against exports like overvalued exchange rate and export duty) as well as the host government (import substitution barriers like tariff imposed by the smaller countries to protect their late industrialisation efforts) has motivated firms to venture overseas. These firms had earlier export experience in the host Latin American countries.

(4) Sourcing for raw materials in order to stabilise the price and supply for the 'home market', Latin American firms have moved abroad. The most relevant cases belong to the big owned enterprises in the oil and mineral sectors, for e.g. Brazil's dependence on foreign oil led PETROBRAS to internationalise by establishing subsidiaries abroad. Similarly, for the Brazilian state steel enterprise SIDERBRAS.

#### C.6 Competitive Advantage in Manufacturing of LADFI

According to White, the main competitive advantage of these firms is related to the lower costs of their projects, derived from the adaptation of their technology to the local context and from the lower costs of transfer of such technology. However, rather than deve-

loping an indigenous technology, industrialisation in Latin America was an imitative phenomenon.<sup>44</sup>

"Yet there are several cases in which the competitive advantage of a Latin American firm seems to be backed up by more or less important (process) innovations". For e.g. Mexican firms investing abroad have on their own, developed certain basic technologies like "the HYLSA process for direct reduction in the steel industry, the PEMEX process for the extraction of metals while refining crude oil", etc. Similarly, Brazil's Pilao, manufacturer of equipment for the production of paper, has developed "its own system for processing the short fibres obtained from eucalyptus trees".<sup>45</sup> Apart from such cases of original innovations, LADFI and transfer of technology, and their relative advantages are based on the mastery of imported technologies that have been adapted to Latin American conditions after years of accumulated experience by firms of the more advanced countries of the region. This experience, often over a period of several decades, confined and consolidated in its domestic markets have provided many Latin American MNCs a strong foothold in overseas investment.

---

44. Ibid. p.173.

45. Ibid. p.173.

"Some Latin American companies have managed to be internationally competitive in basic manufacturing sectors characterised by high fixed investments job and significant scale economies to the extent of being able to set up plants abroad and provide the machinery, the production processes, and the know-how for running them. The secret of such successful experiences seem to lie in the development by these firms of appropriate techniques for small scale production".<sup>46</sup> Some of these firms derive their international competitiveness also on the basis of the "adaptation of their products to climatic and geographic conditions of other developing countries".<sup>47</sup> The Brazilian companies' investment in agrobusiness in Africa and in "developing vehicles able to run on unpaved roads, including the mud of Amazonia" are some of the examples.

"Although cost competitiveness appears to be the basic advantage of Latin American firms that move abroad, there are several examples in which this advantage is combined or replaced by marketing skills. An interesting case is the projection of pharmaceutical firms from Argentina to neighbour countries of Africa."<sup>48</sup> There are also certain companies, which through intensive advertising, have been able to develop its international brand

---

46. Ibid. p.175.

47. Ibid. p.176-77.

48. Ibid. p.177.

name like the Inca Cola of Peru which offers stiff competition to Coca Cola and pepsii.

All said and done, LADFI dominated in products <sup>where</sup> the technology is standardised and made cost-effective to suit the market requirements and factor endowments of the developing countries. Competition is on the basis of price rather than marketing involving creation of product-differentiation in the minds of the consumers.

In our concluding chapter, we shall endeavour to compare and contrast the experience of Indian and other TWMNCs. Hence we do not endeavour to compare and contrast the Latin American and Asian experience in this chapter.

A. NOTE

Our analysis for Chapters III, IV and V is restricted to the official data sources for investments by Indian firms by forming joint ventures with host country firms. While our official data sources are among the best and the most reliable in the Third World, they suffer from important limitations as far as the estimate of direct foreign investment (FDI) from India is concerned. Thus, not only joint ventures, but also 'subsidiaries' of the Indian parent firms venture abroad. There are about 250 of them. However, there is no official source from which data can be obtained. So we have to concentrate only on Indian Joint Ventures Abroad. Moreover, official data on Indian joint ventures underestimate the actual Indian equity (or FDI) abroad. Hence our data on Indian equity (or FDI) are underestimates on these two counts. Only through a through analysis of primary data sources can an estimate of direct foreign investment from India be found. Sebastian Morris (EPW Nov.7, 1987) has done this. However, due to limitations of time we were forced to restrict ourselves to analysing Indian Joint Ventures only based on secondary official and other data sources.

CHAPTER - III

A PROFILE OF DFI BY INDIAN FIRMS IN IJVs ABROAD

INTRODUCTION

This introductory chapter on IJVs Abroad is divided into three sections. In the first section we present the quantitative evidence on IJVs Abroad. In the second section, we examine the geographical distribution of the IJVs Abroad. In the third section we discuss about the firm and industry level characteristics of Indian firms that have ventured overseas.

A. DFI by Indian Firms: Some Quantitative Evidence

"Foreign direct investment from India is not a marginal phenomenon. It is quite sizeable relative to foreign direct investment into India".<sup>1</sup> It is also quite comparable with the figures of DFI of some newly industrialising countries-although lying way behind investments by MNCs from Hong Kong, Singapore, Brazil, Argentina, etc.<sup>2</sup>

---

1. S. Morris: EPW Nov.7, 1987, p.1909.

2. See Table 2.1 of our dissertation. However a significant portion of Hong Kong's DFI is accounted for by British expatriate firms (Dunning '86) and if we add the amount of DFI by 250 odd Indian subsidiaries to the official figures which include only DFI by IJVs abroad, Indian actual DFI will become quite significant. (Morris '87).



India, the poorest developing country to have invested overseas has a significant direct equity stock of US \$ 91 million, in August '86 mainly in manufacturing operations overseas. However, what makes India's case most unusual is that "it is probably the only developing country from which direct investment overseas exceed investment by foreigners into it. In the period 1969-80, the Government of India approved gross foreign investment amounting to a paltry US \$ 70 million into the country". On the other hand the outflow of DFI in IJVs abroad was atleast \$ 90 million<sup>3</sup> in the same period.

The first Indian venture was in Ethiopia which went into production in 1960. However, DFI from India has grown steadily only since the late 60's. Table 3.1 shows the number of units which commenced production in the 60's.

Table 3.2 shows the year wise distribution of IJVs abroad 'in operation' and 'under implementation'. We note that the year-to-year change in the number of operational units is on account of two factors: (1) Some units which were under implementation have gone into

---

3.(a) See R. Lall (1986) p.4 quoting S. Lall in Bhagwati and Ruggie (1984) p.302 and (b) S.Lall (1984)

TABLE - 3.1

---

Commencement of Production of IJVs Abroad

---

| Year               | 1960 | 1962 | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 |
|--------------------|------|------|------|------|------|------|------|------|
| Number of<br>Units | 1    | 1    | 1    | 1    | 5    | 1    | 6    | 4    |

---

Note : In 1961, 1963 and 1964, no unit commenced production.

Source: Balakrishnan: EPW, May 1976, Review of Management.

\*\*\*\*\*

production/or (ii) some units which were in production were abandoned. Unfortunately, we do not have any figures about the break-up. The year-to-year change in the number of ventures at different stages of implementation is on account of three factors: (i) some units which were under implementation have gone into production/become operational, (ii) some units under implementation have been abandoned and (iii) new units are being implemented. Here also, we do not have the break-up of these three factors. First of all, we shall look at the IJVs abroad from the stand-point of their numbers. Then we shall discuss the value of DFI in IJVs abroad at different points of time.

TABLE 3.2

Showing Year-wise Distribution of Indian Joint Ventures Abroad

(Numbers)

| SL. No. (1) | Year (2)    | In Operation (3) | Net addition (4) | Under Implementa- tion (5) | Total = (3) + (5) (6) |
|-------------|-------------|------------------|------------------|----------------------------|-----------------------|
| 1.          | Before 1970 | 19               |                  |                            | 19                    |
| 2.          | 1971        | 24               | 5                |                            | 24                    |
| 3.          | 1972        | 29               | 5                |                            | 29                    |
| 4.          | 1973        | 35               | 6                |                            | 35                    |
| 5.          | 1974        | 48               | 13               |                            | 48                    |
| 6.          | 1975        | 60               | 12               | 1                          | 61                    |
| 7.          | 1976        | 70               | 10               | 2                          | 72                    |
| 8.          | 1977        | 88               | 18               | 5                          | 93                    |
| 9.          | 1978        | 99               | 11               | 16                         | 115                   |
| 10.         | 1979        | 114              | 15               | 23                         | 137                   |
| 11.         | 1980        | 127              | 13               | 44                         | 171                   |
| 12.         | 1981        | 115              | 212              | 92                         | 207                   |
| 13.         | 1982        | 134              | 19               | 94                         | 228                   |
| 14.         | 1983        | 154              | 20               | 81                         | 235                   |
| 15.         | 1984        | 157              | 3                | 79                         | 236                   |
| 16.         | 1985        | 158              | 1                | 52                         | 210                   |
| 17.         | 1986        | 150              | -8               | 37                         | 187                   |

Source: Data upto 1982 are based on the information provided by the Indian Investment Centre's note on Indian Joint Ventures Abroad and for the subsequent years from the Ministry of Commerce Annual Reports. From K.V.K.R. Table - 1. p.9.

Graph 3.1 : Showing Year-wise Distribution of Indian Joint Ventures Abroad.

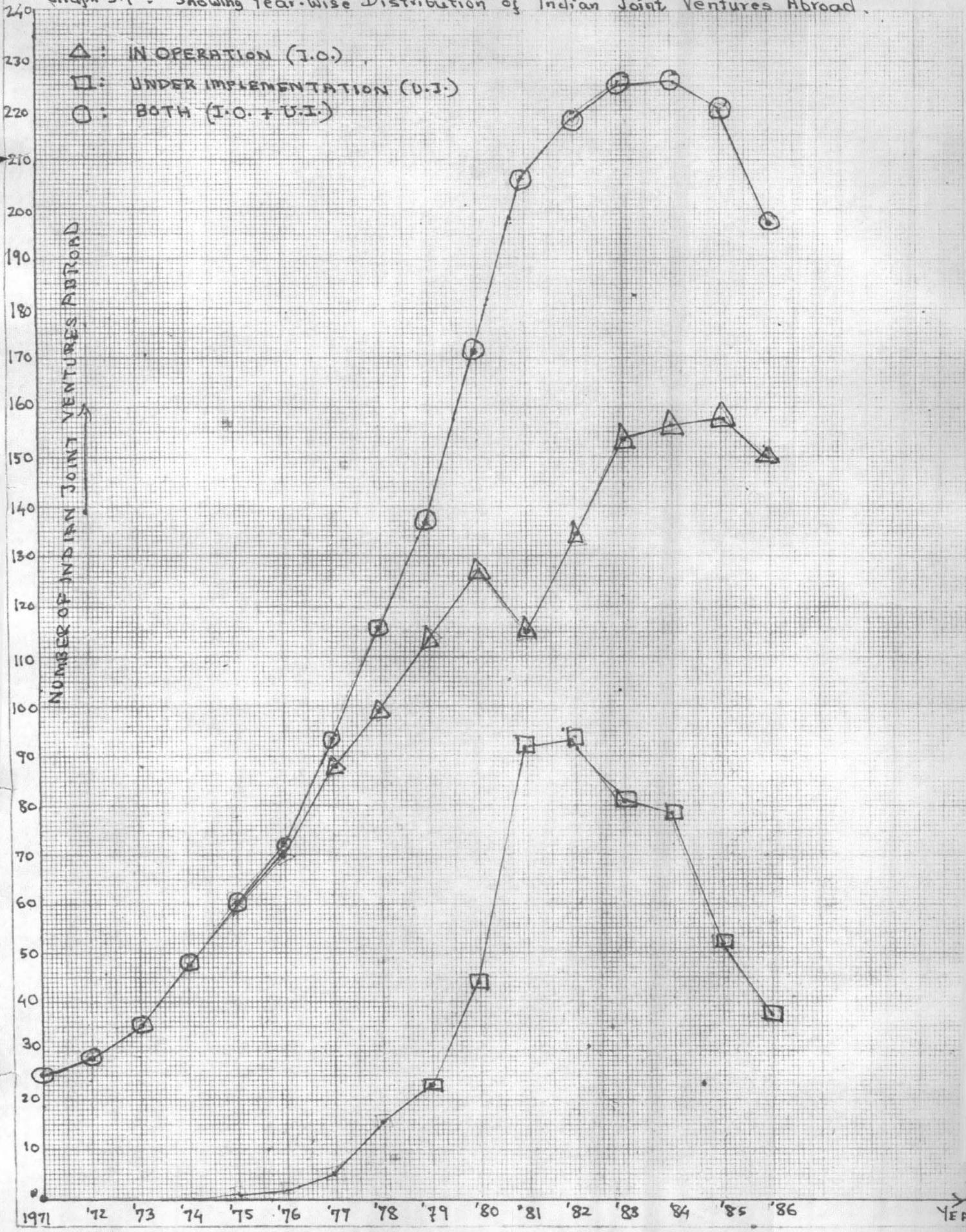


Table 3.2 and the corresponding graph show that the number of ventures in operation increased rapidly in the 70's. The graph shows that the rate of growth of the number IJVs 'in operation' increased at a more or less constant rate in the period 1971-80 so that a semi-log trend will be appropriate for this period. However, the '80's were marked by a distinct slackening of the rate of growth of IJVs in production. In fact, in 1986, the number of ventures in operation was less than in 1983 and in two years - 1981 & 1986 - the number of ventures in production declined over the previous year. In 1985, the maximum number of ventures was in operation, namely 158.

Table 3.2 shows that there was a dramatic increase in the ventures 'under implementation' 1977-1981. It reached its peak in 1982. Thereafter, it declined rather sharply. In Dec. 1986, it reached its lowest figure (37). From Table-2, we see that while many of the ventures under implementation have commenced production, many more have been abandoned. Thus, the total number of ventures in operation and under implementation which had reached its peak in 1984, namely 236, declined sharply to 187 in 1986. In fact from the graph depicted, the aggregate growth of IJVs Abroad 'in production' and 'under implementation', we see that the 'total' increased at an increasing rate till 1981, then it increased at a decreasing rate till it

reached its peak in 1984, ~~whence~~ it declined. Now, we shall look into the question of Indian Joint Ventures Abroad from the stand point of equity contributed.

On 1.1.76, there were 65 Indian Joint Ventures in production and 63 under implementation. Together, their Indian equity contribution was Rs. 3,346.74 lakhs or US \$ 418.3 lakhs (i.e. US \$ 37.2 million)<sup>4</sup>. On 31.8.80, there were 117 ventures in operation and 87 under implementation giving an aggregate Indian equity of Rs. 9265 lakhs (i.e. US \$ 115.8 million)<sup>5</sup>. On 31.3.82, there were 134 ventures in operation and 86 under implementation. The aggregate Indian equity was Rs. 11,829.38 lakhs (i.e. US \$ 118.29 million)<sup>6</sup>. On 20.8.86, there were 147 ventures in operation and 43 under implementation. Their combined contribution to Indian equity overseas amounted to Rs. 10,965.43 lakhs (i.e. US \$ 91.37 million)<sup>7</sup>. Thus in terms of equity contributed also, we note that, there was a significant jump in the second half of the 70's

---

4. Balakrishnan, Ibid. I used the conversion rate US \$ 1=Rs.9.

5. IIC (1981) p.3. (conversion rate \$ 1 = Rs.8).

6. R.G. Agarwal: Joint Ventures Abroad: Indian Experience, p.69 (conversion US \$ 1 = Rs. 10).

7. K.V.K.Ranganathan: Indian Joint Ventures Abroad. (IIPA Working paper) p.12. (conversion rate used : \$ 1 = Rs. 12).

TABLE 3.3

Pattern of Indian Investment in Joint Ventures  
(as of 31 December, 1983)

| S.No. | Mode of Partici-<br>pation  | <u>In Operation</u>                      |                             | <u>Under Implementation</u>                |                             |
|-------|---|--|-----------------------------|--|-----------------------------|
|       |   | Actual<br>Indian<br>equity<br>(Rs.lakhs) | Percent-<br>age of<br>total | Approved<br>Indian<br>equity<br>(Rs.lakhs) | Percent-<br>age of<br>total |
| 1.    | Export of Capital<br>Equipment  | 3974                                     | 63.5                        | 2428                                       | 40.8                        |
| 2.    | Capitalization of<br>Know-how   | 423                                      | 6.7                         | 675  | 11.3                        |
| 3.    | Cash remittance   | 557                                      | 8.9                         | 2314                                       | 38.9                        |
| 4.    | Bonus shares issued   | 1176                                     | 18.9                        | -  | -                           |
| 5.    | Others (loans,<br>adjustments of future<br>profits, etc. preliminary<br>expenses capitalised, 125<br>etc. | 125                                      | 2.0                         | 540  | 9.0                         |
|       | <b>TOTAL</b>  | <b>6255</b>                              | <b>100.0</b>                | <b>5957</b>                                | <b>100.0</b>                |

Source: Annual Report 1983-84. GOI, Ministry of Commerce  
p.47

whence it recorded a marginal increase in 1980-82 and then registered a decline both in dollar as well as in rupee terms. Considering both domestic and international price increases in this period, the decline would have been even more rapid in real terms (the data referred to above give the nominal values only). It seems that there was disinvestment in the existing operational ventures<sup>8</sup> and some of the ventures in operation and under implementation were abandoned.<sup>9</sup>

Table 3.3 provides a breakdown of the equity contribution of Indian firms in their overseas joint ventures as of the end of 1983. According to the government of India's guidelines relating to JVs abroad, "Indian equity participation should be clearly in the form of export of indigenous plant, machinery and equipment required for the joint venture/wholly owned subsidiaries". Investment in this form had a disproportionately large share of equity participation through exports of capital goods. The fact that since 1978, the government has become more liberal in permitting cash remittance is seen if we compare between the figures for the operational ventures (8.9 per cent) as well as for the ventures under implementation. Bonus shares issues which are based on the

---

8. See R. Lall, Op.Cit, p.82 (footnote no.5). Also, Ch.V of our dissertation.

9. More on this in Ch.V.



ploughing back of profits, for further investment also is fairly sizeable at 18.9 per cent for the ventures in production.

According to R, Lall, "the size of the average Indian Joint Venture is extremely small".<sup>10</sup> However this comparison is valid only with respect to the DCMNCs. However, it is not so when compared with TWMNCs. Thus although in aggregate terms S.Korean firms have invested abroad more than Indian firms,<sup>11</sup> the overall average size of investment of S. Korean firms was only US \$ 0.37 million.<sup>12</sup> On the other hand, in mid - 1986, in the 147 operational IJVs, the average Indian equity participation was Rs. 61.4 lakhs or about US \$ 0.5 million (based on Table 3.5). If we assume 40 per cent equity participation by the Indian party, the average size of these projects amounts to US \$ 1.25 million only. (For detailed calculation See Table 3.6(A)). From Table 3.5 and Table 3.6, we note that, the actual average equity of a project in production came to Rs. 224.12 lakhs or about US \$ 1.90 million. Hence the figure US \$ 1.25 million is not corr-

---

10. R. Lall, Op.Cit. p. 15.

11. See Dunning (1986) of Ch.I of the dissertation (Table 1.1)

12. Jo (1981). The figure is however for 1978.

TABLE 3.4

Distribution of IJVs according to the Field of Operation  
and the status of the Project (Rs.lakhs)<sup>Q</sup>

| Field of Operation | Indian Equity Participation |                            |                       |                            |                        |                              |
|--------------------|-----------------------------|----------------------------|-----------------------|----------------------------|------------------------|------------------------------|
|                    | In Operation                |                            | Under Implementation  |                            | Total                  |                              |
|                    | No.                         | Amount                     | No                    | Amount                     | No                     | Amount                       |
| Manufacturing      | 92<br>(62.59)               | 8510.71<br>(94.19)         | 21<br>(48.84)         | 1044.43<br>(54.13)         | 113<br>(59.47)         | 9555.14<br>(87.14)           |
| Hotels             | 15<br>(10.20)               | 78.93<br>( 0.87)           | 6<br>(13.95)          | 558.72<br>(28.96)          | 21<br>(11.05)          | 637.65<br>( 5.81)            |
| Trading            | 16<br>(10.88)               | 72.13<br>( 0.80)           | 7<br>(16.28)          | 135.55<br>( 7.02)          | 23<br>(12.11)          | 207.68<br>( 1.89)            |
| Construction       | 8<br>( 5.44)                | 134.97<br>( 1.49)          | 4<br>( 9.30)          | 44.92<br>( 2.33)           | 12<br>( 6.32)          | 179.89<br>( 1.64)            |
| Consultancy        | 2<br>( 1.36)                | 63.13<br>( 0.70)           | 3<br>( 6.98)          | 32.93<br>( 1.70)           | 11<br>( 5.79)          | 96.06<br>(0.88)              |
| Miscellaneous      | 2<br>( 1.36)                | 8.48<br>( 0.09)            | 2<br>( 4.65)          | 113.04<br>( 5.86)          | 4<br>( 2.10)           | 121.52<br>(1.11)             |
| Financial          | 6<br>( 4.09)                | 167.49<br>( 1.86)          | -                     | -                          | 6<br>( 3.16)           | 167.49<br>(1.53)             |
| <b>Total</b>       | <b>147</b><br>(100.00)      | <b>9035.84</b><br>(100.00) | <b>43</b><br>(100.00) | <b>1929.59</b><br>(100.00) | <b>190</b><br>(100.00) | <b>10 965.43</b><br>(100.00) |

Source: K.V.K.R. p.19

a : KVKR mentions as (Rs. 000) However it should be in Rs.lakhs.

(Original source: Based on the data provided in the Indian Investment Centre : Factsheets on Indian Joint Ventures Abroad for the period ending 20th August 1986.)

TABLE 3.5

Showing Distribution of IJVs according to the  
share of Indian Equity. (Amount in Rs.lakhs)

| Sl No.       | Percentage of equity | In operation   |                     | Under implementation |                     | Total           |                      |
|--------------|----------------------|----------------|---------------------|----------------------|---------------------|-----------------|----------------------|
|              |                      | No.            | Amount              | No                   | Amount              | No              | Amount               |
| 1            | 0 - 10               | 8<br>(5.44)    | 120.97<br>(1.34)    | 3<br>(6.98)          | 116.85<br>(6.06)    | 11<br>(5.79)    | 237.82<br>(2.17)     |
| 2            | 10 - 25              | 27<br>(18.37)  | 2895.16<br>(32.05)  | 2<br>(4.65)          | 86.04<br>(4.46)     | 29<br>(15.26)   | 2981.20<br>(27.18)   |
| 3            | 25 - 40              | 27<br>(18.37)  | 1879.83<br>(20.80)  | 14<br>(32.56)        | 569.56<br>(29.52)   | 41<br>(21.58)   | 2449.39<br>(22.34)   |
| 4            | 40 - 50              | 49<br>(33.33)  | 2695.73<br>(29.83)  | 13<br>(30.23)        | 444.73<br>(23.05)   | 62<br>(32.63)   | 3140.46<br>(28.64)   |
| 5            | 50 - 75              | 30<br>(20.41)  | 1218.21<br>(13.48)  | 9<br>(20.93)         | 304.57<br>(15.78)   | 39<br>(20.53)   | 1522.78<br>(13.89)   |
| 6            | 75 & above           | 6<br>(4.08)    | 225.94<br>(2.50)    | 2<br>(4.65)          | 407.55<br>(21.13)   | 8<br>(4.21)     | 633.79<br>(5.78)     |
| <b>TOTAL</b> |                      | 147<br>(100.0) | 9035.84<br>(100.00) | 43<br>(100.00)       | 1929.60<br>(100.00) | 190<br>(100.00) | 10965.44<br>(100.00) |

Source : K.V.K.Ranganathan P.15 He mentions the amount of equity in Rs.000 but, it has to be in Rs.lakhs to be in conformity with figures in other sources.

Original Source: Based on the data provided by the IIC: Fact sheets on IJVs Abroad for the period ending 20th Aug.1986.

Notes: Figures in parentheses are percentages calculated with respect to totals column.

TABLE 3.6

Estimation of Total equity involved in Indian Joint Ventures.

(A) (In operation)

| S1 No | Percentage of Indian equity | Class Mark | No of ventures | Amount of Indian equity | Average Indian equity   | Total equity                     | Average equity of the project |
|-------|-----------------------------|------------|----------------|-------------------------|-------------------------|----------------------------------|-------------------------------|
| (1)   | (2)                         | (3)        | (4)            | (5)                     | (6) = $\frac{(5)}{(4)}$ | 7 = $\frac{(5) \times 100}{(3)}$ | (8) = $\frac{(7)}{(4)}$       |
| 1     | 0-10                        | 5          | 8              | 120.97                  | 15.12                   | 2419.4                           | 302.42                        |
| 2     | 10-25                       | 17.5       | 27             | 2895.16                 | 107.23                  | 16543.80                         | 612.73                        |
| 3     | 25-40                       | 32.5       | 27             | 1897.83                 | 69.62                   | 5784.10                          | 214.22                        |
| 4     | 40-50                       | 45         | 49             | 2695.73                 | 55.04                   | 5990.51                          | 122.25                        |
| 5     | 50-75                       | 62.5       | 30             | 1218.21                 | 40.61                   | 1949.14                          | 64.97                         |
| 6     | 75 & above                  | 87.5       | 6              | 225.94                  | 37.04                   | 258.21                           | 43.04                         |
| TOTAL |                             | 1          | 147            | 9035.84                 | 61.12                   | 32945.16                         | 224.12                        |

(B) (Under Implementation)

|       |            |      |    |         |        |         |        |
|-------|------------|------|----|---------|--------|---------|--------|
| 1     | 0-10       | 5    | 3  | 116.85  | 38.95  | 2337    | 77.01  |
| 2     | 10-25      | 17.5 | 2  | 86.04   | 43.02  | 491.65  | 245.83 |
| 3     | 25-40      | 32.5 | 14 | 569.59  | 40.68  | 1752.52 | 125.18 |
| 4     | 40-50      | 45   | 13 | 414.73  | 34.21  | 988.28  | 76.02  |
| 5     | 50-75      | 62.5 | 9  | 304.57  | 33.84  | 487.31  | 54.15  |
| 6     | 75 & above | 87.5 | 2  | 407.85  | 203.92 | 466.11  | 233.20 |
| TOTAL |            |      | 43 | 1929.60 | 43.94  | 6522.87 | 151.69 |

Source: Same as Table 3.5.

ect.<sup>13</sup> This is because most of the projects with higher average size are in the category where Indian share of equity is very small (in the range 0-10% and 10%-25%) (Table 3.6(A)). We do not have any answer as to why this is so, but it seems that the projects with higher average size are in the manufacturing sector where the Indian equity capital is mostly in the form of machinery (Table 3). Cash remittance is hardly allowed by the Indian government. Hence, the Indian share in equity is very small.

We also note that with some liberalisation by the Indian government as regards permission granted to cash outflow, the picture has slightly altered in the case of ventures under implementation, though even here, the average equity size of a project is the maximum in the 10%-25% category (Table 3.6 (B)). This will be so because, in any case, the percentage of Indian equity is allowed to be greater than 50% mainly for joint ventures in the non-manufacturing sector. Hence, it is expected that with a more liberal attitude to cash outflow, the average size of the venture under implementation in the non-manufacturing sector is likely to be larger. Our speculation in this regard is confirmed if we look at Table 4. Table 3.4 shows the distribution of LJV's according to

---

13. R. Lall had assumed 50% equity participation by the Indian party. Thus his result was even more incorrect.

the Field of Operation and the Status of the Project.

Thus, we note that 63 per cent of the projects in production in the manufacturing sector account for 94 per cent of the total Indian equity in JVs (in production) abroad. This implies that 37 per cent of the projects which are in the non-manufacturing sector account for only 5.81% of the total Indian equity in IJVs (in production) abroad. However, looking at the figures for ventures under implementation, we note that the picture has changed quite considerably. Thus, 49 per cent of the projects under implementation are in the manufacturing sector and they account for only 54 per cent, of the total Indian equity overseas in IJVs under implementation. Therefore, the average Indian equity in ventures under implementation in the manufacturing as well as the non-manufacturing sector is almost same. However, since, the total equity capital required to launch an average project in the manufacturing sector is much larger than that in the non-manufacturing sector, it follows that most of the ventures in the manufacturing sector have, on an average, a lower proportion of Indian equity contribution as compared to that in the non-manufacturing sector. This is also in conformity with the Indian government's intention to restrict Indian equity holding at less than 49 per cent in manufacturing ventures in order to promote South-South Co-operation.

TABLE 3.7  
Distribution of Indian Joint Ventures according to the Field  
of operation and Region (in operation & under implementation)

| <u>Region</u><br><u>Field of</u><br><u>operation</u> | <u>South</u><br><u>East</u><br><u>Asia</u> | <u>A</u><br><u>f</u><br><u>ri</u><br><u>ca</u> | <u>W.Asia</u><br><u>(Middle</u><br><u>East)</u> | <u>S.Asia</u> | <u>Europe</u> | <u>America</u> | <u>Oceania</u> | <u>Total</u> |
|--|--|--|---|---------------|---------------|----------------|----------------|--------------|
| Manufacturing  | 57   | 21   | 18  | 20            | 3             | 1              | 3              | 113          |
| Trading  | 8  | 2  | 1   | -             | 8             | 4              | -              | 23           |
| Consultancy  | 2  | 3  | 2   | 1             | 3             | -              | -              | 11           |
| Construction   | 1  | 1  | 9   | -             | 1             | -              | -              | 12           |
| Hotel  | -  | 3  | 1   | 6             | 6             | 4              | 1              | 21           |
| Financial  | 1  | 1  | -   | 2             | 1             | 1              | -              | 6            |
| Miscellaneous  | 1  | -  | -   | 1             | 2             | -              | -              | 4            |
| <b>TOTAL</b>   | <b>70</b>                                  | <b>31</b>                                      | <b>21</b>                                       | <b>30</b>     | <b>24</b>     | <b>10</b>      | <b>4</b>       | <b>190</b>   |

Source: K.V.K.Ranganathan Indian Joint Ventures Abroad.

.. 90-b ..

TABLE 3.8

Industry Analysis of Indian Joint Ventures by Field of Collaboration in the  
Manufacturing Sector (in operation and under implementation)  
(as on 20.08.1986)

| Sl<br>No. | Industry                                     | In Operation |                       | Under Implementation |                       |
|-----------|--|--------------|-----------------------|----------------------|-----------------------|
|           |  | Number       | Relative Share<br>(%) | Number               | Relative Share<br>(%) |
| 1         | Light Engineering                            | 33           | 35.87                 | 7                    | 33.33                 |
| 2         | Textiles & A.Product                         | 16           | 17.39                 | 7                    | 33.33                 |
| 3         | Chemicals & Pharmace-<br>uticals             | 15           | 16.30                 |                      |                       |
| 4         | Oil seeds crushing &<br>refining of palm oil | 4            | 4.35                  | 1                    | 4.76                  |
| 5         | Iron & Steel Products                        | 7            | 7.61                  | 1                    | 4.76                  |
| 6         | Pulp & Paper                                 | 3            | 3.26                  | 2                    | 9.54                  |
| 7         | Glass & Glass Product                        | 4            | 4.35                  |                      |                       |
| 8         | Leather & Rubber ""                          | 2            | 2.17                  | 1                    | 4.76                  |
| 9         | Food Products                                | 4            | 4.35                  | 1                    | 4.76                  |
| 10        | Commercial Vehicles                          | 4            | 4.35                  | 1                    | 4.76                  |
| TOTAL     |  | 92           | 100.00                | 21                   | 100.00                |

Source: Based on KVCR's Indian Joint Ventures Abroad Annexure 3 Pp. 40-46.  
This annexure forms the basis for our appendix - 1 of this chapter.



From Table 3.4, we also note that in the non-manufacturing sector, Indian firms have invested in the following categories: Hotel, Trading, Construction, Consultancy, Miscellaneous and Financial Services.

Table 3.7 shows the distribution of IJVs by sectors and regions (in operation and under implementation combined). South-East Asia accounts for the maximum number of ventures (70) and most (57) of the ventures in the manufacturing sector (113) are located in this region.

The developing countries have 155 ventures and the developed countries - 35, 24 in Europe, 10 in America (USA) and 1 in Australia. Only 4 out of 35 ventures located in DCs are in the manufacturing sector. Thus 31 out of 77 of ventures (40%) of the non-manufacturing joint ventures are located in DCs while only 3% of the joint ventures in manufacturing sectors are located in the developed countries. Among the developing countries, in comparatively more developed countries - in West Asia and Singapore, the proportion of joint ventures in the manufacturing sector is less. Thus in West Asia (Middle East), the proportion of IJVs in manufacturing sector is 38% only compared to 70% for Africa, 67% for South Asia and 81% for South-East Asia. Table 3.8 distinguishes among IJVs by Field of Collaboration in the

TABLE 3.9

## FIELDS OF COLLABORATION FOR INDIAN JOINT VENTURES IN 7 MAJOR HOST DEVELOPING COUNTRIES.

(AS ON 20.08.1986)

| SECTOR                       | MALAYSIA |    | THAILAND |    | INDONESIA |    | SRILANKA |    | SINGAPORE |    | NIGERIA |    | U.A.E. |    |
|------------------------------|----------|----|----------|----|-----------|----|----------|----|-----------|----|---------|----|--------|----|
|                              | IP       | UI | IP       | UI | IP        | UI | IP       | UI | IP        | UI | IP      | UI | IP     | UI |
| <b>A. MANUFACTURING</b>      |          |    |          |    |           |    |          |    |           |    |         |    |        |    |
| 1. Light Engg.               | 10       | 1  | 2        | -  | 2         | -  | 2        | 1  | 3         | -  | 4       | 1  | 3      | -  |
| 2. Textiles                  | 1        | -  | 2        | -  | 6         | -  | 1        | -  | -         | -  | 1       | -  | -      | -  |
| 3. Chemicals                 | 2        | 1  | 2        | -  | -         | -  | 3        | 1  | -         | 1  | 2       | 2  | 1      | -  |
| 4. Oil seeds                 | 4        | 1  | -        | -  | -         | -  | -        | -  | -         | -  | -       | -  | -      | -  |
| 5. Iron & Steel              | 1        | -  | 2        | -  | 3         | -  | -        | -  | 1         | 1  | -       | -  | -      | -  |
| 6. Pulp&Paper                | -        | -  | 1        | 1  | -         | -  | 1        | -  | -         | -  | 1       | -  | -      | -  |
| 7. Glass&G.prdt.             | 2        | -  | -        | -  | -         | -  | 1        | -  | -         | -  | -       | -  | -      | -  |
| 8. L & D Prdts.              | -        | -  | -        | -  | -         | -  | 1        | 1  | -         | 1  | -       | -  | -      | -  |
| 9. Food Prdts.               | -        | -  | -        | -  | -         | -  | -        | -  | 1         | -  | 1       | -  | 1      | -  |
| 10. Comm'l.Vehicle           | 2        | -  | -        | -  | -         | -  | 1        | -  | 1         | -  | -       | -  | -      | -  |
| (11) Sub Total(A)            | 22       | 3  | 9        | 1  | 11        | 0  | 10       | 3  | 6         | 3  | 9       | 3  | 5      | 0  |
| <b>B. NON MANUFACTURING.</b> |          |    |          |    |           |    |          |    |           |    |         |    |        |    |
| 12. Trading Mark.            | 1        | -  | -        | -  | -         | -  | 1        | -  | 4         | -  | -       | -  | 1      | -  |
| 13. Hotel                    | -        | -  | -        | -  | -         | -  | 2        | 1  | -         | -  | -       | -  | -      | -  |
| 14. Engg.Constn.             | -        | -  | -        | 1  | -         | -  | -        | -  | 1         | -  | -       | -  | 3      | -  |
| 15. Consultancy              | -        | -  | -        | -  | -         | -  | -        | -  | -         | -  | 3       | -  | -      | -  |
| 16. Financial                | -        | -  | -        | -  | -         | -  | 3        | -  | 2         | -  | -       | -  | -      | -  |
| 17. Others                   | -        | -  | -        | -  | -         | -  | -        | -  | 2         | -  | -       | -  | -      | -  |
| (18) Sub Total(B)            | 1        | 0  | 0        | 1  | 0         | 0  | 6        | 1  | 9         | 0  | 3       | 0  | 4      | 0  |
| TOTAL (11) + (18)            | 23       | 3  | 9        | 2  | 11        | 0  | 16       | 1  | 15        | 3  | 12      | 3  | 9      | 0  |

Source: Based on Annexure - 3 Indian Joint Ventures Abroad KVKRPP.40-46. This provides the basis for Appendix - 1 of our chapter.

Manufacturing Sector. This shows that IJVs are well-diversified across a wide spectrum of industries. They are in traditional, simple, labour-intensive industries requiring minor product and process adaptation in light engineering, textiles, food and vegetable oil processing, as well as in 'capital-intensive sectors like pulp and paper and chemicals, and in technology and skill intensive industries like Iron and steel and commercial vehicles. Within these ten industries there is a relative concentration in light engineering (33) followed by textiles(16) which together account for 53% of the ventures in production. The degree of concentration is greater for ventures under implementation as the two together account for 67% of these ventures.

Table 3.9 gives a detailed picture of the fields of collaboration for Indian Joint Ventures in 7 Major Developing Countries as hosts to IJVs. These countries are Malaysia, Thailand, Indonesia, Singapore ( all in South-East Asia), Sri Lanka (S. Asia), U.A.E. (West Asia) and Nigeria (Africa). These together account for 95 ventures in operation and 12 under implementation. This shows that despite the fact that IJVs are spread across 35 countries throughout the length and breadth of the globe, there is a marked concentration in these seven countries as 65% of the ventures in operation and 27% of the ven-

**TABLE 3.10**  
**Regional Distribution of IJVs Abroad ( as on 20.8.86 ) (Amount in Rs.lakhs)**

| Sl No                           | Region       | In Operation    |                     | Under Implementation |                     | Total           |                      |
|---------------------------------|--------------|-----------------|---------------------|----------------------|---------------------|-----------------|----------------------|
|                                 |              | No              | PUC                 | No                   | PUC                 | No              | PUC                  |
|                                 | 1            | 2               | 3                   | 4                    | 5                   | 6               | 7                    |
| <b>A: DEVELOPING COUNTRIES:</b> |              |                 |                     |                      |                     |                 |                      |
| 1.                              | South E.Asia | 61<br>(41.50)   | 4864.33<br>(53.83)  | 9<br>(20.93)         | 501.42<br>(25.99)   | 70<br>(36.84)   | 5365.75<br>(48.93)   |
| 2.                              | Africa       | 23<br>(15.65)   | 3359.62<br>(37.18)  | 8<br>(18.60)         | 563.06<br>(29.18)   | 31<br>(16.32)   | 3922.68<br>(35.77)   |
| 3.                              | S.Asia       | 21<br>(14.29)   | 213.53<br>(2.36)    | 9<br>(20.93)         | 448.76<br>(23.26)   | 30<br>(15.79)   | 662.29<br>( 6.04)    |
| 4.                              | West Asia    | 17<br>(11.56)   | 237.62<br>(2.63)    | 4<br>(9.30)          | 66.47<br>(3.44)     | 21<br>(11.05)   | 304.09<br>(2.77)     |
| 5.                              | Oceania      | 3*<br>(2.04)    | 23.22<br>(0.26)     | 1<br>(2.33)          | 52.90<br>(2.74)     | 4<br>(2.11)     | 76.12<br>(0.70)      |
| 6.                              | Total 1 to 5 | 125<br>(85.03)  | 8698.32<br>(96.26)  | 31<br>(72.09)        | 1632.61<br>(84.60)  | 156<br>(82.11)  | 10330.93<br>(94.21)  |
| <b>B: DEVELOPED COUNTRIES:</b>  |              |                 |                     |                      |                     |                 |                      |
| 7.                              | Europe       | 16<br>(10.88)   | 316.26<br>(3.50)    | 8<br>(18.61)         | 151.62<br>(7.86)    | 24<br>(12.63)   | 467.88<br>(4.27)     |
| 8.                              | America      | 6<br>(4.05)     | 21.26<br>(0.24)     | 4<br>(9.30)          | 145.36<br>(7.53)    | 10<br>(5.26)    | 166.62<br>(1.52)     |
| 9.                              | Total 7&8    | 22<br>(14.97)   | 337.52<br>(3.74)    | 12<br>(27.91)        | 296.98<br>(15.40)   | 34<br>(37.89)   | 634.50<br>(5.79)     |
| 10.                             | Total 6&9    | 147<br>(100.00) | 9035.84<br>(100.00) | 43<br>(100.00)       | 1929.59<br>(100.00) | 190<br>(100.00) | 10965.43<br>(100.00) |

\* Includes a venture in Australia - a DC.

Source: Based on the data provided by the IIC: Factsheets on Indian Joint Ventures Abroad for the period ending 20th August 1986 (From K.V.K.Ranganathan: CSG Working Paper Indian Joint Ventures Abroad IIPA, N.Delhi, p.19)

Note : PUC: Paid up capital by Indian Partner (i.e.Indian Equity abroad).

tures under implementation are located here.

Table 3.10 shows the regional distribution of IJVs Abroad in ventures in production and under implementation in terms of number and Indian equity (paid up capital by the Indian partner) involved. In mid 1986 (as on 20.8.86) there were 61 ventures in operation in South East Asia accounting for 41.50% of the total. Their contribution to Indian equity was even larger - 54 percent. We note that of late as far as ventures under implementation are concerned, there has been a shift in the geographical orientation of Indian firms towards Africa. This is because S.E. Asia and Africa stand on an equal footing as far as the number of IJVs under implementation and the total Indian equity contributed in the two regions are concerned. However, in the figure for Indian equity in a venture in Africa - a sea resort hotel (under implementation) in Seychelles dominates. This one venture alone accounts for 16% of Indian equity in ventures under implementation.

The developing countries, as a whole account for 125 (actually 124 as one venture in Australia has been included in the category 'Oceania') ventures in production accounting for 85% of the total number of IJVs in production. They account for a higher 96% of the total Indian equity in ventures in operation. The small average in Indian equity in DCOs is due to the fact that,

31/34 of the ventures are in the non manufacturing which require a smaller amount of equity per venture.

We note a slight shift in the geographical orientation towards ventures in the developed country as we look at, the figures of IJVs under implementation. We see that 28% of the IJVs are located in DCs (ie. 72% in LDCs) and their share in Indian equity abroad is 15% (compared to 4% for ventures in operation) USA accounts for 8% followed by U.K. (5%) in Indian equity contribution for ventures under implementation.

We shall now turn to section II which provides a detailed survey of the geographical orientation of the IJVs Abroad, after summing up the contents presented in this section.

A SUMMING UP.

- i) In the 70's, India had made fairly rapid strides in establishing joint ventures abroad, although its pace had considerably slackened in the 80's - both in terms of numbers (Table: 3.2) as well as in the terms of Indian equity contributed-whether in rupee or in dollar terms. The greatest share of Indian equity in ventures in operation is accounted for by 'export, of capital equipment' (63.5 per cent) while 'cash remittance' accounts for an insignificant 8.9 percent (Table 3.3). This form of Indian equity capital was possible as Indian DFI was mostly concentrated in the manufacturing sector accounting for 63 per cent of the number of operational ventures and 94 per cent of Indian equity therein. Of late, with a more liberal stance towards cash remittance, the picture is different for ventures under implementation (Tables 3.3 & 3.4). Thus only 49 per cent of the ventures under implementation are in 'manufacturing' accounting for only 54 per cent of Indian equity. The 1980's thus reveal a sectoral change in IJVs from the manufacturing to the non-manufacturing sector.

- ii) A majority (75 per cent) of Indian ventures accounting for 84 per cent of Indian equity are in operational ventures where the Indian partner has a minority share. This is true also for ventures under implementation (Table 3.5).
  
- iii) The average size of the Indian equity at US \$0.5 million (mid.1986) is small, but, more than that of developing countries like S.Korea. The average size of equity (i.e aggregate equity contributed by Indian and non-Indian partner, non-Indian financial institutions, host country governments, etc.) contributed in a particular venture in operation amounts to U.S \$ 1.90 million. Thus about 26 percent of 'total equity' in operational ventures - on an average - was contributed by the Indian partner. The figure is 29 percent for ventures under implementation (based on Table 3.6).
  
- iv) 18 per cent of the combined ventures in operation and under implementation are located in the DCs. 3 per cent of the ventures in the manufacturing sector and 40 percent of the ventures in the non-manufacturing sector are located in the DCs (Table 3.7).



- v) There are 35 countries at present, (mid - '86) in which LJV's are either in operation or under implementation. However, they are concentrated in nine of them - Malaysia, Thailand, Indonesia, Sri Lanka, Singapore, Nigeria , UAE, UK and USA (Table 3.9 and Appendix I). Dividing the globe into geographical regions, we note that 54 per cent of Indian equity in ventures in operation and 49 percent of the equity in ventures under implementation are located in South East Asia. For Africa, the figures are 37 percent and 36 percent respectively. Hence there is regionwise concentration of equity participation of LJV's abroad. This concentration is true for the numbers as well. (Table 3.10)

B. GEOGRAPHICAL DISTRIBUTION  
OF INDIAN JOINT VENTURES.

Geographically, Indian firms' overseas investment covers a wide area - from Fiji & Tongo in the East to Nigeria in the West (among the developing countries). However, as on August 20, 1986, the maximum concentration of Indian Joint Ventures was in the neighbouring countries around the Indian Ocean - Thailand (9), Indonesia (11), Malaysia (23), Singapore (15) and Sri Lanka (16)<sup>1</sup>. These five countries account for 74 out of 147 joint ventures in operation (ie.50%). In terms of equity, 5 countries - Thailand (16.48%), Indonesia (16.08%), Malaysia (15.38%), Senegal (15.14%) and Kenya (12.40%) account for about 76% of the total Indian equity in plants in operation, as on 20.8.86.<sup>2</sup> There were 30 countries in which Indian joint ventures were in operation.<sup>3</sup> Apart from these countries, in five other countries, Indian joint ventures (IJVs) were under implementation.<sup>4</sup> We thus note that the distribution of IJVs was rather uneven across countries - both in terms of numbers as well as in terms of Indian equity contributed.

---

1) From Table 3 - KVK Ranganathan CSG Working paper IIPA 'Indian JVs Abroad' PP 14-15.

2) Ibid PP 14-15

3) Ibid PP 14-15

4) Ibid PP 14-15

The above paragraph provides a brief description of the IJVs as it is at present. We shall now provide a broad overview of the trend regarding the geographical distribution of IJVs.

The first Indian Venture was in Ethiopia in a textile mill. The project approved in 1956, went into production in 1960. While in production it was quite successful and enjoyed about half the market share of Ethiopia.<sup>5</sup>

Initially in the 1960s, the African continent provided the maximum number of hosts to Indian JVs. Thus, the stock-end equity for 1970 shows that Kenya had absorbed as much as 41% of the Indian outflows prior to 1970.<sup>6</sup> Next in importance were the developing 2 countries S.E.Asia - Malaysia and Thailand. In the 70's of while Indian FDI diversified into several countries, it remained concentrated in a few countries. Thus, five countries - Malaysia, Indonesia, Thailand, Nigeria and Kenya together held about 4/5-ths of the stock of FDI from India<sup>7</sup> (upto 1978).

---

5) Balakrishnan, V It was taken over after the revolution of September, 1979 (See, R.G. Agarwal P.42)

6) S. Morris: Trends in FDI from India (1950-82). EPW Nov.'14 ..1987 P.1963.

7) Ibid P.1963.

Outflows of Indian Equity Share capital on account of JVs to important destination countries

| COUNTRIES PERIOD | KENYA | MALAY SIA | THAI LAND | INDON ESIA | NIGE RIA | SENE GAL | SRI LANKA | SINGA PORE | TOTAL |
|------------------|-------|-----------|-----------|------------|----------|----------|-----------|------------|-------|
| UPTO 1970        | 41.25 | 24.44     | 6.29      | 0.00       | Neg      | 0.00     | Neg       | 4.12       | 76.07 |
| 1971 - 74        | 20.95 | 42.74     | Neg       | 19.96      | Neg      | 0.00     | Neg       | Neg        | 83.65 |
| 1975 - 78        | 11.14 | 14.81     | 10.88     | 21.17      | 19.60    | 0.00     | Neg       | Neg        | 77.60 |
| 1979 - 82        | 0.99  | 5.46      | 4.89      | 10.24      | 10.61    | 28.08    | 10.54     | 12.28      | 84.01 |

Source: Based on data provided in Table 10: S.Morris P.1964

The above table shows that Kenya (41.25%) and Malaysia (24.44%) were the two most important host countries in the period 1960-70. In 1971-74, Malaysia (42.74%) overtook Kenya (20.95%) followed by Indonesia (19.96%)—the latter having no joint venture in the 60's. In 1975-78, there was a greater diversification of host countries with Indonesia (21.17%) taking the top slot followed by the newly important destination country - Nigeria (19.60%). The period 1979-82 was marked by maximum diversification with 3 more countries, Senegal (28.08%), Sri Lanka (10.54%), and Singapore (12.28%) reaching double-figures.<sup>8</sup> Besides, in this period, there were numerous other host countries whose share in Indian equity overseas exceeded 1%<sup>9</sup> Also, the importance of Kenya and Malaysia as host, country partners declined significantly followed by that of Thailand and Indonesia to a certain extent.

8) However, the case of Senegal is exceptional as IFFCO's giant Fertilizer Company - a single joint venture in Senegal accounts for 15.74% of total equity of LJV's in operation as on 20. 8.86 (source: Table 3 K.V.V.R. P.14).

9) See Table 10: S.Morris P.1964. In fact they numbered nine.

We shall now take each geographical region in turn and try to analyse the trend in the number of JVs in production under implementation and abandoned - before and after starting implementation of the project. In cases where materials were available, one has to try to explain the geographical patterns of Indian investments abroad in terms of the policies of the host country governments, and the economic prospects on the basis of locational advantages they offer. Also, one needs to understand the underlying internal factors that have propelled Indian investments which will be discussed in a subsequent section.

In this section, we have data for 3 points of time: 1.1.76<sup>10</sup>, 31.3.82<sup>11</sup>, and 20.8.86<sup>12</sup>. On the basis of these data we can analyse the evolving geographical spread of IJVs. We shall take each region in turn and analyse separately their trend in the rate of growth of Indian joint ventures abroad and causes for their abandonment. However, all these data are not strictly comparable. Unfortunately, in the references cited, no where is it mentioned as to how

---

10) Balakrishnan, EPW. May 1976

11) R.G. Agarwal : India's Joint Ventures Abroad (NBT)

12) K.V.K. Ranganathan: India's Joint Ventures Abroad:  
IIPA Working Paper.

Indian equity in different joint ventures implemented at different points of time have been aggregated. For inflation and differential rates of changes in exchange rate in different countries will affect the 'real' value of Indian equity. It seems, however, that no correction has been made in the data and the figures have been aggregated in terms of current values in Indian Rupees. Since the figures on Indian equity can not be strictly speaking aggregated in analysing the trends and underlying factors. We shall be more concerned with the number of IJVs rather than their contribution to Indian equity.

AFRICA:

Initially in the 60's, the African countries were the leading hosts to IJVs. The reason was that, as a founding member of the Non-Aligned movement and one of the first developing countries to industrialise on a significant scale, India, in the 50's and 60's provided both a political model for economic self-reliance as well as a model for industrial development. The need for economic trade and business co-operation was stressed in this period. The Indo-African Development Association formed to realise these objectives had as one of its objectives "to study, process and effectively deal with enquiries received from the African Countries for collaboration in industrial fields

TABLE 3.12

Indian JVs in Africa (as on 1.1.76) (excluding Libya)

(Rs. in Lakhs)

| S1<br>No | COUNTRY   | In Production<br>No | Indian Ety | Und. Implmn.<br>No. | Indn Ety | Abnd. after Appl<br>No. | Indn. Ety. |
|----------|-----------|---------------------|------------|---------------------|----------|-------------------------|------------|
| 1        | Kenya     | 7                   | 392.39     | 1                   | 147.00   | 6                       | 593.39     |
| 2        | Nigeria   | 3                   | 46.20      | -                   | -        | 9                       | 92.08      |
| 3        | Mauritius | 5                   | 53.15      | 5                   | 62.10    | 4                       | 56.81      |
| 4        | Uganda    | 1                   | 29.20      | -                   | -        | 1                       |            |
| 5        | Tanzania  | -                   | -          | -                   | -        | 3                       | 36.20      |
| 6        | Zambia    | -                   | -          | 2                   | 48.40    | 3                       | 24.50      |
| 7        | Senegal   | -                   | -          | -                   | -        | 1                       | 3.65       |
| 8        | Togo      | -                   | -          | -                   | -        | 2                       | 1.20       |
| 9        | Ghana     | -                   | -          | -                   | -        | 1                       | 5.40       |
| 10       | Mozoco    | -                   | -          | -                   | -        | 1                       | 3.69       |
| 11       | Ethiopia  | -                   | -          | -                   | -        | 9                       | 139.55     |
|          | TOTAL     | 16                  | 520.94     | 8                   | 257.50   | 40                      | 956.47     |

Source : Balakrishnan EPW May 1976.

as also to process proposals for imparting training in Indian factories.<sup>13</sup> However, there were numerous obstacles to the route of South-South Co-operation. Change in governments: creating political instability, as in Nigeria and Ethiopia; ethnic clashes in which Indians settled in Africa were victims, as in Uganda, and Kenya; and Africanisation or nationalisation of joint ventures were the root causes behind a shift in the investors' interest from Africa to South East Asia. (However, since the late 70's, Nigeria has provided a politically favourable climate to Indian Joint Ventures.) Of the nine ventures approved for production, there is not a single venture in production or under implementation in Ethiopia at present, India's first joint-venture in Ethiopia which was economically quite profitable in the 60's having captured half the market share-was nationalised due to political reasons. Infact, in 1976, Africa presented a gloomy picture as far as abandonment of IJV proposals were concerned. Thus 63% of the total number of ventures (for Africa) were abandoned after approval accounting for 55% of the proposed investment in Africa.<sup>14</sup>

---

13) Cited by Balakrishnan EPW May 1976 with independence of African countries, (Nigeria (in 1960), Kenya (in 1963) etc., co-operation gathered momentum).

14) From Table (3) in Balakrishnan.



.. 103-a ..

Table 3.13

IJVs in AFRICA

(as on 1.1.1976)

Rs.in lakhs.

---

| No. of<br>Countries | Proposals Approved |               | In.Predn. |        | Under Imple. |          | Abandoned<br>after April |          |
|---------------------|--------------------|---------------|-----------|--------|--------------|----------|--------------------------|----------|
|                     | No.                | Indian Equity | No.       | Indian | No.          | I.Equity | No.                      | I.Equity |
| 11                  | 64                 | 1734.91       | 16        | 520.94 | 8.           | 257.50   | 40                       | 956.47   |

---

Source: Appendix 1 : Balakrishnan EPW '76.

TABLE 3.14  
IJVs in Africa as on 31.3.82. (In Numbers)

| COUNTRY      | APPROVAL | IN OPERATION | UNDER I.F.P.N. | ABANDONED | NON-IMPLEMENTED |
|--------------|----------|--------------|----------------|-----------|-----------------|
| Botswana     | 1        | 1            | -              | -         | -               |
| Kenya        | 24       | 10           | 2              | 3         | 9               |
| Liberia      | 1        | -            | 1              | -         | -               |
| Mauritius    | 16       | 5            | 1              | 5         | 5               |
| Nigeria      | 33       | 6            | 12             | 4         | 11              |
| Senegal      | 2        | -            | 1              | -         | 1               |
| Seychelles   | 1        | -            | 1              | -         | -               |
| Sudan        | 1        | -            | 1              | -         | -               |
| Tanzania     | 4        | -            | 1              | -         | 3               |
| Uganda       | 2        | -            | -              | 1         | 1               |
| Ethiopia     | 9        | -            | -              | 4         | 5               |
| Ghana        | 1        | -            | -              | 1         | 1               |
| Libya        | 3        | -            | -              | 1         | 2               |
| Morocco      | 1        | -            | -              | 1         | 1               |
| Saudi Arabia | 7        | -            | 1              | 1         | 5               |
| TOTAL        | 106      | 22           | 21             | 18        | 44              |

Source ; Table VII B.G. Agarwal pp. 63 - 65.

TABLE 3.15

JVs in Africa (as on 31.3.82) (P.Lakhs)

| Sl No | COUNTRY    | IN OPERATION |                  |                 | Un-Implementation |                |           |
|-------|------------|--------------|------------------|-----------------|-------------------|----------------|-----------|
|       |            | No. of JVs   | Actl. Indn Eqty. | Per. Tot. Eqty. | No. of JVs.       | App. Ind. Ety. | P.T. Ety. |
| 1     | Kenya      | 10           | 1216.36          | 26.2            | 2                 | 60.18          | 0.8       |
| 2     | Nigeria    | 6            | 261.81           | 5.6             | 12                | 1327.05        | 18.5      |
| 3     | Mauritius  | 5            | 45.09            | 0.9             | 1                 | 13.40          | 0.2       |
| 4     | Uganda     | 1            | 28.07            | 0.6             | -                 | -              | -         |
| 5     | Liberia    | -            | -                | -               | 1                 | 68.00          | 0.9       |
| 6     | Seychelles | -            | -                | -               | 1                 | 134.50         | 1.9       |
| 7     | Tanzania   | -            | -                | -               | 1                 | 2.67           | 0.1       |
| 8     | Botswana   | 1            | 5.00             | 0.1             | -                 | -              | -         |
| 9     | Zambia     | -            | -                | -               | 1                 | 30.00          | 0.4       |
| 10.   | Senegal    | -            | -                | -               | 1                 | 1696.00        | 23.6      |
| 11.   | Sudan      | -            | -                | -               | 1                 | 360.00         | 5.0       |
| TOTAL |            | 23           | 1556.33          | 33.4            | 21                | 3691.80        | 51.4      |

TABLE 3.16

IJVs in Africa (as on 20.8.87) (Rs. Lakhs)

|       |             |    |         |       |   |        |       |
|-------|-------------|----|---------|-------|---|--------|-------|
| 1.    | Kenya       | 6  | 1120.68 | 12.40 | 2 | 34.90  | 1.1   |
| 2.    | Nigeria     | 12 | 755.81  | 8.36  | 3 | 76.18  | 3.95  |
| 3.    | Maritius    | 2  | 15.82   | 0.18  | 1 | 26.75  | 1.30  |
| 4.    | Uganda      | 1  | 28.06   | 0.31  | - | -      | -     |
| 5.    | Seychellies | -  | -       | -     | 1 | 307.63 | 15.94 |
| 6.    | Senegal     | 1  | 1421.80 | 15.74 | - | -      | -     |
| 7.    | Eqypt       | 1  | 17.44   | 0.19  | 1 | 117.60 | 6.09  |
| TOTAL |             | 23 | 3359.61 | 36.16 | 8 | 563.06 | 30.09 |

SOURCE: For Table (c) PP.68, R.G. Agarwal. JVs Abroad.

For Table (d), PP.14-15 K.V.K. Ranganathan.

The picture has not changed since, as on March 1982<sup>15</sup>, we find that out of 106 approved proposals, 18 were abandoned after implementation, 44 non-implemented, 23 in operation and 21 under implementation. The reasons for such a large percentage (41%) of projects non-implemented were that the government or the Indian firm did not perform a detailed cost-benefit analysis regarding the feasibility of the project, change in political climate of the host country leading to uncertainty and also the absence of a suitable host-country leading to uncertainty and also the absence of a suitable host-country partner. These were the reasons also for non-implementation of projects in other regions as well.

From Tables 3.12, 3.13 & 3.14 we note that the number of JVs in production increased from 16 to 23 between Jan'76 and March 1982. However, there was no increase upto August 1986. The number of ventures in Kenya registered a decline from 10 to 6 and in Mauritius from 5 to 2. However, it doubled in Nigeria from 6 to 12 between March 1982 and August 1986. The amount of Indian

---

15) From table VII R.G. Agarwal PP.63-65.

equity for ventures in production trebled between Jan'76 and March'82 from Rs.520.94 lakhs to Rs.1556.33 lakhs and it doubled in between March'82 and August 1986 to Rs.3359.61 lakhs. However, there was marked fluctuation in case of the same for ventures under implementation. Thus from Rs.257.50 lakhs on 1.1.1976, the amount increased about 14 fold to be Rs.3691.80 whence it declined drastically to Rs.563.06 lakhs. Surely, this is to be explained, partly by the fact that India's largest, joint venture in Senegal accounting for an equity of Rs.1696.00 lakhs was brought into production in the 2nd period. However, we have a note of concern in that, while the aggregate amount of actual Indian equity in ventures in production and under implementation exceeded Rs.5200 lakhs on 31.3.82, it declined to less than Rs.4000 lakhs on 20.8.86. What with inflation and the depreciation of Indian Rupee, the actual extent of Indian equity contribution seems to be even less.

In percentage terms, as on 20.8.86, 36.16% of the total Indian equity invested abroad is in Africa. The figure was 30.09% for Indian ventures under implementation.

SOUTH EAST ASIA:

While in the 60's Africa (esp. Kenya) dominated as hosts to Indian joint ventures, the 70's reflected a shift in the geographical orientation of Indian multi-nationals in favour of S.E.Asia. Thus in 1971-74, Malaysia

TABLE 3.17

Indian Joint Ventures in South East Asia. (Rs.lakhs)

| Date as on | No. of host countries | Proposal Appd. |          | In Prodmn. |          | Und. Impmn. |         | Abandoned af.apprl. |        |
|------------|-----------------------|----------------|----------|------------|----------|-------------|---------|---------------------|--------|
|            |                       | No.            | IndEqty. | No         | Ind Ety. | No          | Indety  | No                  | I.Ety  |
| 1.1.76     | 7                     | 86             | 2261.31  | 33         | 987.46   | 37          | 1121.09 | 16                  | 152.74 |
| 31.3.82    | 8                     | 150            | N.A      | 64         | 2830.29  | 23          | 1749.38 | 63                  | N.A    |
| 20.8.86    | 9                     | N.A            | N.A      | 63         | 4880.35  | 10          | 554.31  | NA                  | N.A    |

Sources : 1) Balakrishnan : Appendix - 1 EPW May 1976.  
 2) R.G.Agarwal PP 63-65 & PP.66 (Table VII & VIII)  
 3) KVK.Renganathan Table 3 PP 14-15. (N.A: Not Available)

TABLE 3.18.  
IJVs in S.E.Asia (As on 1.1.76) (Rs.lakhs)

|              |              |           |                |           |               |           |                |           |               |
|--------------|--------------|-----------|----------------|-----------|---------------|-----------|----------------|-----------|---------------|
| 1.           | Malaysia     | 46        | 1095.31        | 23        | 776.02        | 15        | 264.49         | 8         | 54.9          |
| 2.           | Indonesia    | 16        | 724.63         | 3         | 106.50        | 8         | 531.90         | 5         | 86.23         |
| 3.           | Singapore    | 9         | 130.35         | 1         | 12.80         | 6         | 105.84         | 2         | 11.71         |
| 4.           | Thailand     | 7         | 152.82         | 3         | 60.80         | 3         | 92.02          | 1         |               |
| 5.           | Phillippines | 4         | 112.95         | 1         | 7.76          | 3         | 105.19         | -         | -             |
| 6.           | Fiji         | 2         | 37.25          | 1         | 18.10         | 1         | 19.15          | -         | -             |
| 7.           | Hong Kong    | 2         | 8.00           | 1         | 5.50          | 1         | 2.50           | -         | -             |
| <b>TOTAL</b> |              | <b>86</b> | <b>2261.31</b> | <b>33</b> | <b>987.48</b> | <b>37</b> | <b>1121.09</b> | <b>16</b> | <b>152.74</b> |

Source : Balakrishnan EPW May 1976.

TABLE 3.19 INDIAN JOINT VENTURES IN S.E.ASIA (AS ON 31.3.82)

| Sl No | HOST COUNTRY | NO. OF PROP. APPD. | IN PRODUCTION |                            | Under Implementation |                              | Abandoned No. | Not implemented No. |
|-------|--------------|--------------------|---------------|----------------------------|----------------------|------------------------------|---------------|---------------------|
|       |              |                    | No.           | Actual Indn. Eqty. Value % | No.                  | Approved Indn. Eqty. Value % |               |                     |
| 1     | Malaysia     | 61                 | 28            | 1255.38 27.0               | 2                    | 30.94 0.4                    | 9             | 22                  |
| 2     | Indonesia    | 27                 | 12            | 1093.77 23.6               | 4                    | 473.40 6.6                   | 1             | 10                  |
| 3     | Singapore    | 30                 | 14            | 268.31 5.8                 | 10                   | 459.19 6.4                   | -             | 6                   |
| 4     | Thailand     | 17                 | 5             | 153.77 3.3                 | 5                    | 760.05 10.6                  | -             | 7                   |
| 5     | Philippines  | 6                  | 2             | 44.98 1.0                  | -                    | - -                          | 2             | 2                   |
| 6     | Fiji         | 3                  | 1             | 111.22 0.2                 | -                    | - -                          | 1             | 1                   |
| 7     | Hong Kong    | 5                  | 2             | 2.86 0.1                   | 1                    | 24.00 0.3                    | 1             | 1                   |
| 8     | Tonga        | 1                  | -             | -                          | 1                    | 1.80                         |               |                     |
| TOTAL |              | 150                | 64            | 2830.29 61.0               | 23                   | 1749.38 24.3                 | 14            | 49                  |

Source: R.G. Agarwal PP.63.65 & 66

N.B. Data on equity for proposals approved, abandoned and not implemented were not available.

TABLE 3.20: IJVs in S.E.Asia (as on 20.8.86) (Rs.lakhs)

| Sl No | Host Country | No. of Prop. Apprd. | IN PRODUCTION |                              | Under Implementation |                            |                   | Abandoned No.     | Not Implemented No. |
|-------|--------------|---------------------|---------------|------------------------------|----------------------|----------------------------|-------------------|-------------------|---------------------|
|       |              |                     | No.           | Actual Ind. Eqty.<br>Value % | No.                  | Appd.Indn Eqty.<br>Value % |                   |                   |                     |
| 1     | Malaysia     | --                  | 23            | 1389.34 15.83                | 3                    | 44.83 2.32                 | --                | --                |                     |
| 2     | Indonesia    |                     | 11            | 1452.75 16.08                | 0                    | 0.00 -                     |                   |                   |                     |
| 3     | Singapore    |                     | 15            | 485.65 5.37                  | 3                    | 366.33 18.98               |                   |                   |                     |
| 4     | Thailand     |                     | 9             | 1488.68 16.48                | 2                    | 89.30 4.63                 |                   |                   |                     |
| 5     | Phillipines  |                     | 1             | 39.95 0.44                   |                      |                            |                   |                   |                     |
| 6     | Fiji         |                     | 1             | 14.03 0.16                   |                      |                            |                   |                   |                     |
| 7     | Hong Kong    |                     | 2             | 7.96 0.09                    | 1                    | 0.96 0.05                  |                   |                   |                     |
| 8     | Tonga        |                     | 1             | 1.99 0.02                    |                      |                            |                   |                   |                     |
| 9     | Solomon Is.  |                     |               |                              | 1                    | 52.89 3.00                 |                   |                   |                     |
| TOTAL |              | N.A <sup>a</sup>    | 63            | 4880.85 54.02                | 10                   | 554.31 29.98               | N.A. <sup>a</sup> | N.A. <sup>a</sup> |                     |

Source : K.V.K.R PP. 14 - 15

a: Not Available.



received the maximum inflow of Indian capital (42.74%) and in 1975-78, Indonesia (21.17%) replaced Malaysia.<sup>16</sup>

Prior to January 1976, S.E.Asia was the most successful region as far as Indian Joint Ventures were concerned. Thus only 18% of the IJVs were abandoned after approval. In terms of equity contributed in IJVs in 'production', 'under implementation' and 'abandoned after approval' in S.E.Asia, the share of Indian equity in IJVs which were 'abandoned after approval' was only 5%.<sup>17</sup> Malaysia was the earliest host to IJVs in South East Asia and 6% of the ventures in production (with Indian equity of 78%) were hosted in Malaysia as on 1.1.76 (table). This degree of concentration in Malaysia within South East Asia was reduced by March 1982 and further still by August '86. This was because of the fact, that if we compare the end points 1.1.76 and 20.8.86, we see that (i) the number of ventures in production remained static at 23 (although it had increased to 28 on 31.3.83) and the number of ventures under implementation declined from 15 to 3 only and (ii) Indonesia, Singapore and Thailand became important hosts to Indian multinationals with 11, 15 and 9 ventures in production respectively as on August 1986.

---

16) Table II

17) Balakrishnan EPW May 19 6 Appendix - 1 & Table 17.

For South East Asia as a whole, the number of ventures in production doubled in the first period (1.1.76 - 31.3.82) from 33 to 64 and the amount of Indian equity contributed trebled from Rs.987.48 lakhs to Rs.2830.29 lakhs. However, the number of Indian ventures remained static in the second period and was at 63 on 20.8.86.

The number of ventures under implementation declined in both the period from 37(1.1.76) to 23 (31.3.82) to 10 (20.8.86). Singapore and Thailand accounted for the highest decline in the second period.

Thus the second period was particularly unfavourable for IJVs in South East Asia (as was the case in Africa as well) as the aggregate number of ventures in production and under implementation declined from 87 to 74 (15%).

There was a slight shift in the geographical distribution away from South East Asia in the 2-nd period in terms of the amount of actual Indian equity contributed in ventures in production. Thus, while 61% of the total equity overseas went to South East Asia on March 1982, it was 54% in August 1986.

Appendix - 1 shows the country (and region) wise distribution of LJV's abroad. We note that LJV's in South East Asia were diversified across a wide range of activities from simple labour intensive standardised production techniques (textiles, light engineering) to complex capital and technology intensive production processes (transport equipment, vehicles, chemicals, paper and pulp etc). Most of these LJV's were to serve the local market. Only a few units were meant for third country export. Excluding in Singapore and Hong Kong most of  $\frac{1}{2}$  units were in the manufacturing sector. These

THE MIDDLE EAST.

Indian firms made a rather late entry in the Middle East as compared to that in Africa and South East. Thus upto January 1976 of the 30 proposals spread over 11 countries, only 2 had commenced production-one each in Iran and Qatar, while 11 were under various stages of implementation.<sup>18</sup> As many as 17 (57%) of the ventures accounting for 46% of approved equity were abandoned after approval.<sup>19</sup> The picture had improved certainly by 31.3.82<sup>20</sup> as out of the 87 proposals, 15 were in

---

18) See Table 3.21

19) See Table 3.22

20) see Table 3.23

TABLE 3.21: Indian Joint Ventures in M.E. (Rs.lakhs)

| Date<br>As on | No. of<br>host<br>countries | Proposal Approved |           | In Production |                | Under Implemn. |          | Abandoned<br>after apvl. |          |
|---------------|-----------------------------|-------------------|-----------|---------------|----------------|----------------|----------|--------------------------|----------|
|               |                             | No.               | Ind. Ety. | No            | Act. Ind. Ety. | No. App.       | Ind. Ety | No                       | Ind. Ety |
| 1.1.76        | 11                          | 30                | 351.69    | 2             | 7.15           | 11             | 180.11   | 17                       | 164.43   |
| 31.3.82       | 11                          | 87                | N.A       | 15            | 125.24         | 9              | 417.11   | 63                       | N.A      |
| 20.8.86       | 6                           | NA                | N.A       | 17            | 234.62         | 4              | 66.46    | NA                       | N.A      |

\* No. of countries in which projects were in production or under implementation  
a) includes Libya & Cyprus.

Source: 1) Balakrishnan (1976)  
2) Agarwal R.G (1982)  
3) Ranganathan (1988)

TABLE 3.22: Indian JVs in M.E (including Libya&amp;Cyprus) as on 1.1.76

|       |             |    |        |   |      |    |        |    |        |
|-------|-------------|----|--------|---|------|----|--------|----|--------|
| 1.    | Iran        | 10 | 67.70  | 1 | 7.15 | 3  | 8.35   | 6  | 52.20  |
| 2.    | S.Arabia    | 5  | 52.53  | - | -    | 1  | 4.36   | 4  | 48.17  |
| 3.    | Dubai       | 4  | 149.10 | - | -    | 4  | 149.10 | -  | -      |
| 4.    | Iraq        | 2  | 5.76   | - | -    | 1  | N.A    | 1  | 5.76   |
| 5.    | Mafarg(UAE) | 1  | 10.30  | - | -    | 1  | 10.30  | -  | -      |
| 6.    | Muscat      | 1  | 8.00   | - | -    | 1  | 8.00   | -  | -      |
| 7.    | Jona        | 1  | N.A    | 1 | N.A  | -  | -      | -  | -      |
| 8.    | Libya       | 2  | 22.90  | - | -    | -  | -      | 2  | 22.90  |
| 9.    | Lebanon     | 2  | 4.25   | - | -    | -  | -      | 2  | 4.25   |
| 10.   | Cyprus      | 1  | 30.90  | - | -    | -  | -      | 1  | 30.90  |
| 11.   | UAR         | 1  | 0.25   | - | -    | -  | -      | 1  | 0.25   |
| TOTAL |             | 30 | 351.69 | 2 | 7.15 | 11 | 180.11 | 17 | 164.43 |

Source: Balakrishnan (1976). Act. - Actual, App. - Approved.

TABLE - 3.23Indian Joint Ventures in the Middle East (as on 31.3.82)

(Rs. Lakhs)

| SL.   | Host Country          | No. of Prop. Appd. | In Production |                          | Und. Impl.              |     | Abandoned | Not impl. |                        |            |
|-------|-----------------------|--------------------|---------------|--------------------------|-------------------------|-----|-----------|-----------|------------------------|------------|
|       |                       |                    | No.           | Ind. Equity <sup>a</sup> |                         | No. |           |           | Ind. Equ. <sup>c</sup> |            |
|       |                       |                    |               | Value                    | % To Total <sup>b</sup> |     |           |           | Value                  | % To Total |
| 1.    | Bahrain               | 2                  | 1             | 1.10                     | Neg.                    | 1   | 75.0      | 1.0       | -                      | -          |
| 2.    | Kuwait                | 6                  | 1             | 1.47                     | "                       |     |           |           |                        | 5          |
| 3.    | Oman                  | 7                  | 1             | 7.98                     | 0.2                     | 2   | 202.90    | 2.8       | 2                      | 4          |
| 4.    | S. Arabia             | 13                 | 3             | 39.48                    | 0.9                     | 2   | 61.97     | 0.9       | -                      | 8          |
| 5.    | UAE                   | 30                 | 9             | 75.21                    | 1.6                     | 4   | 77.24     | 1.1       | 2                      | 17         |
| 6.    | Afghanis <sup>n</sup> | 8                  |               |                          |                         |     |           |           | 1                      | 8          |
| 7.    | Iraq                  | 2                  |               |                          |                         |     |           |           |                        | 2          |
| 8.    | Iran                  | 13                 |               |                          |                         |     |           |           | 2                      | 13         |
| 9.    | Lebanon               | 2                  |               |                          |                         |     |           |           |                        | 2          |
| 10.   | Qatar                 | 3                  |               |                          |                         |     |           |           |                        | 3          |
| 11.   | Yemen                 | 1                  |               |                          |                         |     |           |           | 1                      | -          |
| TOTAL |                       | 77                 | 15            | 125.24                   | 2.7                     | 9   | 417.11    | 5.8       | 8                      | 55         |

Source : RGA pp.63-65 &amp; 67.

a - Actual, b- To total Indian Equity Overseas, c- Approved.

TABLE 3.24 IJVs in the Middle East (as on 20.8.86) (Rs.lakhs)

| Sl No | Host Country | In Production |              |                                   | Under Implementation |                |                                      |
|-------|--------------|---------------|--------------|-----------------------------------|----------------------|----------------|--------------------------------------|
|       |              | No.           | Actual Value | Indn.Eqty % To Total <sup>a</sup> | No.                  | Approved Value | Indian Eqty. % To Total <sup>a</sup> |
| 1     | Bahrain      | 2             | 3.66         | 0.04                              | —                    | —              | —                                    |
| 2     | Kuwait       | 1             | 22.05        | 0.24                              | —                    | —              | —                                    |
| 3     | Oman         | 1             | 8.20         | 0.09                              | 1                    | 19.11          | 0.99                                 |
| 4     | S.Arabia     | 4             | 72.47        | 0.80                              | 2                    | 41.96          | 2.17                                 |
| 5     | UAE          | 9             | 131.24       | 1.45                              | —                    | —              | —                                    |
| 6     | N.Yemen      | —             | —            | —                                 | 1                    | 5.40           | 0.28                                 |
| TOTAL |              | 17            | 234.62       | 2.62                              | 4                    | 66.47          | 2.44                                 |

SOURCE : KVCR PP 14-15

a- Indian Equity in IJVs Abroad.

production and 9 under implementation. The rest (63) were either unimplemented (55) after approval or abandoned after implementation or commencement of production. Between March 1982 and August 1986; the number of ventures in operation increased marginally to 17 and the ventures under implementation declined to 4.<sup>21</sup> There was, thus, an aggregate decline in the number of ventures in operation and under implementation in this period - a similar trend noticed in the case of Africa and South East Asia as well.

As on August 1986, there were 5 countries in which the joint ventures were in operation with the maximum concentration in the United Arab Emirates (9) followed by Saudi Arabia(4).<sup>22</sup>

The contribution of total Indian equity as compared to India's six countries in which the JVs are in operation of which 50% are in Nigeria and 25% in Kenya.

The number of JVs under implementation increased from 8 to 21 between Jan'76 and March 1982 and declined thereafter to 8 as on August '86. The decline is attributable to three factors:-

---

21) See Table 3.24

22) In none of the countries - Afghanistan, Iraq, Iran, Lebanon & Qatar in which 29 joint venture proposals were approved before 31.3.82 - is any venture in production (or under implementation) at, present.

i) a few ventures under implementation as on March'82 went into production by August 1986 especially in Nigeria and Senegal.

ii) a few of them (ventures under implementation) were later abandoned - as in Liberia, Tanzania, Zambia, and Sudan.

iii) very few new ventures were under implementation in 1982-1986 for e.g. one in Egypt.

From the tables it seems that the aggregate number of ventures in operation and under implementation reached its peak around 1982 with 44 ventures in these two categories. Since then, the rate of growth of JVs has been negative - i.e. the no. of ventures abandoned exceeded the no. of new ventures under implementation or in production between 1982 and 1986.

As far as the actual Indian Equity is concerned, the comparisons for three different points of time are rendered difficult as we do not know as how to interpret these magnitudes. None of the authors, Balakrishnan, Agarwal or Ranganathan mention whether these are at, current prices and current exchange rates or were historically given (i.e. as provided by the investors to the government at the time of implementation or operation). We do not know



as to whether any changes in the exchange rate had any repercussion on the rupee value of Indian equity and thus whether the ultimate equity contributed (in Re terms) differed from the initial projections. Similarly, inflation will have an effect that will differentiate between initial and ultimate value of equity - given that the Indian investor has agreed to contribute a certain fixed percentage of the value of the projects.

The problem which we have just mentioned above will be faced for the other regions as well. Nevertheless, we shall try to do whatever we can with the data available.

Foreign direct, investment in this region was marginal at 3% in ventures in production (as on 20.8.86) and 2% in ventures under implementation.

Of the 21 ventures in operation and under implementation, 9 are in construction followed by manufacturing (8), trading (6), hotel(1), and consultancy(2).<sup>23</sup> Also, 75% of India's JVs in construction are in the Middle East.

India was relatively more successful in the field of consultancy and project exports than in forming manufacturing JVs. Balakrishnan<sup>24</sup> has provided certain arguments as to why India could not succeed in having a rapid increase in the number of joint ventures in this region. Those oil producing and rich economies were open and export oriented. Compared to other developing regions this region attracted DCMNCs with extremely complex, high volume and high quality sophisticated production and with international marketing networks - especially in the stupendously profitable petrochemicals sector reaping profits in petro dollars.

---

23) See Table 3.7

24) Balakrishnan (1976)

In this field, Indian and other TWCNCs were no match to the giant DCMNCs. However, India, in the services sector, could provide cheap managerial and technical consultancy services. Also, it could provide tie-up arrangements with the DCMNCs to supply parts of the equipment erection capabilities etc. Indian joint ventures in the manufacturing sector (in mechanical and chemical engineering activities like aluminium architectural products, steel drums and containers, sulphuric acid, irrigation wells and pumpsets) show that it has a fairly high degree of proficiency in the intermediate echelon of technology transfer and in the limited domestic market where DCMNCs will not penetrate and tariff barriers operate as preventive to imports.

#### SOUTH ASIA:

The countries in this region to which India belongs are the immediate neighbours to India, . And they are relatively underdeveloped - industrially. However, due to the geo-political conflict where India is perceived as a regional super-power, and because of the perception that there is a close collaboration between the Indian government and the

113.a

TABLE - 3.25

IJVs in South Asia

(Rs. lakhs)

| Date<br>as on | No. of<br>Countries | Proposals<br>Approved |                | In Production |             | Under Implementation |             | Abandoned after<br>Approval |             |
|---------------|---------------------|-----------------------|----------------|---------------|-------------|----------------------|-------------|-----------------------------|-------------|
|               |                     | No.                   | Indn.<br>Eqty. | No.           | Indn. Eqty. | No.                  | Indn. Eqty. | No.                         | Indn. Eqty. |
| 1.1.76        | 3 <sup>a</sup>      | 23                    | 343.57         | 4             | 7.12        | 2                    | 5.00        | 17                          | 331.45      |
| 31.3.82       | 3                   | 45                    | N.A.           | 9             | 44.73       | 17                   | 930.88      | 19                          | N.A.        |
| 20.8.86       | 2 <sup>b</sup>      | N.A.                  | N.A.           | 21            | 213.54      | 9                    | 449.77      | N.A.                        | N.A.        |

Note a: Includes Afghanistan

b: Includes only those countries when on 20.8.86 IJVs were in production or under implementation.

Source: Balakrishnan (1976), R.G. Agarwal (1984), K.V.K.R. (1988).

113-b

TABLE 3.26 IJVs in SOUTH ASIA (AS ON 1.1.76)

| Sl<br>No | Host Countries | Proposals Approved |              | In Production |             | Under Imple.<br>mentation |           | Abandoned after<br>Approval. |            |
|----------|----------------|--------------------|--------------|---------------|-------------|---------------------------|-----------|------------------------------|------------|
|          |                | No                 | Indian Eqty. | No            | Indn. Eqty. | No                        | Idn. Eqty | No.                          | Idn. Eqty. |
| 1.       | Afghanistan    | 7                  | 82.51        | 1             | 1.28        | 2                         | 5.00      | 4                            | 76.23      |
| 2.       | Sri Lanka      | 15                 | 155.32       | 3             | 5.84        | -                         | -         | 12                           | 149.48     |
| 3.       | Nepal          | 1                  | 105.74       | -             | -           | -                         | -         | 1                            | 105.74     |
| TOTAL    |                | 23                 | 343.57       | 4             | 7.12        | 2                         | 5.00      | 19                           | 331.45     |

SOURCE: Balakrishnan EPW May 1976.

industrial interests and that joint ventures may be utilised for wielding political and economic power undermining the sovereignty of the smaller neighbouring nations, these countries have shown a rather lukewarm interest in establishing joint ventures officially approved by the Indian government.<sup>25</sup> However, we would like to point out that data limitations colour our view to a very great extent. Thus official data for IJVs abroad in Sri Lanka includes only 7% of the Indian firms in Sri Lanka in the period 1979-82. Morris<sup>26</sup> argues as follows: "Informal conversation with members of the Indian embassy reveal that the number of Indian firms in Sri Lanka is more than 15 or so times the number of officially reported JVs. These are over and above the firms that belong to Indian citizens resident in Sri Lanka and to persons of Indian origin long settled in Sri Lanka, all of whom constitute an intermediate category of investment. A study by a Japanese business group reported that the stock of Indian direct investment in Sri Lanka, circa 1978, to be as high as

---

25. Encornation (1982), Op.Cit.

26. Morris (1987).

Table 3.27 IJVs in S.Asia (As on 31.3.82) (Rs. Lakhs)

| Sl No | Host Country | No. of Proposal approved | In Production |                        | Under Implementn.            |    |             | Abandoned No | Not Implemented No |
|-------|--------------|--------------------------|---------------|------------------------|------------------------------|----|-------------|--------------|--------------------|
|       |              |                          | No            | Actual Indn. Ety Value | Indn. Ety % T.T <sup>a</sup> | No | Appd. Value |              |                    |
| 1     | Bangladesh   | 1                        | 1             | 4.00                   | 0.1                          | -  | -           | -            | -                  |
| 2     | Nepal        | 11                       | 1             | 14.62                  | 0.3                          | 6  | 321.42      | 4.5          | 4                  |
| 3     | Sri Lanka    | 33                       | 7             | 26.11                  | 0.6                          | 11 | 609.48      | 8.5          | 15                 |
| TOTAL |              | 45                       | 9             | 44.73                  | 1.0                          | 17 | 930.88      | 13.0         | -                  |

Source : LIC (1983) / R.G. Agarwal

Table 3.28 IJVs in S.Asia (As on 20.8.86) (Rs. Lakhs)

|       |           |   |    |        |      |   |        |       |   |
|-------|-----------|---|----|--------|------|---|--------|-------|---|
| 1     | Sri Lanka | - | 16 | 102.49 | 1.13 | 4 | 141.18 | 7.32  | - |
| 2     | Nepal     | - | 5  | 111.05 | 1.23 | 5 | 307.59 | 15.94 | - |
| TOTAL |           |   | 21 | 213.54 | 2.36 | 9 | 448.17 | 23.26 |   |

Source : K.V.K.R.

a- To total Indian Equity in IJVs Abroad.

31.9%, the highest for any source country.<sup>27</sup> This is more likely to be the correct estimate. We note that our analysis is limited only to the official JVs whose data are collected by the Ministry of Commerce, GOI and the Indian Investment Centre. They do not cover the subsidiaries official or otherwise.

Now, we shall once again look into the question of IJVs based on official sources - fully aware of the limitations of the same.<sup>27</sup> We note that Balakrishnan had included Afghanistan in the category of South Asia, while Agarwal has not.<sup>28</sup> We note that South Asia provides the only exception to the general trend witnessed earlier (for S.E. Asia, Africa and Middle East) in that the aggregate number of ventures in operation and under implementation increased from 26 to 30 with the ventures in operation actually trebling from 7 to 21. However, Nepal and Sri Lanka are the

---

25) See for eg. Dennis J. Encarnation - The Political Economy of India's joint ventures in Industrial Organisation Winter 1982 PP. 31-59. This issue has been discussed in a greater detail in the chapter on South-South Co-operation.

26) S. Morris EPW Nov. 14, 1987. P. 1963

27) S. Morris EPW Nov. 7, 1987

28) This does not create problem as Afghanistan has no IJVs now or on 31.3.1982.



only two countries where India has joint ventures at present. No joint venture exists in Pakistan, Bangladesh, Maldives and Bhutan. For this scenario, the reasons are mainly of a political rather than economic nature.

It seems that South Asia is attracting recent investments from India. Thus while on 20.8.86 only 2% of Actual Indian equity has gone to South Asia in ventures in production, ventures under implementation account for a high 23.26%.

Appendix 1 shows the field of collaboration of Indian firms in the host countries. Projects in operation include manufacture of paints, beer and dry batteries in Nepal. In Sri Lanka the spread of investment is across almost all industry groups in which India invests abroad - textiles, light, engineering, chemicals, commercial vehicles, etc, in the manufacturing sector as well as restaurants, financial services, tourism etc. in the non-manufacturing sectors.

THE DEVELOPED COUNTRIES:

The Indian firms had made at fairly early entry into DCs. Out of 65 units in production, 10 (15.4%) were located in the DCs as on January, 1976. These had 14.8% of the total Indian equity in ventures in production. Thus the average Indian equity in a DC venture was comparable to that in a developing country. This was mainly because of the existence of 2 units where the amount of Indian equity was quite large - one in Canada and the other in West Germany accounting for about 80% of the total Indian equity in ventures in production as on 1.1.76. These units were manufacturing rice milling machinery (Kirloskars, W. Germany) at an attractive price and a pulp and paper unit in the then virgin territory of Nova Scotia.<sup>29</sup> Both of them had found unique business opportunities at the appropriate time before powerful international competition had led to their abandonment by 31.3.82.

---

29. Balakrishnan, 1976.

Table 3.29 JVs in the DCs (America, Europe & Australia)

| Date as<br>on | No. of<br>host<br>countries | <u>Proposals Approved</u> |             | <u>In Production</u> |           | <u>Under Implementn.</u> |           | <u>Aban.After<br/>Appl.</u> |          |
|---------------|-----------------------------|---------------------------|-------------|----------------------|-----------|--------------------------|-----------|-----------------------------|----------|
|               |                             | No.                       | Indian Eqty | No.                  | Indn. Ety | No.                      | Indn. Ety | No.                         | Indn.Ety |
| 1.1.76        | 8 <sup>a</sup>              | 27                        | 461.57      | 10                   | 251.54    | 5                        | 8.81      | 12                          | 201.22   |
| 31.3.82       | 16                          | 73                        | N.A         | 23                   | 90.26     | 16                       | 393.36    | 34                          | N.A      |
| 20.8.86       | 11 <sup>b</sup>             | NA                        | N.A         | 33                   | 344.72    | 12                       | 296.98    | NA                          | N.A      |

a : Excludes Cyprus.

b : includes only those countries where joint ventures were in production or under implementation as on 20.8.86.

Table 3.30 JVs in the DCs (excluding Cyprus) as on 1.1.76 (Rs. lakhs)

|       |            |    |        |    |        |   |      |    |        |
|-------|------------|----|--------|----|--------|---|------|----|--------|
| 1     | U.S.A      | 8  | 46.31  | 4  | 4.90   | 3 | 3.91 | 1  | 37.50  |
| 2     | Canada     | 5  | 180.75 | 1  | 75.00  | 1 |      | 3  | 105.75 |
| 3     | U.K        | 4  | 28.15  | 3  | 23.25  | 1 | 4.90 |    |        |
| 4     | N. Ireland | 2  | 2.91   |    |        |   |      | 2  | 2.91   |
| 5     | W.Germany  | 3  | 132.42 | 1  | 125.30 |   |      | 2  | 7.12   |
| 6     | Ireland    | 3  | 28.53  | 1  | 23.09  |   |      | 2  | 5.44   |
| 7     | Australia  | 1  | 35.00  |    |        |   |      | 1  | 35.00  |
| 8     | Japan      | 1  | 7.50   |    |        |   |      | 1  | 7.50   |
| TOTAL |            | 27 | 461.57 | 10 | 251.54 | 5 | 8.81 | 12 | 201.22 |

Source : Dalakrishnan (1976)

As far as the comparability of the average Indian equity in a DC venture to a LDC one was concerned the picture had changed by March 1982. Thus while 23 (17%) of the ventures in production were located in DCs, their contribution to total Indian equity was only 1.94%. Similarly on 20.8.86, while 23 (16%) of the ventures in production were located in DCs, their contribution to total Indian equity was only 4 percent.<sup>30</sup> This was not because of the fact that the average amount of equity per firm in a DC or LDC was equal, but it was because of the fact that not only 4 out of 34 ventures in production and under implementation were in the manufacturing sector. 12 were in trading and 11 in hotel and 3 in consultancy. Naturally the amount of equity required in these ventures is smaller than that required in the manufacturing sector.

---

30) One Indian venture alone - in socialist Yugoslavia - in the manufacturing of steel wire ropes by 2 India-based firms (one India based DCMNC (FCC) and the other an Indian firm (JHAWAR)) account for 69% of the equity in production (20.8.86) among the ventures located in production in DCs.

Table 3.31 LJV's in the DCs (as on 31.3.82) (Rs. lakhs)

| Sl No | Host Country | No. of Prop. Apprvd. | In Production |                    |                         | Under Implementn. |                        |                         | Abandoned | Not Implemented |
|-------|--------------|----------------------|---------------|--------------------|-------------------------|-------------------|------------------------|-------------------------|-----------|-----------------|
|       |              |                      | No            | Act. In. Ety Value | % To Total <sup>a</sup> | No.               | Appd. Ind n. Ety Value | % To Total <sup>a</sup> |           |                 |
| 1     | Australia    | 2                    | 1             | 6.85               | 0.1                     | -                 | -                      | -                       | -         | 1               |
| 2     | Cyprus       | 3                    | -             | -                  | -                       | 1                 | 29.26                  | 0.4                     | -         | 2               |
| 3     | France       | 1                    | 1             | 2.62               | 0.4                     | -                 | -                      | -                       | -         | -               |
| 4     | Greece       | 2                    | -             | -                  | -                       | 2                 | 115.14                 | 1.6                     | -         | -               |
| 5     | Netherland   | 2                    | 1             | 3.75               | 0.1                     | 1                 | 1.00                   | Neg                     | -         | -               |
| 6     | Switzerland  | 1                    | -             | -                  | -                       | 1                 | -                      | -                       | -         | -               |
| 7     | U.K          | 17                   | 9             | 15.37              | 0.3                     | 3                 | 1.83                   | 0.1                     | 2         | 3               |
| 8     | USA          | 24                   | 9             | 21.27              | 0.4                     | 6                 | 53.25                  | 0.7                     | 2         | 7               |
| 9     | W. Germany   | 6                    | 2             | 40.40              | 0.9                     | 1                 | 0.43                   | Neg                     | 1         | 2               |
| 10.   | Yugoslevia   | 1                    | -             | -                  | -                       | 1                 | 192.00                 | 2.7                     | -         | -               |
| 11    | Grenada      | 1                    |               |                    |                         |                   |                        |                         |           | 1               |
| 12    | Hungary      | 1                    |               |                    |                         |                   |                        |                         |           | 1               |
| 13    | Ireland      | 3                    |               |                    |                         |                   |                        |                         | 1         | 2               |
| 14    | Japan        | 1                    |               |                    |                         |                   |                        |                         |           | 1               |
| 15    | Spain        | 1                    |               |                    |                         |                   |                        |                         |           | 1               |
| 16    | Canada       | 7                    |               |                    |                         |                   |                        |                         | 3         | 4               |
| TOTAL |              | 73                   | 23            | 90.26              | 1.9                     | 16                | 393.36                 | 5.5                     | 9         | 25              |

Source : R.G. Agarwal pp.63-65 & 69 / IIC(1983)

a - Indian Equity in LJV'S Abroad.

.. 118-b ..

Table 3.32 Indian Joint Ventures' s in the DCs (as on 20.8.86) (Rs.1akhs)

| Sl No | Host Country | <u>In Production</u> |                                    |            | <u>Under Implementation</u> |  |            |
|-------|--------------|----------------------|------------------------------------|------------|-----------------------------|--|------------|
|       |              | No                   | <u>Actl.Indian Equity</u><br>Value | % To Total | No                          | <u>Approved Indian Equity</u><br>Value | % To Total |
| 1     | Australia    | 1                    | 7.20                               | 0.08       |                             |  |            |
| 2     | Cyprus       | -                    | -                                  | -          | 1                           | 29.26                                  | 1.52       |
| 3     | Greece       | -                    | -                                  | -          | 1                           | 25.22                                  | 1.31       |
| 4     | Netherlands  | 1                    | 0.86                               | 0.01       | -                           | -                                      | -          |
| 5     | Switzerland  | 1                    | 1.63                               | 0.02       | 1                           | 0.38                                   | 0.02       |
| 6     | U.K          | 10                   | 34.57                              | 0.38       | 4                           | 96.76                                  | 5.01       |
| 7     | USA          | 6                    | 21.26                              | 0.24       | 4                           | 145.36                                 | 7.53       |
| 8     | W.Germany    | 2                    | 40.39                              | 0.45       | -                           | -                                      | -          |
| 9     | Yugoslavia   | 1                    | 238.00                             | 2.43       | -                           | -                                      | -          |
| 10    | Gibraltar    | 1                    | 0.81                               | 0.01       | -                           | -                                      | -          |
| 11    | Hungary      | -                    | -                                  | -          | 1                           | 0.00                                   | 0.00       |
| TOTAL |              | 23                   | 344.72                             | 3.82       | 12                          | 296.98                                 | 15.39      |

Source : KVCR PP 14 - 15

It seems that motivations for investing in the developed countries were to promote Indian exports serve ethnic Indian (as well as overseas) clientele in restaurants with Indian food where Indian firms alone seemed to have ownership-specific advantages and provide financial services with the help of qualified Indian financial personnel. Once it highly was recognised that India could hardly cope with the DCMNC and DC domestic firms in the manufacturing sector, Indian firms seem to have almost given up investment in this sector.

Now considering the countries separately, the USA accounted for the maximum number of joint ventures in production and under implementation as well as in terms of approval on both 1.1.76 as well as 31.3.82. However, by 20.8.86 the UK had replaced USA. This was particularly due to the fact that the number of ventures in operation and under implementation in USA had declined from 9 to 6 and from 6 to 4 respectively in the period 31.3.82 to 20.8.86.

In 11 of the 10 ventures in operation, 4 are in marketing trading and publishing, 4 are in Hotel industry, one each in financial consultancy and erection service. In fact all the

14 ventures in operation and under implementation are in the non-manufacturing sector. This is true for USA also. Thus of the 6 ventures in operation, 3 are in marketing meant for Indian export promotion, 2 are in Hotel industry and one in real estate development.

It seems that, India with its cheap and highly qualified (comparable to those in DCs) personnel in financial technical and managerial services will have ownership specific advantages in establishing joint ventures in DCs.. Also in order to source information and promote export, of a firm's product the parent firm establishes joint ventures in services sector. These two types of ventures along with Indian-style restaurants are likely to dominate the IJVs in DCs. (See Appendix - I)



SECTION - C.

Firm and Industry Level Characteristics of Indian  
Joint Ventures Abroad.

C.1 : Introduction.

We have noted in the **first** chapter that ownership specific advantages are necessary for firms to invest abroad. These advantages may be firm - or industry-specific. In this section we shall present the evidence, hypotheses and theories related to firm and industry - level characteristics of IJVs abroad.

C.2 : Firm Level Characteristics.

C.2.1 : Technology.



a) Evidence: The Indian parent firms like OTW/MNCs have in most cases, used imported machinery. Of 52 Indian parent firms interviewed, 42 reported that they obtained their original technology abroad. (See Table 3.32) These firms had at one time or another, either a collaboration or a licensing arrangement with a developed country firm.<sup>1</sup> Over time, however, with encouragement from policies of import substitution, this machinery began to be produced in India. The import content of basic machinery used by most firms was minimal.<sup>2</sup>

---

1) Interviews carried out by C. Cardeiro and reported by Wells (1983) P.20. R.Lall's interviews also corroborate this dependence on import of original technology. (See p.21)

2) R.Lall (1986) P.22 & Wells (1983) P.20 and Table 3.33.

TABLE - 3.33

Source of technology of Indian parent firms and their foreign manufacturing subsidiaries (1977)

| Sector                               | Source of parents' original technology |                            |                                    | Source of foreign subsidiaries' technology |       |  | Source of parents' 1977 technology             |                    |
|--------------------------------------|--|----------------------------|------------------------------------|--|-------|--|--|--------------------|
|                                      | India                                  | Foreign colla-<br>boration | Imports of<br>foreign<br>machinery | India                                      | Japan | Other<br>forei-<br>gn-<br>countri-<br>es | At least<br>50 per-<br>cent<br>indige-<br>nous | Mostly<br>imported |
| Paper & Cardboard                    | 1                                      | 2                          | 2                                  | 7  |       |  | 5  |                    |
| Chemicals, soaps &<br>drugs          | 2                                      | 1                          | 3                                  | 8  |       | 1  | 4  | 2                  |
| Edible oils                          | 1                                      | 2                          | 1                                  | 9  |       |  | 4  |                    |
| Automobile Ancillary                 | 1                                      | 5                          | 3                                  | 7  | 1     | 1  | 8  | 1                  |
| Food, beverages and<br>confectionary | 1                                      | 3                          | 1                                  | 5  |       | 3  | 3  | 2                  |
| Construction                         |  |                            | 3                                  | 3  |       |  | 3  |                    |
| Misc. light ancill-<br>ary           | 1                                      | 5                          | 3                                  | 12   |       | 1  | 9  |                    |
| Heavy industry                       |  |                            | 3                                  | 4  |       |  | 3  |                    |
| Textiles                             | 3                                      | 2                          | 3                                  | 4  | 1     | 3  | 8  |                    |
| Total                                | 10                                     | 20                         | 22                                 | 59   | 2     | 9  | 47   | 5                  |

Source : Interviews conducted by G. Cordeiro in L.T. Wells' (1983) p.21.

Adaptations made in the originally imported technologies most often involved only minor adjustments to the production process or machinery design or just to plant layout ~~through~~ a process of learning by doing rather than through a formal R&D. Other motives for adaptation include the 'need to avoid unnecessary automation' and 'need for raw material substitution'. In rare cases only machine design itself was changed although in some cases formal R&D was necessary.

Besides, an adaptive effort is made to change product design because of the role of local tastes.

However, there is no evidence of the need to scale down imported production technology (to suit the requirements of a smaller domestic market) as a reason for technological adaptation. Instead some firms used less specialised machinery and different plant layouts in order to gain 'flexibility of production' (ability to produce smaller runs of a greater variety of products in the same plant).<sup>3</sup>

b) Hypotheses:<sup>4</sup> (i) Technological sophistication: TWINCs in general, do not rely on their technological sophistication for competing in their overseas operations.

---

3) R.Lall P.23

4) In formulating hypotheses for Indian firms that have invested abroad, R.Lall has used the popular image of TWINCs. Then he compared the Indian experience with that of TWINCs in general to find out whether his hypothesis is accepted or rejected.

Indian firms historically have relied on external sources (mainly collaborations with foreign companies) for their technological development. For which, they have to pay royalties. Hence technological sophistication can be measured in terms of royalties.

For Indian firms to conform to the popular image of TWINCs, we would expect a rejection of the hypothesis that "firms spending a large proportion of their manufacturing expenses on royalties are significantly more likely to be foreign investors than other firms not doing so".<sup>5</sup>

ii) Embodied Technological Adaptation: The literature on TWINCs in general suggests that "an important source for the competitive advantage of these firms is their ability to use machinery that is better suited to LDC conditions."<sup>6</sup>

From the evidence presented above, the proportion of total manufacturing expenses spent on R&D can be used an index of an Indian firm's ability to adapt a machine and/or process to LDC conditions.

---

5) Ibid p.34

6) Ibid p.35

If the Indian evidence conforms to the general picture of TWE.NCs, then the hypothesis that "Indian firms that have a greater capacity for embodied technological adaptation, irrespective of their industry of operation, are significantly more likely to be foreign investors than other firms with smaller capacities for the same" <sup>7</sup> ought to be accepted. <sup>8</sup>

e) Econometric results: The data reject the hypothesis that irrespective of their industry of operation, Indian firms that are better equipped for undertaking embodied technological adaptation are more likely to invest overseas than firms not as well equipped for the same. This corroborates the interview-findings which indicated that "all forms of embodied technological adaptation notwithstanding, Indian LDCFIs, in their overseas operations, trend to use Indian machinery only to the extent that it is 'as good as' foreign <sup>8</sup> equipment or to the extent that government regulations forces them to do so. Hence most of Indian MNCs prefer cash remittance overseas to 'forced' dependence on Indian machinery as Indian equity abroad.

---

7) Ibid. P.35

8) R,Lall, Ibid P.44

C.2.2 : Finance:

a) Evidence: For many firms, finance posed a serious problem for their overseas ventures.<sup>9</sup> It seems that Indian MNCs have been handicapped by the stringency of the Indian government as regards the transfer of liquid capital overseas for the purpose of equity participation.<sup>10</sup> Moreover, given the small size of most Indian JVs abroad and their being relatively unknown, it has not been easy to raise finance in the local host country markets and as such, are suffering from 'cash starvation'.<sup>11</sup> Again, given the advantages of financial leverage, political contacts, accessibility to information, DFI from India is dominated by large firms that are part of even larger conglomerates.

b) Hypothesis:

i) Capital-output ratio: Given the theoretical and practical difficulties of measuring capital, the ratio may be defined as the average fixed cost of capital corresponding to a firm's output level.

---

9) Ibid p.26 Also M.K.Raju Consultants(1980) and Special Report, Business India, 8-21 June 1981.

10)Federation of Indian Chambers of Commerce and Industry (FICCI) (1982)

11) Lall, Ibid P.26

This average fixed cost on the one hand reflects the scale aspects of the technological mix used by different firms (TWNMCs are supposed to have a  $\downarrow$  capital-output lower ratio ~~than~~ that of DCMNCs and are, therefore, better suited to the LDCs' factor endowments<sup>12</sup> and on the other hand, indicates the financial factor in the technology mix. It seems that, the average fixed cost is a more reliable indicator of the financial rather than the scale aspect of the technological mix. Hence, differences in the average fixed cost of investment cannot be accurate reflection of differences in the scale of operation between firms. Therefore, the index for average fixed cost cannot be used to test the hypothesis that firms using small scale technologies are more likely to invest abroad.

~~Noting~~ the financial constraint, the hypothesis is simply that, "firms, irrespective of their industry of operation, with plants characterised by technologies requiring ~~ing~~ heavier average fixed cost investments would be less likely to invest abroad than firms with technologies requiring lower average fixed cost investments."

---

12) Lecraw (1977), Wells (1983)

ii) Firm Size: The firm's gross sales receipts are used as a proxy for firm size. An index of firm size captures the technological and/or non-technological aspects of firm size. However, "in as much as large sales receipts do not necessarily imply the use of large scale technology, 'gross sales' is probably a better index of the non-technological aspects of firm size than of its technological aspects." <sup>13</sup>

Given the empirical evidence presented above, "it is hypothesised that firm size will at least for non-technological reasons, have a significant impact on the likelihood that an Indian firm invests abroad." <sup>14</sup>

C) Econometric results:

i) Capital-Output ratio: The data seems to support the hypothesis that "irrespective of their industry of operation, Indian firms that require high fixed costs of plant and machinery to generate a given level of output are significantly less likely to invest abroad than other firms with plants requiring smaller fixed costs to produce the same level of output."

---

13) Lall Ibid P.36

14) Ibid P.37



Although this result does not shed any light on the link between the scale aspects of a firm's technological mix and the likelihood of its investing abroad, it does suggest that the financial aspects of the technology used have significant bearing on their decision to invest abroad. In particular, this result is consistent with the impression gathered from our interviews as well as independent reports that liquidity constraints severely restrict the ability of Indian LDCFI's to invest in projects requiring heavy initial capital investment." 15

ii) Firm \* Size: Assuming constant returns to scale, the technological aspect of firm size can be done away with. Then the index for firm size shows the non-technological aspects only. It can be concluded that "the non-technological aspects of large size significantly enhance the likelihood of foreign investment by Indian firms irrespective of their industry of operation." 16

C. 2.3: Managerial and Technical personnel:

a) Evidence: It shows that the use of home country personnel may be an important source for the competitive advantage of Indian MNCs in their overseas operations

---

15) Ibid P.42

16) Ibid P.42

because such personnel are relatively less expensive, more flexible and better attuned to LDC conditions than the personnel used by DCMNCs. The popular image of TWANCs also corroborates this fact.<sup>17</sup>

b) Hypothesis: Firms with greater access to highly trained personnel in their domestic operations would be better equipped for foreign investment than other firms in the same industry.<sup>18</sup>

c) Econometric Result: The hypothesis stands rejected. However, this result cannot be interpreted precisely.<sup>19</sup> For this result can be consistent with the fact that, "while within the same industry, firms with greater access to managerial and technical expertise may not be significantly more likely to invest abroad than firms lacking it, it is still possible that Indian firms in industries that are skill-intensive are more likely candidates for foreign investment or vice versa."<sup>20</sup>

---

17) Chen (1981), Wells(1983)

18) Lall P.37

19) Lall P.43

20) Ibid P.43 - 44

C.24: Export Performance:

a) Evidence: The literature on TWMNCs points to the need to overcome protection in targeted markets as a reason for investing abroad. Apart from this, in the Indian context "high domestic production costs resulting from government regulatory policy may make exports uncompetitive and the option of investing abroad, therefore, more attractive." 21

b) Hypothesis: The ratio of each firms' export earnings to its gross sales receipts is an index of its export performance. There is a negative link between exports and direct foreign investment only if poor export performance is the result of protection in targeted markets and/or problems related to the domestic production environment that make the option of exporting less attractive than that of investing abroad. Therefore, if the negative link is established then we can interpret that result as a support for the hypothesized trade-off for firms between the option of exporting and that of investing abroad.

c) Econometric Results: The data provide "some limited support for ~~one~~ hypothesized incentive for foreign investment arising from poor export performance." 22

---

21) Ibid p.38

22) Ibid p.43

C.2.5: Dependence on imported raw materials:

a) Evidence: "Indian firms may, due to government regulatory policy, find the option of exporting from abroad more attractive than that of exporting from India. In particular, the Government of India's **tariff** policy makes the cost of imported inputs so high that it has a significantly harmful impact on the competitiveness of India's exports of manufactured goods." 23

b) Hypothesis: Firms that are more dependent on imported raw materials are more likely to invest abroad than other firms that are less dependent on the same. The index of this dependence is measured by the proportion of manufacturing costs spent on imported raw materials.

c) Econometric Results: The results provide limited support for the hypothesis that firms that are more dependent on imported raw materials are also more likely to invest abroad.

C.3: Industry level characteristics of Indian JVs abroad.

We shall now discuss the industry-level econometric analysis of DFI abroad. (in the manufacturing sector). We note the fact that, since the bulk of the Indian FDI in manufacturing takes place only in other LDCs, it is likely that the decision to invest overseas is linked specifically with the performance of their exports to LDCs.

Theories of international trade and investment will be presented now. Each theory comes up with a particular hypothesis about the nature of Indian exports and DFI. These hypotheses will be tested and the results obtained. Our analysis is based on R.Lall's work.

C.3.1: The factor proportions approach:

a) Theory: This theory can be applied in the context of intra-LDC trade, where, according to Balassa,<sup>24</sup> the pattern of world exports of manufactures is in terms of inter-country differences in capital endowments within the context of a 'Stages of Development' approach to comparative advantage.

b) Evidence: However, it is not clear, a priori, whether or not India is indeed capital abundant relative to its LDC trading partner.<sup>25</sup> At the same time, India, among TWMNCs has the cheapest labour cost and unlike, say Hong Kong MNCs, none of the Indian MNCs "have located overseas to take advantage of lower labour costs."<sup>26</sup>

---

24) Balassa, B. (1979) 'A Stages Approach to Comparative Advantage', in I. Adelman (Ed) Economic Growth and Resources, London.

25) R.Lall, p.65.

26) Ibid, p.65.

Although within the same industry, Indian firms set up plants that are more labour - intensive than their developed country counterparts, it is by no means clear that Indian MNCs tend to be involved in industries that involve more labour-intensive technologies. Also, a greater use of imported machinery in IJVs abroad, compared with domestic ventures adds to its capital intensity.

c) Hypothesis: Indian firms are not expected to be specifically comfortable with labour-intensive technologies.

d) Econometric Result: On export performance: India, despite being a newly industrialising country, has a comparative advantage in the export of labour - intensive manufactures to its LDC trading partner.

### C.3.2 : The neo-factor proportions approach:

a) Theory: The theory incorporates 'human capital' as a factor of production. In the context of LDCs, it posits that the better developed LDCs will, because of their relative skill abundance, have an advantage in the export of skill and human-capital-intensive manufactures to other less advanced LDCs.

b) Evidence: In the Indian context, "successful foreign investors from India ~~try~~ tend to take advantage of ~~opportunities~~ to exploit the disembodied element of their knowhow, rather than relying solely on the technology embodied in Indian machinery. The extensive use of Indian managerial and technical expertise seems to be an important ingredient of Indian LDCFI's comparative advantage in their overseas projects."<sup>27</sup>

c) Hypothesis: It is expected that an index of human capital intensity for different industries will have a positive and significant coefficient in the foreign investment equation.

d) Econometric results: ~~for~~(i) As far as exports of Indian manufactures to LDCs is concerned, skill-intensity is not an important ingredient of the competitive advantage. But as far as DFI is concerned, industries which are skill-intensive and hence which provide greater opportunities for exploiting the disembodied element of Indian technological knowhow are the more likely candidates for foreign investment by Indian firms.

### C.3.3. The neo-technology approach:

a) Theory: It drops the assumption of identical production

---

27) Ibid P.67

functions across national borders implicit in the traditional Heckscher-Ohlin theory. It posits that the reservoir of technical knowledge is an important basis for competitiveness in trade.

b) Evidence: The existing literature on TWNCs stresses the importance of the ability of the firms to modify and adapt production processes, machinery and product design to better suit LDC conditions and hence gives them a competitive edge over DCMNCs in their operations in developing countries. India has a very large indigenous capital goods sector relative to almost all its LDC trading partners.

c) Hypothesis: It is expected that India, like OTWNCs will have a comparative advantage in industries that make intensive use of inputs from the domestic capital goods sector.

d) Econometric result: As far as exports are concerned, Indian firms do not draw much competitive advantage from the use of indigenous technology as embodied in Indian machinery. Again, as regards DFI, indigenous technology as embodied in domestic capital goods is not a source of competitive strength to Indian MNCs in their overseas operations - a contradiction when compared with experiences of TWNCs in general.<sup>28</sup>



CHAPTER - IV

INDIAN JOINT VENTURES: MOTIVATIONS AND CHARACTERISTICS

A. INTRODUCTION

In this chapter, we shall discuss (a) the motivations for investment by Indian firms abroad and (b) the role of large Business Houses in IJVs abroad.

India has always been described as having a labour-surplus economy with massive unemployment and lacking in complementary inputs like capital and foreign exchange. Neo-classical economists would predict a low return to surplus labour and a high return to the scarce capital. Further, given international mobility of the factors of production, the theory would predict an out-migration of labour and inflow of capital into India. And yet when, direct foreign investment (DFI) does occur from India, they argue that this has to be based on 'negative' motivations<sup>1</sup> meaning that the 'adverse' policy environment related to trade and industry leading to all sorts of distortions have pushed Indian capital overseas. Initially, the World Bank also held such a view. However, as we shall see, this is but only one side of the coin.

---

1. R. Lall, p.89.

Other types of push factors arising from the need for protection of the export market from competition of local, other TWANCs and DCANCs, as well as tariff policies of some countries and also the pull factor arising from the investment-incentive structure provided by the host country and an aggressive strategy based on expansion to new markets seem to have motivated Indian firms to venture overseas. The size of the stock of Indian equity capital overseas is quite considerable and comparable to that of many newly industrialising countries (NICs) such as S.Korea, Taiwan, Thailand<sup>2</sup> and Malaysia.

In establishing IJVs abroad, the Large Industrial Houses have played a predominant role. Nine of the top twenty Largest Industrial Houses account for 52(35 percent) IJVs and Rs.5455.63 lakhs (60 percent) of Indian equity in joint ventures in operation (Table 4.3). However, ventures under implementation do not reflect this very high degree of concentration as their share of Indian equity in ventures under implementation is 28 percent only. So it is likely that the overall concentration of IJVs with the Large Houses may decline in future.

---

2. Dunning in Khan (ed)p.21

All these Houses are large, diversified and well-established with a much broader range of activity at home than overseas, and most of them, if not all, are major exporters of products.

According to S.Lall, 'size, experience and exposure to foreign markets are clearly of great importance in determining exports of capital from India. This is hardly surprising given the costs, risks and information requirements of going abroad'. However, apart from these positive reasons, DFI also seems to be a defensive strategy designed to protect existing markets by creating an outlet for exports through the setting up of joint ventures.

In the following two sections we shall discuss separately the motivations for, and the role of large Business houses in investing abroad.

---

2(a) S.Lall (1982)

B. Motivation for Investment by Indian Firms Abroad

B1 Literature Survey

V. Busjeet<sup>3</sup>, C. Cordeiro<sup>4</sup> and R. Lall<sup>5</sup> have independently interviewed the Indian firms that have ventured abroad. Among other things their interest was to seek out the motivations of the Indian firms for their venturing overseas. Unfortunately, Busjeet's doctoral dissertation is, as yet, unpublished, and his results have, however, been quoted by Wells<sup>6</sup>, R. Lall and D. J. Encarnation<sup>7</sup>, C. Cordeiro's results have been discussed in details by Wells<sup>8</sup>. Only R. Lall has had his results published. As regards the motivations only Cordeiro's results have been summarised in a tabular form. (Table 4d). However, Cordeiro's presentation of his interview findings suffer from certain limitations.

---

3. V. Busjeet: The Internationalisation of Firms from LDCs, unpublished Ph.D. dissertation, Harvard Business School, Cambridge, Mas .

4. His findings are presented by Wells (1983): Third World Multinationals

5. R. Lall (1986) Multinationals from the Third World

6. Wells (1983)

7. Encarnation (1980) The Political Economy of Indian Joint Ventures Abroad. in International Organisation p.31-59

8. D. J. Encarnation Ibid p.31-59) + Ibid p. 68

TABLE - 4.1

## Motivations for Foreign Investment by Indian Firms

| Sl. No. | Motivations                                     | Number of small firms (fixed assets of 1 to 50 million rupees) | Number of medium size firms (fixed assets of 51 to 100 million rupees) | No. of large firms (fixed assets of 101 million rupees or more) | Total No. of response <sup>a</sup> |
|---------|---|--|--|---|------------------------------------|
| 1.      | Protection of export market                     | 21   | 10   | 7   | 38                                 |
| 2.      | Similar technological reqmts. in a host country | 19   | 6  | 6   | 31                                 |
| 3.      | Host country investment incentive               | 15   | 9  | 6   | 30                                 |
| 4.      | Expansion to new markets                        | 10   | 4  | 5   | 19                                 |
| 5.      | Indian domestic growth restrictive              | 7  | 7  | 4   | 18                                 |
| 6.      | Cost advantages                                 | 13   | 3  | 1   | 17                                 |
| 7.      | Others  | 2  | 2  | 0   | 4                                  |

Source : Interviews conducted by Carlos Cordeiro

(a) Each of the 52 firms interviewed could answer to more than one motivations .

Our Source: J. L. Wells : Third World Multinationals (1983) p.69.

1. The 52 firms interviewed have been classified into small, medium and large sizes. However, the break-up of the 52 firms into the number of small, medium-size and large firms is not given. Hence we cannot compare as to whether the motivations differ according to firm size for e.g. whether or not a greater proportion of large Indian firms have been motivated to venture overseas on account of Indian domestic growth restrictions.
2. Each of the 52 firms interviewed could answer to more than one kind of motivations i.e it could provide as many factors motivating them as it wanted to. However, no weight has been attached to each of the motivations for each of the firms interviewed. Cordeiro's ranking of motivations-according to their importance by simply adding up the number of responses-need not hold good.
3. Certain motivations have not been clearly defined for e.g. the motivation of the 'protection of export market'. This motivation can arise out of completely divergent factors. Thus, on the one hand (a) protection of export market can arise out of the import-restrictive policies of the host country in order to promote domestic industrialization. In this case,

because of a divergence between the domestic (host country) price and the international price, DFI may be preferred to exports. On the other hand, (b) protection of export market may be necessary even when host countries are relatively open economies. This can happen when for e.g. (b) (i) the policy environment of the home economy is such that there is a high cost and inefficient production structure making exports internationally uncompetitive. Here other more cost effective economies can continue to export. However, Indian firms may be pushed to invest abroad,, (b) (ii) Indian exports may be internationally competitive and the host economy is relatively open but there are certain locational advantages, say in the form of host country investment, incentives and a further 'cost advantage', which provide opportunities for reaping a higher level of profits by investing abroad. This can encourage the entry of firms - local, other TWMNCs and DCMNCs and cut into the market share of India's exports. Then also, Indian firms will be motivated by a combination of push and pull factors for 'protection of export market'. Here, even if we had known the intersection of the set of firms who are motivated

to invest abroad for 'protection of export market' and for 'cost advantages' (in the host market), then we would have been able to know the importance of b(1i).

Rajiv Lall also does not attribute weights to each of the motivations. Some other problems associated with his interviews will be discussed later as we analyse each of the motivations in turn.

## B.2 Motivations

(i) Protection of Export Markets:- It seems that, for most of the Indian firms exports have been the first step to foreign investment. This is true not only for India but for other TWMNCs as well as DCMNCs. And defence of export markets have, in a majority of cases, prompted DFI. Thus Table -4.1, which reports the responses of Indian managers shows that threats to export markets provided the principal incentive for investing abroad for small, medium-size and large firms-numbering 38 in a sample of size 52.

D.J.Encarnation's study<sup>8</sup> also shows that the

---

8. D.J.Encarnation, ibid p.31-59.



prime motive underlying DFI may have been defensive - namely, protection of export market. The size of Indian investment in a given region/country of the Third World has been a positive function of the quantity of Indian manufacturing exports to that locale as Wells<sup>9</sup> has noted. Throughout the 1960s, exports of Indian manufactures grew at rates faster than total Indian exports<sup>10</sup>. Much of this increase can be attributed to the growth of Indian trade with other Third World countries, the principal market for Indian manufactures. Between 1960-1 and 1970-1, the Third World absorbed between 73 per cent (1970-71) and 89 percent, (1961-62) of India's engineering goods exports - then the fastest growing export sector<sup>11</sup>. Malaysia was the single largest importer of Indian engineering goods from 1961-62 to 1965-66; ten years later, it hosted half of all Indian ventures producing engineering goods in the Third World.<sup>12</sup> The proposition that foreign trade tends to lead to foreign investment and that preservation of export market or host government policies affecting the future of the

---

9. L.T.Wells (1983)

10. D.Nayyar (1976): India's Exports and Export Policies: pp.22-28, 356-71.

11. *ibid* p.23, 358, 366. It grew from 1% of total exports (1960-61) to 10.7%(1974-75).

12. D.J.Encarnation p.40

that market were important in motivating the firms' decision to invest abroad were supported by Busjeet<sup>13</sup>, Lecraw<sup>14</sup> and Singh<sup>15</sup>. Interviews carried out by R.Lall also showed that the preservation of export markets was a major objective. However, he found that this was not because of protection in targeted markets but because the home environment was not conducive to exports. Whether the threat to exports come from exports of other countries to the host market or from setting up of local production by competing firms from local based/TWMNCs/DCMNCs, is not given by R.Lall. Thus he argues:

"Even though only a few firms singled out the impact of input costs on export competitiveness as a reason for venturing abroad, the majority of firms did acknowledge, when asked, that exports were not a viable alternative. This was not so much because of protection in the targeted markets, but more because of problems related to the production environment in India. Ten of the twelve companies constituting our effective sample

---

13. V.Busjeet : Cited above

14. D.J.Lecraw : Direct Investment by Firms from Less Developed Countries  
OEP 29 (Nov. '77) p.444.

15. D.P.Singh : Capital Budgeting & Indian Investment in Foreign Countries:  
Management International Review 17,  
1 (1977) : 101- 10 (cited in  
D.J.Encarnation p.40)

16. *ibid* p.21.

in this case identified the higher costs of inputs at home as a major impediment to improved export performance. Two firms put the blame on high transport costs, and another two (these were the textile firms in our sample. At the time of interviews, the textile industry was at an almost complete standstill because of strikes) on problems of domestic infrastructure such as power shortage and labour unrest. Only two firms picked out, protection in export markets as a serious impediment to export, growth and one claimed that the domestic market, absorbed all of its potential output, (implying that domestic capacity expansion to serve the export market was not possible)" 17

However, one may harbour certain doubts regarding the contents of the paragraph quoted above. It is difficult to understand as to why "only a few firms singled out the input, costs on export competitiveness as a reason for venturing abroad" initially, and only when asked specifically did most of them attribute it as a "major impediment to improved export performance". While conducting interviews, only hopes that, R.Lall one did not put leading questions that anticipated answers in a way which would provide him with the answers he

---

17. Lall, ibid p.21

would like to hear. This problem is a frequent one incurred by the social scientists when they conduct field interviews leading to biased results and predetermined answers of a questionnaire.<sup>18&19</sup> Moreover, Lall's interview results differ from that of C. Cordeiro. This, according to the latter (Table-4.1), while 38 out of a total of 52 firms cited protection of export market as an important motivation, only 17 firms argued that, cost disadvantages in India motivate them to invest abroad. However, Lall's and Cordeiro's results may differ depending on whether or not Lall's sample was a representative ✓ as well as on the ✓one different points of time in which their interviews were conducted. Also, the definition of each motivation as provided by Cordeiro has not been made ✓ by Wells. ✓clear

Thus we note that while 'protection of export markets' is an important factor motivating Indian firms to venture overseas, <sup>w</sup> We are not very sure regarding the importance of various home and host country/firm related factors which necessitate DFI as a substitute for exports.

(ii) Domestic growth restrictions for Indian firms:-

According to Encarnation, V. Busjeet, L.T. Wells and P. Lall (a) constraints on growth in the home market on account of demand recession and (b) domestic regulatory

---

18. See for e.g. Haralambas : Sociology

19. This example shows that no one is 'value free' - not even the so-called positivistic minded neo-classical economists.

policies, were important motivations for investing abroad. In our last section, we had discussed the implications of the policies in terms of rendering exports uncompetitive necessitating in DFI. Here, we shall look at it in terms of diversifying risks by putting eggs in more than one basket in terms of horizontal diversification by investing abroad when restrictions like the MRTP Act supposedly prevented them from expanding its domestic operation.

(ii) (a) That constraints imposed by domestic recession which had resulted in unutilised capacity in the capital goods sector gave an impetus to invest abroad, is not, in doubt. The other alternative was to export. However, it was not possible as Indian capital and basic goods - the sectors recording the lowest rates of growth in 1965-75, saddled as they were by unutilised capacity - did not have an 'image' abroad<sup>20</sup>. As Balakrishnan noted, Indian investors took the advantage of its image abroad in manufacturing final consumer goods like textiles by establishing IJVs abroad, which would facilitate exports of a package of inputs including machinery, equipment and spare parts as Indian equity capital. These exports - other than a package through/in joint ventures - would not, have been feasible otherwise. The Indian Government also in order to (i) extend a new market for capital goods, (ii) expand capacity utilisation

and (iii) earn foreign exchange apart from facilitating the creation of a favourable 'image' for Indian capital goods and promoting South-South Co-operation through playing a positive role in the industrialisation process of the developing countries, provided facilities to the same large Industrial Houses and enabled them to expand abroad - even in collaboration with international finance capital when the MRTP Act, (enacted in 1969), and FERA (enacted in 1973) were supposed to prevent the concentration of economic power at home.

**Defnits** J. Encarnation notes<sup>L 21</sup>

" The international finance wing of the IDBI began to provide medium and longterm deferred payment credits, export credit financing, loan guarantees and other support. In 1981, these functions were transferred to a new EX-IM Bank designed expressly to encourage exports of capital goods, projects, construction and consultancy services. Agreements to avoid double taxation with Kenya, Malaysia and other African and Asian countries were also under active negotiation. At home, taxation on income from foreign sources was included on these dividends

---

20) Balakrishnan: EPW May '76 Review of Management. He refers to the textile machinery. He also points out that the Middle East was not interested in import of capital goods because of the 'image' problem. Peter O'Brien (EPW Aug. 1980) also pointed out developing countries' unrealistic apathy towards imports of technology, skill and know-how of other developing countries.

21) Encarnation (1982) Ibid P.41-42.

and royalties repatriated from the export of technological **expertise** to the joint ventures.<sup>22</sup> As financial incentives were improved, bureaucratic disincentives were reduced. Promotion and approval of Joint Ventures abroad were elevated to a high level interministerial committee and bureaucratic procedures were streamlined. The Indian investment centre, established originally to promote foreign investments in India, expanded its operation to channel information about foreign markets to prospective Indian investors".

The Government and the FICCI which acts as the apex of the large scale private capital, had similar views on the need for expanding exports and earning foreign exchange. This convergence of views was at its peak in the late '70's when there was unutilised capital stock and excess foreign exchange reserves both stemming from (among other factors) domestic recession then prevailing. The lifting of the ban of cash equity participation in 1978 seems to be an extremely strong 'permissive' factor which facilitated in a rapid increase in the number of joint ventures in 1977-80. However,

---

22) For a discussion of the taxation policies and their effects at home and abroad see FICCI (1977) 'Report of workshop on Indian Joint Ventures and Turkey projects' Abroad, New Delhi. PP.31-34.

With foreign exchange emerging as the most important **structural** bottleneck for the growth of the Indian economy in the '80's the contradiction between the initial outflow of foreign exchange through Indian equity participation in Joint Ventures and the long-run inflow of foreign exchange in terms of 'additional exports', and repatriation of dividends and royalties seems to have emerged.

(ii)(b) Now, we shall have an analytical look at the domestic regulatory policy which supposedly prompted DFI for 'negative' reasons. This view is held by Encarnation, Lall, Busjeet and an IIFT study<sup>23</sup>. This may be an **important** motivation but it does not seem to be the most important reason. This is **despite** the fact, that about sixty percent of the total Indian equity in ventures in operation (August 1986) is accounted for by the large industrial houses. There are other 'positive' factors which may have induced them to invest abroad-ownership specific advantages deriving from their asset-size, the 'backward' and 'forward' collaborations<sup>24</sup> they have entered into with foreign capital and their century-long experience in adapting imported technology to local conditions. Thus so long as we can not isolate ~~one~~ factor (effect of MRTP) from the others, we can not,

---

23) IIFT (1977)

24) More on foreign collaboration in Part II of this chapter.



conclude that the MRTP Act is prime factor responsible for the very large share of Business Houses in their investments abroad.

Evidence based on interviews are inconclusive. On the one hand, according to a IIFT study of 34 LJV's in production, "almost all firms" stated that "they wanted to overcome MRTP by investing abroad."<sup>25</sup> On the other hand, DC Cordeire's interview shows that of the six motivations this was the second least important. Moreover, 'Indian domestic growth restriction' as we had pointed out earlier, encompasses motivations other than the MRTP generated push factor.

According to Encarnation, the MRTP factor acted as the prime motivation. He argues:-

"In India, while the largest companies benefitted most from overseas expansion, Korean and Latin American investments are not the exclusive preserve of large companies based in these countries." <sup>26</sup>

He quotes Diaz Alejandro<sup>27</sup> who discusses DFI by Latin American firms:

"...a good share of this investment is carried out

---

25) IIFT (1977) cited in DN Encarnation(1980)

26) Encarnation (1980)

by medium-sized firms often because medium-sized firms have been on the whole more active than large firms in adapting technology to conditions in semi-industrialised countries."

On the basis of Diaz Alejandro's observation, he concludes<sup>n</sup> the relative success of overseas investments by the largest Indian Corporations can not be explained solely in terms of the vicissitudes associated with investing abroad."

And Encarnation holds the MRTP Act responsible for the disproportionately large share of investments of large Business Houses abroad.

However, we cannot entirely agree with his view. For he (Encarnation) contradicted himself when he pointed out that the rate of abandonment of ventures initiated by the smaller firms is higher than that of large business houses. Thus he argues that in 1977,<sup>n</sup> smaller firms established a majority of these projects at various stages of implementation. However, given the probable rate of failure and abandonment (roughly 45 percent by 1976) and the greater accumulated experience of Large Business Houses in overseas operations, the increased number of sanctioned projects initiated by smaller companies does not necessarily suggest that the relative

---

27) (Diaz Alejandro: Foreign direct investment by Latin American firms, in Agmon and Kindleberger (1977)).

hegemony of business houses will decline in the near future. For e.g. all five projects in Malaysia that reported delay or no progress in implementation as of 1977 were initiated by smaller Indian firms." 28

Hence vicissitudes associated with investing abroad are very important and these adversely affect the smaller firms much more severely as compared to the effect on large Business Houses. Moreover, Alejandro's definition of medium-size unit is not clear this definition may be in relation to the very large TNC subsidiaries hosted in Latin American Countries It is thus possible that Latin America's medium sized firm has the same size as India's large Business House. Again, according to Bhagwati, the MRTP Act was not able to reduce the concentration of economic power The Large Business Houses were able to ~~the~~ MRTP Act in float a wide range of cases by having more than licensed capacity and subsequently getting it licensed. Also, they had made back-door entry into the sector reserved for small firms. From the discussion in this section it seems that the contradiction between the state machinery and the MRTP units was apparent rather than real.

Therefore diversification of risk by establishing joint ventures abroad should not be an important motivation for investing abroad.

iii) Other Motives:- Apart from (the above) there are other important motivations for Indian firms to invest abroad. They include (a) use of similar technology. (b) taking advantage of ethicties, (c) cost advantages, (d) promotion of exports from India, and (c) expansion to new markets.

iii)(a):Use of similar technology: According to Cordeiro's interview-findings this was the second most important reason that motivated Indian firms to venture overseas. We noted in the section on Firm and industry level characteri that Indian firms have adapted/stic imported technology to suit LDC requirements in terms of their tastes and preferences and other market characteristics as well as in terms of lesser automation by substitution of labour for capital and a greater flexibility in production and a better knowledge of the host Country's production environment. This adapted technology is then used elsewhere through DFI by such firms.

iii)(b): Ethnic ties: Ethnic ties have been, for a number of firms, an important motivating factor for investments abroad. Thus DFI in Kenya, Malaysia, etc., have been to a large extent motivated by the presence of overseas Indian business community who provided access to information and capital. In the developed countries, they provided the market for services for IJVs for e.g. restaurants preparing Indian food.

Ethnic ties have also in some cases provided a direct link that generated investment without previous exports even when specifically ethnic products were not involved.<sup>29</sup> In many cases the initiative for business has come from overseas Indians. With knowledge of the local market and an access to a distribution system, they seek out suppliers whom they know and trust. Interviews with India based parent firms conducted by C. Cordeiro<sup>30</sup> shows that Indias abroad were the most important source of contact for the initial investment.

iii)(c): Cost advantages:- For firms from HongKong and Singapore, the most important motive to invest abroad as well as the criteria for selection of the host partner is to benefit from cost advantages of lower input (especially land and labour) prices. However, inspite

---

2 ) L.T Wells Ibid

30) Wells (1983) P.80

of the fact that labour troubles exist<sup>31</sup> which have motivated Indian firms to venture overseas; wages paid to Indian labour and rental on land in India are about the cheapest among the developing countries - except perhaps for metropolitan cities. Unlike for Hongkong and Singapore MNCs, these have not motivated Indian firms to venture overseas. However, the availability of a cheap managerial and technical Indian personnel and the ability to construct factories with low overhead costs give them a low price-wise competitive edge to the DCMNCs for the products at the lower and lower-middle part of the technological spectrum. These products are at the lower end of the product cycle in general.

Besides the host country's investment incentive schemes in certain cases seem to have motivated Indian firms to venture overseas by providing cost advantages over their home country exports.

iii) (d): Promotion of Exports: There are Indian Joint Ventures in the non-manufacturing sector in the fields of trading and marketing meant for promotion of Indian exports. Thus the Birlas and the Kirloekars have marketing joint ventures in both DCs and LDCs to promote their products manufactured at home.

---

31. R.Lall. We have quoted him earlier. (p.145)

iii) (e): Expansion to new markets: IJVs have been facilitated creation of the image for Indian capital goods when the joint ventures have run successfully, and have facilitated exports from India. Also, sourcing of information and establishment of marketing channels through the local partner have motivated Indian firms to venture overseas.

iii) (f): Protection for Third Country Exports: Indian exports unlike Hongkong has not been adversely affected by imposition of quota (especially on textiles) by DCs to a great extent. However, there are certain categories of textiles and perhaps certain markets where Indian exports have hit the quota ceilings. Thus L.T.Wells noted that both Indian and Hong Kong firms were located in Mauritius citing its preferential access to the common market as a major reason for investing there.<sup>32</sup>

(iii) (g): Other Motivations: Besides, there may be other motivations like trade restrictions - different from those of the usual type. Thus, in a few cases, "export platforms were established in third countries because the inputs required for goods of international quality could not be brought into the home country. Raymond's (Indian) garment venture in Mauritius was established at least partly because high quality components, such as zippers that were required by the firm to sell its garments in the European Market could

---

32. Wells (1983) p.74.

not be obtained in India. Similarly, Anil Wire, another Indian firm, attributed part of its motivations for a Malaysian operation to its need for imported copper not available in India. Without quality copper, the firm could not make products of adequate standard to hold export markets. In the absence of import restrictions at home, such firms would probably have continued to use their home plants to supply export markets.<sup>33</sup>

C. The Role of large Business Houses in Investments Abroad

C-1 Characteristics of a few large Business Houses

(i) The Birlas : The Birlas are the pioneering house that set up the first Indian joint venture abroad - in Ethiopia - which went into production in 1960. Though profitable, it was nationalised (on political grounds) in 1974. At present, the Birlas account for 20 joint ventures in production and 5 under implementation. Although its relative importance among the Indian foreign direct investors has declined - in September 1979 this house accounted for 39% of the equity while on 20.8.86 it accounted for 21.13% - it still remains the single most important foreign direct investor. Moreover, it is the only Indian business house that qualified to be a Trans National Corporation according to the most restrictive definition of the Harvard Business School by which a firm to be classified as a Transnational must invest in atleast six countries overseas. The Birlas (See Appendix: House-wise

---

33. lbid p.76-77



Distribution of (JVs Abroad) invested in U.K., Nigeria, Malaysia, Thailand, Uganda, Philippines, Indonesia, Nepal, Singapore, S.Arabia, Kenya - in all 11 countries. In 8 countries, their plants are in operation while in 3 they are under implementation.

Looking at the appendix at the column of the 'Year of Approval' we note that among the units still operational or under implementation. 3 units were approved in the 60s, 5 in 1970-74, 11 in 1975-79 (of which 4 in 1978 and 3 in 1979) and only 4 in 1980-86 (Aug). The data for one was not available. Thus after a sudden spurt in 1978 and 1979, the pace slackened considerably in the 80s - the supposed decade for TMMCs.

Both in terms of geographical distribution (which we noted earlier) and in terms of the fields of collaboration, the Birlas show a great diversification. As far as the latter is concerned, the Birlas have invested in traditional items like textile, yarn, jute goods - Niscese staple fibre - in all 8 and in palm oil processing refining and refraction (3), and in light engineering goods which are relatively low-technology and labour intensive ventures. They have also invested in more complex capital intensive (pulp and paper(1), chemicals (1) and skill and technology-intensive (carbon black plant (1) Au glass (1) and asbestos cement (1)). Of the 24 ventures 17 are in manufacturing, one is in mining and the rest in consultancy, trading, marketing and maintenance. It is to be noted that of the four ventures approved in the 80's not

a single one is in the manufacturing sector. Also, only two ventures out of 24 are in the developed countries - in U.K. only, and both of them are in non-manufacturing. The recent ventures seem to be meant for the promotion of exports and not for manufacturing abroad.

Of the notable units where the Birlas have performed remarkably well ('success stories'), mention can be made of the largest, pulp and paper complex in Africa, the Pan African Paper Mill in Kenya financed by the World Bank with extremely modern equipment and technology and highly profitable. In first 5 years, it had earned dividends of Rs.110 lakhs (on an equity of Rs.410 lakhs) and created additional exports of Rs.50 lakhs. Other 'success stories' relate to Birla's Gwalior Rayon in the field of Carbon Black in Thailand and in taking over a loss-making textile unit in 1976 in Indonesia from a US firm and a similar operation in Philippines, and making them profitable. However, the new looms they had ordered were from Switzerland. Their managerial expertise in a similar developing-country environment was at the root of their success. Lall had also mentioned an export-oriented canvas shoe factory in Sri Lanka set up jointly with DC firms<sup>1</sup> but it seems to have been abandoned by 20.8.86 as there was no mention of any Birla firm in Sri Lanka in the appendix.

---

1. World Dev. 1984 pp.535-65.

(ii) The Thapars: The Thapars as on 20.8.86 held the second place in terms of total Indian foreign equity contribution (12.17%) in joint ventures in operation. They have six ventures in operation and only one under implementation. The latter, however accounts for 15.94% of total Indian equity in ventures under implementation for in excess of any other large House in the 'UI' category of joint venture. While the Birlas had a combined equity of 18.20% in ventures in operation and under implementation, the Thapars had 12.83%. With Birla's ownership of 24 units and the Thapars' only 7, the average equity contribution of Thapar is thus larger.

The Thapars have shown dynamism in the 80's, in sharp contrast to the declining share of the Birlas in the contribution to total Indian foreign equity. Thus Thapars' share in Indian foreign equity in ventures in operation increased sharply from 4.7% in September, 1979 to 13% (June 1981)<sup>2</sup> but declined slightly to 12.17% in August, 1986.<sup>3</sup>

The operational ventures in this period increased from 4 to 9 in Sept. 1979-Jun.1981 but declined to 6 in August 1986. Its dynamism was, therefore, restricted to the period 1979-1981 only.

---

2. S.Lall W.D.1984

3. Of the 6 ventures in operation at present one was approved way back in 1968. The remaining five were all approved in 1978-81. Since 1982, no venture has been approved. May be Thapars' interest in internationalisation of its operation has declined.

From the appendix, we note that their main activities abroad were in paper, glass, palm oil, cotton blankets, construction, Trading and hotel. The Sea Resort Hotel in Seychelles approved in 1978 is still under implementation. Of the six units in production, five are in manufacturing. All of them are in the developing countries (Malaysia, Thailand, UAE, Nigeria).

(iii) The Tatas: Unlike the Birlas, the Tatas seem to have given less emphasis in internalising their operations. As on Sept. 1979, the Tata Group - far less involved in direct investment than Birlas, was a much larger exporter of technology in the form of turnkey contracts, consultancy earnings, licensing and sale of training services. As regards their managerial qualities, in contrast to Birla's tradition of aggressive entrepreneurship, the Tatas have a reputation of cautious but excellent management, technological dynamism and far-sightedness".<sup>4</sup>

In Sept. 1979, Tatas had 5 operational ventures accounting for 8.8% of the share of Indian equity capital abroad. In June, 1981, they had 11% of Indian foreign equity in 4 manufacturing and 3 service ventures. In Aug. 86, they had 11.42% of equity in 7 ventures in production and 3.17% of equity in 2 ventures under implementation - an overall share of 9.97% of equity.

---

† S.Lall: p.211 Export of Capital for Developing Countries: the Indian Case (Also in World Development, 1982)

TABLE - 4.2

Main Indian Foreign Direct Investors, as of September 1979

| Sl. NO. | Firm          | Main activities abroad                | No. of ventures | Value of investments.<br>(Rs.lakhs) | Investment per venture<br>(Rs. lakhs) | Share of total<br>% |
|---------|---------------|---------------------------------------|-----------------|-------------------------------------|---------------------------------------|---------------------|
| 1.      | Birla gp.     | Paper, rayon, textiles, palmoil       | 12              | 1226                                | 102                                   | 39.0                |
| 2.      | Tata gp.      | Oil mills, trucks, tools, metal prod. | 5               | 276                                 | 55                                    | 8.8                 |
| 3.      | J.K. gp.      | Textiles, metal, products             | 4               | 271                                 | 68                                    | 8.6                 |
| 4.      | Shakibog gp.  | textiles                              | 2               | 211                                 | 106                                   | 6.7                 |
| 5.      | Thapar gp.    | Paper, trading                        | 3               | 148                                 | 49                                    | 4.7                 |
| 6.      | Sarabhai gp.  | Chemicals                             | 2               | 114                                 | 57                                    | 3.6                 |
| 77.     | Airloskar gp. | Engines, machinery                    | 4               | 88                                  | 22                                    | 2.0                 |
| Total   |               |                                       | 32              | 2334                                | 73                                    | 74.3                |

Source: S.Lall: Export of Capital: The Indian Case 111  
(ed): International Capital Movements p.209.

According to the latest source (vide appendix) as on Aug. '86, their main activities abroad are in textiles, commercial vehicles (truck), palmolein soap, irrigation (including tube-well drilling) precision tools and hotel. Thus, most of their ventures are complex and technology and capital-~~intensive~~.

At present, in 4 countries, (Indonesia, Malaysia, Singapore, Oman) their ventures are in operation. 2 ventures are in implementation - one in Sri Lanka and one in North Yemen. Thus not a single unit, is in DCs. As many as 5 out of 9 ventures were approved in the 80s. Of the 5 ventures in operation in Sept. 1979, only 2 are still in operation now (Aug. '86). S.Lall had mentioned 'oil mills' and 'metal products' as some of their main activities abroad (p.209 & Table 4.2). But, now (Aug. '86), there is no mention of these which show that they have been abandoned. (The story is similar for the Birlas as well. Thus 16 ventures were in operation and 9 under implementation in 1980<sup>5</sup>. However, of the units operational or under implementation in Aug. '86, only 18 were given approval before 1980. Thus at least 7 ( ) of the units were abandoned by Aug. '86.) Thus, for the Tatas while 60% of the units were abandoned in Aug. '86 which were operational in September '79, for the Birlas it is almost 28%. Unfortunately, we do not know the exact reasons for their abandonment - individually.

---

5. S.Lall ibid p.210. This information was provided to Lall by Mr.A.V.Birla in 1980.

Among the Tata "success stories" mention can be made of TELCO, the largest truck manufacturer in India and a major exporter. It is one of the largest truck producers in the world of a single model<sup>2</sup>. It thus reaps most economies of scale; its products have a reputation for ~~ragged~~ reliability; and the design (original imported from Daimler Benz, but, subsequently greatly modified by TELCO's own (R&D)) is well adapted to LDC conditions. It has set up an assembly plant in Malaysia, TATAB, with a capacity of 1000 vehicles p.a for which it designed and manufactured all the equipment, and fixtures. Tata claimed that by Sept. 1979 its products were outselling those of Daimler Benz which also had an assembly plant in Malaysia. S.Lall opines that TELCO is the first automotive trans-national to emerge from the Third World which is exporting its own equipment, components and know-how.

(iv) Kirloskars : The Kirloskars have as many as seven ventures in operation and one under implementation. However, unlike the Birlas, Tatas and the Thapars, their contribution to Indian equity in overseas operational joint ventures is extremely small - 1.23%. This is due to the fact that only three of the ventures are in the manufacturing sector and five are in the non-manufacturing sector (See Appendix-II). Again, unlike the large Industrial Houses discussed above

---

6. S.Lall (1982 ) p.211

TABLE - 4.3

Showing the Ownership Character of IJVs (Large Industrial Houses) (As on 20.8.86)

(Rs. lakhs)

| SL. NO.                        | FIRM            | In Operation  |                    | Under Implementation |                   | Total         |                    |
|--------------------------------|-----------------|---------------|--------------------|----------------------|-------------------|---------------|--------------------|
|                                |                 | No.           | Amount             | No.                  | Amount            | No.           | Amount             |
|                                | (1)             | (2)           | (3)                | (4)                  | (5)               | (6)           | (7)                |
| <u>Large Industrial Houses</u> |                 |               |                    |                      |                   |               |                    |
| 1.                             | Birla           | 20<br>(13.61) | 1909.28<br>(21.13) | 5<br>(11.64)         | 86.32<br>(4.47)   | 25<br>(13.16) | 1995.60<br>(18.20) |
| 2.                             | Thapar          | 6<br>(4.08)   | 1099.61<br>(12.17) | 1<br>(2.32)          | 307.63<br>(15.94) | 7<br>(3.68)   | 1407.24<br>(12.83) |
| 3.                             | Tata            | 7<br>(4.76)   | 1031.83<br>(11.42) | 2<br>(4.65)          | 61.06<br>(3.17)   | 9<br>(4.73)   | 1092.89<br>(9.97)  |
| 4.                             | J.K. Singhanian | 2<br>(1.36)   | 457.20<br>(5.06)   | -<br>(-)             | -<br>(-)          | 2<br>(1.05)   | 457.20<br>(4.17)   |
| 5.                             | Mafatlal        | 4<br>(2.72)   | 364.68<br>(4.04)   | 1<br>(2.32)          | 0.96<br>(0.05)    | 5<br>(2.63)   | 365.64<br>(3.33)   |
| 6.                             | Godrej          | 4<br>(2.72)   | 204.57<br>(2.25)   | -<br>(-)             | -<br>(-)          | 4<br>(2.10)   | 204.57<br>(1.87)   |
| 7.                             | Kirloskar       | 7<br>(4.76)   | 111.31<br>(1.23)   | 1<br>(2.32)          | 80.64<br>(4.18)   | 8<br>(4.21)   | 191.95<br>(1.75)   |
| 8.                             | N.Wadia         | 1<br>(0.68)   | 159.45<br>(1.76)   | -<br>(-)             | -<br>(-)          | 1<br>(0.53)   | 159.45<br>(1.46)   |
| 9.                             | Shri. Ambica    | 1<br>(0.68)   | 117.70<br>(1.30)   | -<br>(-)             | -<br>(-)          | 1<br>(0.53)   | 117.70<br>(1.07)   |
| 10.                            | Total of 1 to 9 | 52<br>(35.37) | 5455.63<br>(60.37) | 10<br>(23.25)        | 536.61<br>(27.81) | 62<br>(32.62) | 5992.24<br>(54.65) |

Source: Basic data taken from IIC: Factsheets on IJVs Abroad for the period ending 20th Aug. 1986. The house association is based on information available with the Corporate Information System, IIPA. (From KVKR Table-7 p.23)



TABLE - 4.4

Operational Ventures of Main Indian Foreign Direct Investors

| House          | Date                 | No. of Units<br>(Rs. lakhs) | Indian Equity | Percentage to Total Indian<br>equity |
|----------------|----------------------|-----------------------------|---------------|--------------------------------------|
| Birla          | Sep. 79 <sup>1</sup> | 12                          | 1226          | 39.0                                 |
| Gp             | Mar. 82 <sup>2</sup> | 12                          | 1440          | 30.0                                 |
|                | Aug. 86 <sup>3</sup> | 20                          | 1909          | 21.1                                 |
| Tata<br>GP     | Sep. 79              | 5                           | 276           | 8.8                                  |
|                | Mar. 82              | 4                           | 600           | 12.0                                 |
|                | Aug. 86              | 7                           | 1032          | 11.42                                |
| J.K.<br>GP     | Sep. 79              | 4                           | 271           | 8.6                                  |
|                | Mar. 82              | 4                           | 520           | 11.0                                 |
|                | Aug. 86              | 2                           | 457           | 5.0                                  |
| Thapar<br>GP   | Sep. 79              | 3                           | 148           | 4.7                                  |
|                | Mar. 82              | 5                           | 370           | 7.5                                  |
|                | Aug. 86              | 6                           | 1100          | 12.2                                 |
| Kirlos-<br>Kar | Sep. 79              | 4                           | 88            | 2.8                                  |
|                | Mar. 82              | 8                           | 125           | 2.4                                  |
|                | Aug. 86              | 7                           | 111           | 1.2                                  |

1. S. Lall (WD 1982) for
2. R.G.A. p.81 (JVs Abroad: Indian Experience)
3. K.V.K.R. P.23

(i) their operation is not diversified but concentrated into a few fields like electric motor pumps, (ii) their global operation seems to be an extension of their domestic one:- thus in Kenya, their marketing joint venture is to market Kirloskar products. This seems to be repeated in the 'Marketing' ventures in U.K., U.S.A., and Malaysia as well. Besides they manufacture power-driven pumps in Mauritius and electric/motored pumps in Malaysia. Thus Kirloskar's global operation seems to facilitate exports of products manufactured at home. This is at variance from the experience of the Tatas, Thapars and Birlas whose ventures are mostly in manufacturing for the local market.

Two of their ventures still in operation were approved way back in 1965 & 1969. And five ventures in operation were approved in 1976-80. One venture - under implementation in U.K. - in the 'finance' sector was approved in 1985.

The Kirloskars as of Sept. 1979 (S.Lall WD 1982) had 4 ventures accounting for 2.8% of total Indian equity (Rs.88 lakhs). As of March 1982, Kirloskars had 8 ventures accounting for 2.4% of Indian equity (Rs.125 lakhs). On August, 1986 they had 7 ventures accounting for 1.23% of the equity (Rs.112 lakhs). Unlike the Thapars, whose percentage to Indian equity contributed steadily increased comparing between the 3 points of time, that, of the Kirloskars declined. For

TABLE - 4.5

Number of Indian Joint Ventures in the Third World: Cumulative

| By Year                    | Upto1964 | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 |
|----------------------------|----------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| Sanctio-<br>ned            |          |      |      |      |      |      |      |      |      |      |      |      |      |      |
| Total<br>Units             | 4        | 6    | 8    | 11   | 12   | 22   | 25   | 35   | 43   | 54   | 78   | 101  | 121  | 149  |
| M RTP<br>Units*            | 2        | 4    | 5    | 7    | 8    | 16   | 19   | 25   | 26   | 32   | 43   | 53   | 62   | 70   |
| Ratio<br>(%)               | 50       | 67   | 63   | 73   | 67   | 73   | 76   | 71   | 62   | 59   | 55   | 52   | 51   | 47   |
| Brought into<br>Production |          |      |      |      |      |      |      |      |      |      |      |      |      |      |
| Total Units                | 1        | 2    | 3    | 6    | 6    | 11   | 15   | 18   | 23   | 26   | 36   | 45   | 56   | 60   |
| M RTP UNITS                | 1        | 1    | 2    | 3    | 3    | 8    | 12   | 14   | 17   | 20   | 27   | 31   | 36   | 39   |
| Ratio* (%)                 | 100      | 50   | 67   | 50   | 50   | 73   | 80   | 76   | 74   | 77   | 75   | 69   | 64   | 65   |

\* of MRTP to Total Units

Source: Dennis J. Encarnation : in The Political Economy of Indian Joint Ventures Abroad in International Organisation: Winter 1982, p.31-59.

Original Source: FICCI, Report on Workshop on Indian Joint Ventures and Turnkey Projects Abroad: (ND: FICCI, 1977), Annexure I pp.37-78; IIC, Joint Ventures Abroad (ND: IIC, 1976). Annexure III, pp.71-101; India (Republic), Ministry of Law, Department of Company Affairs, Monopolies Research Unit (MRU), Alphabetical list of Undertakings Registered under section 26(2) of the M.R.T.P. Act, 1969 as on 31.12.1977. Fact sheet No.1/78, MRU mimeographed.

the Birlas also we noted a similar decline. The Tatas and the J.K. Group had considerably increased their share of Indian equity between Sept. '79 and March '82. However, while the Tatas were able to retain their March '82 position as on August '86, the share of J.K towards contribution to Indian equity capital declined considerably. (Table 4.4).

### C.2 Large Business Houses : An analysis

In terms of the number of Indian Joint ventures in the Third World countries, we note a marked concentration of the MRTP units in the ventures 'sanctioned' and in 'production'. (Table 4.5). However, this concentration is declining in recent years. Thus, in 1970, 76% of the sanctioned units and 80% of the units in production had MRTP Units as the Indian partner. However, in 1977, the corresponding figures were 47% and 65% only. In 1986, only 35% of the number of IJVs (however accounting for a high 60% of the Indian equity) were partnered by large Industrial Houses. For the ventures under implementation, these houses accounted for only 23.25 percent of the number of ventures and 28% of the Indian equity.

This decline in the relative importance of the MRTP units can be attributed to the declining role of the MRTP Act, enacted in 1969 as a result of the liberalisation policies carried out in the Industrial Policy Statement of 1980. These

measures have gathered further momentum in the 80s and it seems that, in future, the role of MRTP units in Indian Joint Ventures abroad will decline further. Moreover as a junior partner of international capital, these Houses can collaborate with the TNCs as a more liberal stance is being taken towards the entry of foreign capital into India. Thus, it seems that S.Lall's observation for the period 1969-80 that, outflow of Indian equity capital in account of IJVs abroad exceeded the inflow of foreign capital into India is highly unlikely to be valid in the 80s.

That domestic regulatory policies - of which the most important was the MRTP Act which precluded expansion in certain industries reserved for small and medium scale units - were the prime factor for moving abroad - is corroborated by different, interview-findings: (a) IIFT, after interviewing the managers of 34 Indian Joint Ventures in production concluded, / "almost all firms, especially those doing well, / that have unhesitatingly stated that they wanted to overcome MRTP" legislation by investing abroad (IIFT (p.74-75), 1976), (b) Similarly, Busjeet's interview with Indian firms investing in Mauritius and the Philippines cited this reason (cited in D.J Encarnation p.43)., (c) L.T.Well's interviews also pointed out as an important motivation for investing abroad (L.T.W 1983).

However, it needs to be pointed out that not all business houses invested abroad. It may be partly attributed to the goals and objectives of the firm; whether they have an

aggressive profit-making strategy or whether they want to 'satisfice' only. It may also depend on the matching of their expertise in their field of operation and the desire of the host country to allow investment in that field. The 'size' factor - a given firm or house - may also be important. But the most important factor is likely to be a particular form of an asset, which can be obtained through foreign collaboration. Foreign technology, capital and marketing services - in short, transnational linkages - can be an important motivation for investing abroad. Thus backdoor entry if DCMNC - through a partnership with an Indian parent firm in a joint venture in the South - occurs in the context of South-South cooperation, linkages with the North are significant and will continue to be so as, "a major portion of the firms that go abroad from developing countries were earlier licensees of firms from the advanced countries"; these licensees gained their initial advantage when they adapted large scale technologies of the industrialised countries for manufacture at small scale in their home countries"<sup>7</sup> "Thus existing (backward) collaboration agreements in India between Indian and foreign firms may act like any other asset of the firm to facilitate the expansion of overseas operations. These can be utilised for achieving 'forward' collaboration in third countries with DCMNCs.

---

7. Wells : Multinationals from Latin American and Asian Developing Countries: Mimco, Harvard Business School, 1981 (cited in D.J.E. 46).

Unlike domestic regulatory policies these backward and forward transnational linkages affect both public and private enterprises based in India". Some of the examples of forward linkages are : Birla's Gwalior Rayon which has collaborated with an American firm (Phillips Petroleum) to set up a carbon black plant in Thailand<sup>1</sup>. Similarly J.K.Singhania<sup>2</sup> has a shipping unit in Singapore with American Collaboration<sup>3</sup>. International Financial Organisations are also important, in supplying finance. Thus the Pan African Paper Mill in Kenya - with Birla's Orient Papers as the Indian partner - obtained equity capital from among other sources, the IFC - an affiliate of the World Bank<sup>4</sup>.

Table 4.6 shows the foreign technological collaboration in India and Indian Joint Ventures in 1977. It shows the importance of 'backward' foreign technical collaboration in establishing IJVs abroad. Thus Kirloskar, Tata, Birla, Sarathi and J.K which comprise only five of the top twenty large Industrial Houses<sup>5</sup> account for over 50% of all backward foreign collaboration with Indian-owned houses. These some five houses established two-fifths of all joint ventures

---

1. D.J.Encarnation p.46

2. ibid p.51

3. ibid p.51

4. R.Lall p.84

5. However in terms of assets owned by them, they account for 55% of the top twenty houses as of 1980. (K.V.K.R p.24, Table-8).

TABLE - 4.6

## Foreign Technological Collaboration in India and Indian Joint Ventures, 1977

| Business House<br>Affiliation of<br>MRTP Cos                 | Companies with<br>collaboration | Active<br>agreement<br>in India:<br>1974 | Joint Venture Abroad   |                                | Joint Venture Abroad                                  |  |
|--|---------------------------------|--|--|--------------------------------|---|--|
|  |                                 |  | in production<br>Controlled<br>by MRTP<br>Cos.<br>some in<br>India | Of these<br>manufac-<br>turing | under implementation<br>Controlled<br>by MRTP<br>Cos. | Of these<br>manufac-<br>turing some<br>in India. |
| Large House  |                                 |  |  |                                |   |  |
| Kirloskar (11) <sup>a</sup>                                  | 8                               | 27                                       | 3  | 2                              | 1   | 1  |
| Tata (2)   | 8                               | 27                                       | 4  | 2                              | 0   | 0  |
| Walchand (17)  | 4                               | 14                                       | 0  | 0                              | 2   | 0  |
| Birla (1)  | 6                               | 11                                       | 11   | 3                              | 1   | 0  |
| Escorts (M.A.) <sup>6</sup>                                  | 3                               | 10                                       | 0  | 0                              | 1   | 1  |
| Thapar (6)   | 4                               | 10                                       | 1  | 0                              | 2   | 0  |
| Sarabhai (9)   | 3                               | 9  | 3  | 2                              | 2   | 1  |
| Shri Ram (8)   | 6                               | 8  | 1  | 0                              | 0   | 0  |
| Mafatlal (3)   | 5                               | 8  | 1  | 0                              | 0   | 0  |
| Mahindra (14)  | 6                               | 7  | 1  | 0                              | 2   | 0  |
| J.K. (4)   | 3                               | 7  | 3  | 2                              | 0   | 0  |
| Totals   | 56                              | 138                                      | 28   | 11                             | 13  | 3  |
| Other Indian Owned<br>Houses without Foreign<br>Equity       |                                 |  |  |                                |   |  |
|  | 69                              | 105                                      | 8  | 2                              | 13  | 2  |
| Other Houses with Large<br>Foreign Equity parti-<br>cipation |                                 |  |  |                                |   |  |
|  | N.A. <sup>b</sup>               | N.A.                                     | 3  | 3                              | 7   | 7  |
| Total  | N.A.                            | N.A.                                     | 39   | 16                             | 31  | 12   |

a: 1975-76 rank by assets,

b: Not Available,

Source: Same as Table-4.5



in production during 1977, and almost two-thirds (24/39) of all joint ventures in production controlled by the MRTP units. Walchand and Escorts were exceptions: both had several backward collaboration but no overseas joint venture.

Not only did Kirloskar, Tata, Sarabhai and J.K. collaborate at home more and invest overseas more, but they also appear (Table-4.6) to produce many of the same products for which they originally sought, collaboration in India. The only main exception to this finding is the Birlas who have established several units overseas in traditional Indian industries (e.g cotton, textiles, jute manufacturer) for which indigenous Indian technology is readily available.

It is, thus, apparent that managers of large scale Indian private capital have relied upon foreign financial and technological collaboration in India to expand their direct investments abroad. The technology acquired through collaboration and adapted to local Indian conditions became for certain large Industrial Houses an important asset that could subsequently be exploited overseas.

To conclude, the ownership specific advantages of the Houses has come from its large size (in terms of assets), skilled managerial and technical personnel, experience in production in the Indian environment for a long time (thus Kirloskars are celebrating their centenary and the Parrys (India) their bi-centenary, this year (1988)); adaptation of imported technology to suit local demand and supply factors (without however involving change in basic design or development of new and

indigenous technology from scratch), ability to contract collaboration ties with international capital and thus play a subservient role under its guidance), etc.

The MRTP Act (1969) which sought to reduce the concentration of economic power to establish a socialist pattern of society motivated Indian houses to expand abroad and diversify their risks. In forming IJVs abroad, there seemed to be no contradiction between the state and the large Houses because of the coincidence of the interests of the two, however. Even the MRTP Act seemed to be a mere lip-service to socialism in the 70s & 80s.

The FERA on the other hand was originally designed on a nationalistic plane to strengthen the domestic capital as against foreign capital. However, it was the FICCI - which acted as a critic of FERA - because as a comprador class, their interests will suffer if foreign capital is debarred entry. It noted the contradiction that while FERA restricted foreign equity capital in units hosted in India to 40%, IJVs abroad could have a equity stake of upto 49%, in its confidential memorandum to parliament, FICCI argued.

As India is emerging as an exporter of enterprise and capital equipment which form the basis for our joint ventures abroad, it is important to be circumspect as regards the treatment we mete out to foreign enterprises and foreigners

doing business with and in India. Not only (may) such foreign capital and technology that we would like to attract in the interest of speedy economic growth not be forthcoming, but our own industries and business interests abroad may face similar disabilities" (FICCI, Correspondence and Relevant Documents Relating to Important Questions Dealt with by the Federation During the Year 1972 (N. Delhi: FICCI, 1973) pp. 55-64)"<sup>1</sup>.

Thus we note that foreign capital is complementary rather than "substitute of domestic capital. In the absence of a self-reliant strategy by Indian capital in pursuing its own R & D, developing its own marketing network etc., it has to play a subordinate role to international capital in the search for economic space. The compradorial character of Indian capital and a coincidence of interests between the state and Indian large capital (where by the state is looked upon as patronising Indian capital abroad) is also likely to strike at the roots of the South-South co-operation- pursuance of "collective self-reliance" by countries of the South - which, we shall discuss in a later chapter.

---

1. Quoted by D.J. Encarnation, p.54.

CHAPTER - V

INDIAN JOINT VENTURES : AN EVALUATION

A. INTRODUCTION

The answer to the question of the success or the failure of IJVs may be much too narrow or limited if we only look at it from the point of view of their abandonment or non-implementation. However, we shall, at least to begin with, consider the question from this view-point alone. Later, we shall note the actual benefits and costs it has led to from both the home and host country point of view.

As on 1.1.76, out of 233 JV proposals approved by the government as many as 105 (i.e. 45 per cent) were either abandoned after implementation or were not implemented at all.<sup>1</sup> By end August, 1980, the Indian government had granted approval for 399 JV projects overseas. Of these, 161 (i.e. 40 per cent) were abandoned before they could be taken up and 34 (8.5 per cent) were abandoned after starting operation.<sup>2</sup> By 31.3.82, out of 465 approvals, 196 (42.2 per cent) were not implemented and 49 (10.5 per cent) were abandoned.<sup>3</sup> However,

- 
1. Balakrishnan : EPW May 1976, Review of Management.
  2. S. Lall (1984): World Development no.5/6.
  3. A.G. Agarwal (1984): Joint Ventures Abroad.

in the entire period 1960-84, the aggregate number of ventures in operation and under implementation had increased. The peak was reached in 1984 with 236 ventures in production (157) and under implementation (79). However, as on December 1986, there were only 150 ventures in production and 37 under implementation aggregating to 187<sup>4</sup>. This implies that the number of ventures abandoned after commencement of implementation were more than could be offset by an increase in the number of new joint ventures in operation or under implementation since 1984.

In terms of profitability also, the performance of IJVs has been extremely uneven. In 1975/6 as many as 41 per cent of IJVs overseas were loss-incurring. By 1977/8, this figure had declined only marginally to 37 percent.<sup>5</sup> From a study of a sample of IJVs abroad for the years 1975/6 to 1979/80, regarding the profitability of these firms, it was found that in 1975/6, the average profit-sales ratio was a dismal -2.7% and the loss was Rs.12.5 lakhs per unit.<sup>6</sup> However the figures for 1978/9 and 1979/80 show a dramatic improvement in that the

---

4. . Annual Report, Ministry of Commerce, 1986/7.

5. 110 (1981).

6. 110 (1981).

average profit-sales ratio were 6.3 per cent (average net profits of Rs. 33 lakhs) and 4.5 per cent (average net profit of Rs. 25 lakhs) respectively. "This suggests that the overseas operations of Indian LDCFIs have become more profitable as they have overcome 'teething problems' and survived their gestation periods. Whether or not such a trend of improving profitability will be sustained into the future is, however, not certain".<sup>7</sup> Moreover, "of late (in the '80's) signs of pervasive 'sickness' amongst Indian joint ventures" have "surfaced".<sup>8</sup>

Can we conclude from the above discussion that IJVs abroad has been a failure?

we shall look into the whole question of IJVs-a success or a failure-from five different angles. Firstly, why some JVs were never started after GOI approval was obtained.

Secondly, why some joint ventures were abandoned even after they got into production?

Thirdly, why is it the case that these JVs, which are in production, are not very profitable-with a few remarkable exceptions?

---

7. R.G. Agarwal (1984) *Ibid*, p.78 Table XII. Comparing the figures for IJVs in production in Table 3.2, we find that the sample size varied between 45-55 per cent of the population.

8. R. Lall (1986), p.85.

Fourthly, why have the total number of JVs in operation and under implementation declined since 1984 after a significant spurt since 1971?

Fifthly, and most importantly, if apart from profitability as a criterion of success, we adopt other criteria, can we say that IJVs have performed well-though in a limited manner?

Unfortunately, hardly any research is available that would answer the above questions and the data limitations are considerable. This is true not only for India, but for other countries as well. In fact, it seems that India provides the best data about IJVs among developing countries. The data for abandonment of JVs of other developing country firms are simply not available.<sup>9</sup> Thus when we criticise the failure of IJVs, we can do so as data are available yielding to criticism. The same do not exist for other developing countries. In fact, without particular case-studies, we cannot specifically pinpoint the causes of failure of the particular joint ventures. What we can only do here is to

---

9. Lall (1986) p.82 For. e.g. the Birlas had to sell off 27 per cent of their 32 percent equity holding in Indo-Malaysia Textiles, when the joint venture was in trouble. For more examples see Business Standard, 11 December, 1982 and Business India, 8-21 September.

provide a general over-all view and provide only sketchy answers to the very important questions raised . It is worth stressing that this area calls for a much more detailed research.

### B. Non-Implementation

In answering the first question, we note that there may be many a slip between the cup and the lip. Thus, the agencies representing the G.O.I.<sup>10</sup> may approve of the project without going into the details of the cost-benefit analysis for a particular joint venture. Similarly, the private investors initially make inadequate pre-investment surveys. <sup>might</sup> The 'push' and 'pull' effect emanating from the home and host country environment may change or the perception of actual environment-political and economic may alter. Thus it may be later perceived that the business proposal is too risky or the problem of raising finances, marketing of goods, and management expertise may be underestimated. The locational factors might further turn unfavourable inducing a reverse push from the host country if the host country collaborator backs out, investment policy (of the host country) changes, and protective measures like tariff are denied so that under new conditions, project-appraisal shows its unviability.

---

10. Wells (1983)



It seems that while there are a large number of cases of non-implementation - 42.2% upto March '82, these are not a matter of undue concern. As we have seen, non-implementation could be a deliberate decision, reflecting a cautious approach by the entrepreneur himself after reappraisal in the light of new factors or circumstances. Before 1970, when 61.3% of the proposals were non-implemented, inadequate scrutiny by the government was a main cause. From 1970, the GOI has been more careful in granting approvals to IJVs. However, even after 1970, the percentage of non-implementation declined only marginally to 51% by 1977. Only since then has it declined considerably to reach 13.3%<sup>11</sup> in 1981. One can speculate that in 1977, the cash constraint which had limited the expansion of JVs was overcome. This also rendered the implementation of new JVs more profitable. May be, this was the cause behind this reduction in the percentage of non-implementation. Also, the very elaborate governmental screening process,<sup>12</sup> indeed, was responsible for this improvement.

Answers to the second, third and the fourth question may be, to a certain extent, interrelated. However, while micro factors are more pertinent in answering the second question, the third and the fourth question may necessitate

---

11. Approval is given under section 27 of FERA, 1973 by an Inter-Ministerial Committee (IMC) on Joint Ventures Abroad. Its decision is final. Ministry of Commerce, Annual Report, 1983/4.

12. Data from R.G. Agarwal Table IV p.55.

arguments from a macro-perspective.

### C. Abandonment

The micro factors leading to the abandonment of Indian ventures in production were as follows:-

(i) Often the differences between the Indian and foreign partners cropped up. (a) Thus, while the government of India had argued in favour of providing training of local personnel in India to man the managerial and technological positions, Indian firms have not carried this out. And most of the important positions are held by expatriate Indian personnel. This can be an instance when difference may emerge.

(b) Also, there is a growing feeling about India setting up 'tied ventures' tied to supply of machines and know-how. For, if Indian participation were in the form of cash, the joint venture projects "could seek the most suitable machinery through international tenders".<sup>13</sup>

(c) It is not very clear, as to whether any conflict exists on account of percentage of dividends to be repatriated or re-invested in the host country.

(d) However, another major source of conflict may arise when even if the Indian government had requested the Indian multinational firms to obey the laws of the land and treat joint ventures as truly 'joint', FICCI observes that even

---

13. R. Lall, p.90.

with minority participation, it has been able to 'retain control'. Over the Indian joint ventures,<sup>14</sup> overseas. Such negates the concept of joint-venture and the notion of 'South-South Cooperation', resulting in undue conflict.

(ii) Political instability or a change in the political atmosphere or the host government's political perceptions is an important factor regarding abandonment of Indian Joint Ventures.

Thus in Ethiopia, out of nine ventures approved by the JCI, while 5 were never implemented, 4 had to be abandoned after a revolution in September, 1974. The pioneering and highly profitable Indian unit-the Indo-Ethiopian Textiles by the Birlas commencing production in 1960 and its cumulative earning by way of dividends amounts<sup>5</sup> Rs. 50 lakhs and technical know-how fees to Rs. 70 lakhs-was taken over. There are no IJVs now in Ethiopia.<sup>15</sup>

Similarly, a civil war in Nigeria (1967-70)<sup>16</sup>, ethnic clashes in Uganda and changing political and social aspir-

---

14. Observation made by T.A. Rithouddeen, Malaysian Trade and Industry Minister, Financial Express, 11 Sept., 1982. Quoted in R.G. Agarwal, pp.87-88.

15. Quoted in Dennis E. Encantion: The Political Economy of Indian Joint Ventures. 'International Organisation', Winter 1982.

16. R.G. Agarwal, p.42.

ations in Kenya<sup>17</sup> are causes for abandonment of certain projects. Africanisation & nationalisation led also to abandonment in certain cases.<sup>18</sup> In fact, these were causes behind a shift in interest from Africa in the 60's to South-East Asia in the 70's.<sup>19</sup>

(iii) Non-fulfilment of certain assurances by the host government at the time of negotiations, in regard to tariff protection was also a cause for abandonment of Indian firms. The home country environment of Indian firms is such that they find it very difficult to compete against DCMNCs and imports from DCs if a high tariff protection is not granted. M.K. Raju<sup>20</sup> has provided the following table in which different tariff assumptions are made. While, with no tariff protection, this project<sup>21</sup> is simply not viable, even with a marginal reduction in tariff, the return and sales, on

---

17. Ibid., p.43.

18. S. Morris, EPW, Nov. 14, 1987, p.1953.

19. Balakrishnan: He cites countries - Ghana, Libya also.

20. However, with an improvement in political climate in Nigeria in the 70's, it attracted much FDI from India in that decade.

21. M.K. Raju: EPW Nov, 1980, in Review of Management p. 147-150.

investment and on cash flow become negative.<sup>22</sup>

TABLE 5.1 : Tariff Assumptions (%)

|              | As Per Project<br>Report<br>30% | As of<br>1976<br>20% | Reduced<br>Tariff<br>15% | No<br>Tariff<br>- |
|--------------|---------------------------------|----------------------|--------------------------|-------------------|
| A. Sales     | 6.81                            | 5.9                  | 5.8                      | 4.76              |
| B. Assets    | <sup>4</sup> .8                 | 5.0                  | 4.8                      | 4.8               |
| C. Income    | 0.93                            | (0.6)                | (0.08)                   | (1.1)             |
| D. ROS       | 14                              | (0.5)                | 0.10                     | (0.9)             |
| E. ROA       | 19                              | -ve                  | -ve                      | -ve               |
| F. Cash flow | 1.17                            | -ve                  | -ve                      | -ve-              |

Source: L.K.Raju RM-147. EPW Nov.1980. Note:Raju does not refer to the project to which these data relate.

(iv) Indian firms have often been unable to perceive during the implementation of particular projects that the degree of protection in the host developing country market is much less as compared to that prevailing in India. This calls for a different and a more aggressive marketing norm incorporating a higher level of quality of products unlike in India where producers can sell what they produce and not produce what they can sell.<sup>5</sup> The home country industrial structure is characterised by oligopoly. In the Schumpeterian

---

22. He does not mention which particular project in which particular country he is taking about.

sense, oligopoly is desirable for it facilitates the development of R and D. However in the Indian case, oligopoly implies an absence of competition and a 'live and let live' strategy by industrialists. Also in the absence of 'creative destruction' even non-viable units can survive with a high cost production structure. The Indian firms were protected by a high tariff barrier from cheap imports and by FERA (1973) from the domination of foreign capital so that the period in 1969-80 the Government of India approved gross foreign investment amounting to a paltry U.S. \$70 million into the country. By comparison Brazil had a net inflow of such funds amounting to US \$ 2.2 billion in 1978 alone."<sup>23</sup>

However, the LDCs where Indian firms invested especially the ASEAN economies characterised by a relative absence of protection against imports of goods and capital.<sup>24</sup> Hence Indian firms investing there have to compete against

---

23. Deepak Nayyar EPW 1987, Annual No. Also in Lucas and Papanek (1988) (eds).

24. R. Lall (1986) p.4. Quoting S.Lall (1984) p.302 in Bhagwati and Ruggie (eds).

imports as well as against DCMNCs, other TWMNCs and local firms.

Therefore, unless Indian firms are price competitive,<sup>25</sup> they can not survive. And even with 60% - 70% utilization of capacity, which is sufficient for these firms to survive in India, they can not survive in the markets subject to the chill winds of competition leading to their abandonment after production commences.<sup>26</sup> In addition, many of the projects had no price cushion with the result that any changes in the crucial assumptions such as cost over - run, interest burden, change in the product - mix, volume, etc. make them vulnerable.<sup>27</sup>

(v) Another major problem which Indian and most other TWMNCs (except, perhaps for Hong Kong MNCs) faced was the inability to tap existing marketing network or to develop a marketing channel of its own.<sup>28</sup>

---

25. M.N. Raju (1980) EPW, Nov. Review of Management.

26. They are not according to R. Lall (1986), while Wells, Lecraw, etc, have stressed on the price competitiveness of TWMNCs for survival against the advanced marketing strategy superior quality, and product differentiation capacity of DCMNCs.

27. M.N. Raju (1980) Ibid. p. 149.

28. Ibid. p. 149.

(vi) In certain cases, especially in Africa (except Kenya and Mauritius), the lack of development, of the markets (several units were abandoned for lack of demand) and inadequacy of the financial institutions were the major impediments in the successful installation and continuance of Indian Units.<sup>29</sup>

(vii) Many of the developing countries expect to be able to take over the management of foreign JVs after a certain learning period and this may have encouraged the rate of withdrawal of Indian investors from their host countries.<sup>30</sup>

#### D. Profitability

Consider now the third question about profitability and long-term viability of the joint ventures.

We noted earlier that the host country atmosphere is significantly different and much importance is attached to competition and efficiency. In India, 'self-reliance' is a major objective and hence a tremendous effort towards technological and industrial self-reliance has been made in spite of creating a high cost production structure. However, most developing countries - especially the ASEAN

---

29. L.T. Wells (1983), R.Lall, p. 83.

30. Balakrishnan (1976), EPW May review of Management.



economies - have had an open door policy towards the multi-nationals - be they from the North or the South. While the former (DCMNCs) have stressed on product differentiation and development of brand names, the latter have stressed price competitiveness. This has put the Indian firms operating on a small scale but with high unit cost at a disadvantage.<sup>31</sup> Indian firms do not seem to possess competitive advantage based on small scale technology.<sup>32</sup> Its advantage, as we noted in a previous chapter, vis - a - vis firms from the DCs lies in providing cheap but equally efficient managerial and technical personnel.<sup>33</sup> However, most developing country investors from S. Korea,<sup>34</sup> Hong Kong<sup>35</sup> and Latin American countries<sup>36</sup> also possess this advantage. In addition, they possess competitive advantage based on small scale technology.<sup>37</sup> Hence to the extent they compete with the Indian firms, the latter finds it unprofitable. We however, unfortunately do not, have any information as to whether their

---

31. J.P. Agarwal in Khan (1986) (ed) p.187.

32. N.K. Maju (1986)

33. R. Lall (1986), p.36, 42-3. See chapter 3 of our dissertation also.

34. R. Lall, p.25.

35. See JO (1981). See also chapter 2 of our dissertation.

36. See Chen (1981) in Kumar and Mc. Leñd (eds). See chapter 2 of our dissertation also.

37. See E.White (1981) in Kumar and Mc.Leñd (eds). See chapter 2 of our dissertation also.

managerial/technical personnel are better (or less paid) as compared to their Indian counterparts for reaping low price based competitive advantage.

We noted earlier that due to B.O.P. problems, the Indian government is reluctant to provide finance capital in foreign currency to the Indian investors.<sup>38</sup> And this severely restricts the possibility of expansion of the firm size of the IJVs.<sup>39</sup> Instead, it has led to a high debt equity ratio for IJVs - even by Indian standards - causing vulnerability of Indian firms to slightest price and quantity fluctuations.<sup>40</sup> Indian firms find it difficult to compete against DCMNCs<sup>41</sup> in the skill intensive industries which may also be capital intensive - especially when the scale factor is important. High unit costs resulting from sub-optimal units on account of financial constraints is the outcome. Since India's small firm size reflects a negative financial constraint rather than a positive technological adaptation, low profitability results. In fact, most firms interviewed by R. Lall provided this argument as a factor behind their low profitability - apart from the marketing problem afflicting most TWMNCs.<sup>42</sup>

---

38. See references cited in 35, 36 & 37.

39. R. Lall (1986) and R.G. Agarwal (1984).

40. R. Lall. On the other hand.

41. M.K. Raju (1980).

42. Except for a few notable cases where Indian product adaptation to LDC conditions give them an edge over DCMNCs. See Lall (1982) and chapter 4, section 2 of our dissertation.

E. Declining Numbers

The question of profitability leads us to the question of long-term viability. This also leads us to the fourth question as to why the aggregate number of ventures has started declining after 1984.

The country-specific 'advantages' which Indian firms enjoyed domestically in the form of a high tariff wall,<sup>43</sup> oligopolistic control over the market<sup>44</sup> and a high debt - equity ratio<sup>45</sup> did not hold to an equal degree in other developing countries.<sup>46</sup> Moreover, Indian firms are used to a market-environment where they sell whatever they can produce and not produce what they can sell<sup>47</sup>. According to a top executive quoted in Business India, 'many Indian ventures have failed in this country (Malaysia) because they tried to use marketing concepts developed in India, where anything sells'.<sup>49</sup>

Starting with similar export performance in about 1970, almost all newly industrializing countries (NICs) With

43. Bhagwati

44. P. Patnaik. Ibid.

45. S.B. Gupta: Monetary Economics.

46. M.K. Raju (1980).

47. D. Nayyar (1987).

the exception of Argentina, Brazil, Hong Kong, Singapore, Taiwan, South Korea, Mexico, etc. have left India far behind in the rate of growth of exports.<sup>50</sup> Moreover, in terms of aggregate industrial production, India's position has dropped to the 18th largest industrialised nation at present.<sup>51</sup> Even a small country like South Korea has been able to increase its manufacturing value added from about 20% in early '60's to about 60%<sup>52</sup> to that of India's at present.

According to Nayyar,<sup>53</sup> in the ultimate analysis, the causes which lie behind India's poor export performance are also the causes explaining India's poor rate of growth of GNP. Nayyar's arguments for growth-led exports can be extended to growth-led-exports-led FDI.<sup>54</sup> That FDI follows exports gets support from Wells'

---

49. Business India. 8.21. Sept.1982. quoted in R.Lall p.83

50. D.Nayyar: India's Export Policies:1970-85. EPW Ann No. 1987. See Table-6.

51. Source forgotten. Acc. to S.Lall(1982) it was 13th in 1980 and 3rd among developing countries.

52. J.Bhagwati: An article in Economic Times, 1988.

53. D.Nayyar(1976) India's Export Policies in the 60's. Also Abid Hussain Committee Report on India's Export Promotion Policies(1986)

analysis.<sup>55</sup> This is true wherever FDI occurs as a defensive measure to protect the erstwhile export markets (This defensive strategy is resorted to by both DCMNCs and TWMNCs)

If our hypothesis of 'growth-led-exports-led FDI' holds as is likely to for a large country like ours and where FDI has been complementary to exports-we can speculate (we note that India's rate of growth of GNP has not kept pace with that of the NICs of East Asia and Latin America) even if we do not have very recent data about FDI of other NICs that

(i) there is a significant possibility that the relative extent of the internationalisation of Indian firms will decline of (as compared to other NICs). And

(ii) even in absolute terms, we cannot be very optimistic that internationalisation of domestic firms will take quantum leaps. This may be in contradiction to the claim made by S.Lall. One factor which may have inhibited Indian firms to go overseas, may be the relaxation of industrial licensing and trade policies. To the extent, they negatively 'pushed'<sup>55</sup> Indian firms overseas, these factors are

---

54. D. Nayar, (1976) & (1982).

55. L.W. Wells. Third World Multinationals.

much less operative. at present. One also notes that contrary to the fact that most of the South Korean and Hong Kong firms invested abroad were medium-sized units, the largest firms/Houses from India investing abroad were a majority<sup>57</sup>. Thus a relaxation in the restrictive policy environment allowing the MRTP Companies to expand in profitable domestic ventures may have reduced their incentive to venture overseas.

More important than the policy environment seems to be the fact that unutilised capacity in the capital goods sector resulting from a decline in public investment and saturation of import-substitution led demand for industrial goods in a slowly growing inequalitarian economy had induced the firms to expand abroad. Domestic recession threatened domestic growth and unutilised capacity could

---

56. Raj Aggarwal & J.K. Weekly: Foreign Operations of TWMNCs: Journal of Developing Areas 17 Oct. 1982 pp. 13-20. L.T. Wells, R.Lall, Dennis E. Encantion

57. S.Lall WD1982. This point is to show that it is not necessarily the case that the largest firms have the comparative advantage over other smaller firms in investing abroad.

be used for supplying capital goods, equipment, spare parts, etc, as equity for Indian joint-ventures abroad. With domestic industrial resurgence especially in the highly profitable durable consumer and luxury goods sector since the mid '80's and possibility ~~of~~ profiting from foreign- of tie-ups as a compradore class, Indian firms' interests in diversifying risk through putting 'eggs in more than one basket' declined as the domestic industrial environment seemed amenable for expansion-domestically. Moreover, unlike in the mid-70's, when India had accumulated a sizeable foreign exchange reserve which the sluggish domestic economy could absorb, the '80's was marked by a severe not Foreign Exchange constraint on a/c of BOP problems. This is likely to have natural repercussion on the Indian capability of outflow of foreign exchange and hence on the increase in the new ventures in production and implementation.

Our just concluded brief discussion purports to be a tentative hypothesis to the observed fact of 'distinct, slackening of the rate of growth since 1979-81' noted by S.Morris.<sup>58</sup> and the actual decline for the first time in the aggregate number of joint ventures in production and implementation since 1985 and a decline in the number of joint ventures in production in the year 1986.

---

58. S.Morris. EPW Nov.7 and Nov.14,1987.

F. OTHER PERFORMANCE CRITERIA

Now, we shall attempt an answer to the fifth and most vital question.

The benefits contributed by the IJVs can accrue a) to the Indian firm investing abroad, b) the host country partner, c) Indian economy as a whole, and d) host country's economy as a whole. Broader still, in the realm of South-South Co-operation, it has an international political component in terms of generating goodwill among the countries of the South and in promoting collective self-reliance.

In this section, however, we shall restrict ourselves to the purely quantitative economic indications firstly because they are more concrete and easy to handle with and secondly because the remaining aspects have been covered in the other chapters. Moreover, we shall confine our discussion only to benefits accruing to India as a whole, as this issue has not been covered before. Benefits to host developing countries from FDI of TWMNCs have been broadly covered elsewhere. It seems that Indian firms are no significantly different from a typical TWMNCs in terms of transfer of technology, employment generation and more effective use of local raw materials, and in the absence of a vertically integrated production structure



no illegal activities in the form of transfer pricing can be resorted to, and so on. Hence, we do not need to go into details regarding host country's benefits as all these and related aspects have been dealt with elsewhere.

The Indian economy, has been suffering from a moderate to severe foreign exchange bottleneck right from the Second Five Year Plan with perhaps the sole exception of the second half of the seventies before the second oil shock. This factor dominated in the whole of Indian government's policy towards overseas JVs. Thus, on the one hand, the government did not favour outflow of capital in hard foreign currency in the form of Indian equity capital abroad.<sup>59</sup> On the other hand, it was of utmost importance that these ventures have foreign exchange earning capacity. Projects tied to Indian machinery, equipment, etc., instead of world-wide sourcing for them, was a corollary to this.

---

59. However after 1977, the Government in its revised guidelines relaxed the earlier restrictions towards outflow of 'finance' capital ( in hard foreign currency) to a certain extent. The 1983-84 Annual Report of the Ministry of Commerce further admitted that this acted as a constraint towards realising economies of scale for Indian JVs affecting their cost-efficiency. A more liberal cash-flow is prescribed to reverse the earlier trend of having sub-optimal size of IJVs (Ministry of Commerce, Annual Report 1983-84). To what extent, however, this has been actually carried out is doubtful, if we looking at existing amount of equity are contributed per unit after correcting for rupee depreciation and global inflation.

Coincidentally, domestic recession in the capital goods sectors creating a significant amount of unutilised capacity proved that India was not capital constrained (given the per capita income (p.c.y), rate of growth of p.c.y., govt's ability to finance itself and level of economic development) but foreign-exchange was the binding constraint. Hence IJVs were to provide boost to capital goods sector as well as earn foreign exchange. It is to be noted that India did not have an 'image' in capital goods industries.<sup>60</sup> Evidence is contradictory as to whether India had a competitive edge in the technology embodied in capital goods.<sup>61</sup> However, it is evident that in certain sectors in manufacturing, Indian firms did have a comparative advantage when it ventured into overseas investment. For the latter contains a 'package' of inputs - consisting not only of Indian machinery and equipment, but disembodied technology, in terms of experience of learning by doing and skill in terms of managerial and technical personnel, etc. Hence it was possible to export Indian capital goods when it formed a part of a 'package'. It would have been difficult otherwise.

---

60. Balakrishnan, EPW 1976.

61. R. Lall and S. Lall differ in this respect.

In this section, however, we shall not be able to discuss as to what extent the capacity utilisation of the Indian capital goods sector increased on account of these joint ventures. We shall restrict ourselves to the FDI impact on Indian B.O.P.

The IJVs have to provide information, annually, to the Indian Investment Centre (IIC) on the following items: dividends they have declared, 'Other Repatriations' (including fee for technical know-how, engineering services, management consultancy, etc), and 'Additional Exports' (including exports of plant and machinery, spares, components and raw materials, effected over and above exports towards equity). These can be utilised to find the 'direct' impact on BOP. We should mention here that the FDI impact on BOP can be divided into 2 components-'direct' and 'indirect'. For the Indian case, the direct impact can be measured by the equation:

$$BPE = EX + AX_1 - IM + AX_2 + Cr + R - DFI^{62},$$

where BPE = balance of payments' effect of FDI over a given period of time.

EX = exports of capital equipment to finance the equity share in the foreign joint venture.

---

62. J.P Agarwal: Balance of payments effect on home countries, in K.M. Khan (ed) Multinationals of the South, p.186.

TABLE 5.2.

BENEFITS FROM INDIAN JOINT VENTURES. (Rs.in lakhs)

| Year                 | Dividends | Other repatriations<br>(including fee for<br>technical know-how,<br>engineering services,<br>management consultancy<br>etc.) | Additional Exports<br>(including exports<br>of plants and<br>machinery, spares<br>components and raw<br>mats. effected over<br>and above exports<br>towards equity. |
|----------------------|-----------|--|---|
| 1969-70 &<br>earlier | 43.2      | 41.6   | 392.5   |
| 1970-71              | 5.0       | 7.2  | 392.6   |
| 1971-72              | 11.8      | 9.8  | 101.0   |
| 1972-73              | 18.4      | 13.2   | 132.8   |
| 1973-74              | 25.6      | 16.5   | 420.9   |
| 1974-75              | 32.5      | 22.9   | 735.7   |
| 1975-76              | 25.9      | 130.3  | 979.7   |
| 1976-77              | 39.2      | 136.2  | 1,044.9   |
| 1977-78              | 57.5      | 206.9  | 1,331.0   |
| 1978-79              | 74.3      | 239.5  | 1,440.0   |
| 1979-80              | 185.9     | 492.6  | 2,186.5   |
| 1980-81              | 148.0     | 373.0  | 3,115.0   |
| 1981-82              | 35.00     | 349.0  | 2,177.0   |
| 1982-83              | 5.0       | 53.0   | 1,068.0   |

Source: a) Para upto 1979-80 from R.G. Agarwal Table X P.75

b) Para upto 1982-83 Annual Report, Ministry of  
Commerce, 1983-84.

$AX_1$  = additional exports of machines and intermediate products.

$AX_2$  = exports of raw materials

CR = Capitalised value of invisible assets transferred to JV (good-will, patents or trademark) and of future returns (technical fees and bonus shares, etc) expected from them.

R = usual returns on capital in the form of dividends, royalties and managerial fees, etc.

DFI = total amount of Foreign direct investment.

IM = foreign exchange payments (IM) incurred on imported in-puts of the above exports.

The aggregate contribution of all 3 kinds of JVs (in operation, under implementation and already abandoned) to the Indian BOP was Rs.82.1 crores<sup>63</sup> upto March 1982. This amounted to more than 2% of the official FOREX reserve of India in March 1982. Indian investors overseas were in this way not only able to pay off the original DFI in terms of foreign exchange but also to increase the foreign exchange receipts of the country by about 2/3-ds of the original value of the DFI. Thus the 'direct' effect of DFI on India's BOP was positive.

---

05. J.P. Agarwal : Ibid p.186.

The 'indirect' effect is likely to be negative when we consider the export displacement effect of DFI. Here we are **implying** that DFI is a substitute for exports. However, even here DFI may be better than no DFI at all in dynamic terms if we assume that it occurs as a defensive strategy DFI to protect the existing export markets. Moreover, not always is DFI a substitute for exports. it may be a complement to it in terms of sourcing information and establishing new marketing and distributional channels. To the extent DFI is complementary to exports, the indirect effect of DFI on India's BOP will be positive. Thus, R.Lall's pessimism in this regard.<sup>64</sup> is not justified at least on theoretical grounds. Bred in the Mundell-type neo-classical tradition where movement for factors is supposed to be a substitute of movement for goods<sup>65</sup> he failed to note the dynamic consequence of DFI in an internationally imperfect market for capital and information. Where developing countries like India are hampered in sustaining **their** export growth unless they are able to <sup>\*</sup>marketing channels of their own or cooperate with other developing countries of the South in this regard.

---

64. R. Lall, p. 88. His view is supported by a study of IIT (1977) though he did not carry out any separate case by case study of export-displacement effect by FDI on his own.

65. Mundell : AER 1958.

\* **establish**

J.P Agarwal has performed a "purely impressionistic" study on the export displacement effect of DFI. Thus his results have to be read with due caution. Agarwal classified the goods produced by LJV's into four groups.

The first group included those cases (38 per cent) where exports declined after LJV's had started production in the host countries. The second group included those cases (22 per cent) in which no conclusion could be drawn because of statistical limitations. The third group included those cases (15 per cent) where DFI did not result in a negative impact on Indian exports. The fourth group included all those cases (25 per cent) in which exports from India to the host countries actually increased.

If we exclude the second group, then it seems that only 50% of the cases suffered the export replacement effect of DFI. J.P. Agarwal concludes, "since these goods have different weights in the export earnings of India, it is not possible to say whether net export replacement effect in quantitative terms was positive or negative. In qualitative terms, however, the share of goods having export replacement effect is matched by the share of goods which either do not show such an effect or have a positive effect of FDI on their exports to the related host countries. When this is considered together with the

estimates of equation (1), it can be concluded that the net effect of JVs on India's BOP has been a positive demonstration on the effectiveness of FDI as an instrument of export promotion".<sup>67</sup>

To conclude, one can partially agree with IIFT's evaluation of Indian JVs abroad.<sup>68</sup> It concluded, "the overall performance in regard to the effectiveness of Indian joint ventures in generating exports and strengthening the balance of payments position through repatriation of profits, royalty, technical fees and the like has so far been much below the initial expectation". However, it will be inaccurate to argue that IJVs have been a failure, or that it were 'negative' motives/reasons that prompted Indian investors to invest abroad representing capital flight from India.<sup>69</sup> Moreover, as far as high attrition rate of Indian overseas joint ventures is concerned, it is not always to do with the economic efficiency and competitive ability of Indian firms overseas. As R. Lall himself pointed out, "a number of Indian firms may have

---

67. J.P. Agarwal: Ibid. p.192.

68. India's Joint Ventures Abroad, IIFT (Sept. 1976) p.16.

69. R. Lall, p.89.



set up foreign ventures for 'dubious' reasons. The objectives of such firms have nothing to do with their ability to compete successfully in overseas markets - their objectives can be met without showing any profits on the balance sheets of their overseas operations.<sup>70</sup> This is even more true for wholly owned subsidiaries - a category of Indian firms we have not considered here,<sup>71</sup> on account of paucity of information in primary, secondary sources. Moreover, J.P. Agarwal noted, "the performance of abandoned joint ventures has not been so bad in terms of foreign exchange earnings that it could be assumed that they were all unsuccessful and therefore abandoned. Their repatriations of dividends, etc. over their whole existence were nearly as high (33 per cent of FDI) as those of the operating joint ventures (37 per cent) and from the point of view of balance of payments, they not only paid off the original value of their foreign investments but also contributed to it a sum equal to 116 per cent of these investments. So it is possible that until March 1982 many of the 49 abandoned joint ventures (IIC, 1983)<sup>72</sup> were not really unsuccessful but were sold to local partners, either because Indian partners were not able to

---

70. Ibid. p. 84.

71. S. Morris, EPW Nov 14, 1987, . .

72. Indian Investment Centre (IIC), Indian Joint Ventures Abroad : An Approval. (1983).

realize their original plans fully, or because a fruitful co-operation from the local partners and governments was not forthcoming. Only a few were affected by nationalization schemes of the host countries and some others were given up in fear of a likely expropriation (Chishti et al 1977).<sup>73</sup> Many of the developing countries expect to be able to take over the management of foreign joint ventures after a certain learning period and this may have encouraged the high rate of withdraw of Indian investors from their host countries".<sup>74</sup>

Success or failure in joint ventures have repercussions elsewhere. Apart from creating employment for surplus Indian human capital and effective utilisation of physical capital, the 'image' of India as an exporter of industrial technology and products is built. This affects our bargaining power in entering into foreign collaborations and technology transfers to enterprises in India. Also, it facilitates our technology exports through turn-key projects, licensing and contracting agreements and export of capital goods. We shall evaluate the performance of the JVs as well as the role of the Indian govern-

---

73. S. Chishti, M.S. Lakshmi, B. R. Chavan: India's Joint Ventures Abroad. IIFT, 1977.

74. J.P. Agarwal: p.187. Ibid.

ment in the context of South-South cooperation in the next chapter. Hence we shall not discuss it here.

Thus, on the whole, Indian performance in investments abroad has been a mixed one. With a more favourable policy environment - permitting outflow of foreign exchange in the form of equity to realise economies of scale,<sup>75</sup> (at the same time restricting outflow of scarce foreign exchange by dubious individuals on false motives) and a more competitive spirit of entrepreneurs able to withstand international competition in a foreign location and the capacity to plan in advance with foresight, India should be able to retain its position as one of the leading investors of the developing countries, if not further improve on it.

---

75. As envisioned in the Ministry of Commerce's Annual Report, 1983-84, Ch on JVs.

CHAPTER VI.

SOUTH SOUTH COOPERATION THROUGH  
JOINT VENTURES.

A. INTRODUCTION:

The desire for collective self-reliance<sup>1</sup> of the Third World Countries on the basis of "South-South Co-Operation" has been a dominant theme of discussion in various international fora. Our objective is not to discuss the different dimensions involved in South-South co-operation but to limit ourselves to discuss whether this sort of co-operation can be promoted through Third World Multinational or joint ventures between firms belonging to two or more developing countries.

The discussion seeks to explore the following questions:

- i) What is the extent or the scale of operation in terms of quantitative magnitudes of DFI by FWMNCs in the developing countries? In which sectors do they dominate? Will it do away with the dependence on DCMNCs or will it only increase the bargaining power of the host developing countries with respect to the distribution of gains from international production between the host and the parent countries?
- ii) To what extent will this co-operation facilitate

---

1) Nehru, as early as in 1955, in Bandung Conference had advocated collective self reliance and economic co-operation with 78 Asian and African Countries. Encarnation (1980) P.56

industrialisation of the host countries? What will be the pattern of relationship between the host developing country firm and the TWMNC; will there be a symbiotic relationship or will healthy competition be replaced by a conflict leading to a zero or negative sum game?"

iii) What are the benefits and/involvement for the/costs host and home country government in facilitating collective self-reliance and south-south co-operation? TWMNCs? Unfortunately we shall be able to suggest only partial answers to these complex questions. For one must be equipped with enough time, space and empirical evidence to do proper justice to these questions.

B. Emergence/TWMNCs: a threat to DCMNCs and a boon to /of host developing countries?

In our discussion we shall, in the context of joint ventures confine ourselves to the private sectors' joint ventures since the public sector joint ventures in this sphere are few and limited to countries like India and Brazil.

It is clear that the TWMNCs have invested abroad in the manufacturing sector by taking advantage of the intra-third world difference in the level of economic development defined in terms of per capita income and

industrial development measured perhaps by the share of the manufacturing value added to total GNP. Thus, DFI will be typically from say. Brazil to Peru or Hong Kong to Malaysia and not the other way round. A legitimate question that one can raise at this stage is whether this intra-DFI will accentuate or reduce the difference of the level of economic development of these countries. An answer will be attempted later-albeit, partially.

We shall briefly recapitulate the technological characteristics of the investing firms, in the manufacturing sector as this will have a bearing on some of the questions raised. DFI from most of the developing countries (with the exception of perhaps Brazil and India) have been, as a rule, in those cases where-in small scale labour-intensive units can compete on the basis of lower price with capital technology and advertising intensive DCMNCs. These firms can in general, exploit, their ownership specific advantages in standardised goods at the 'tail end of the product Cycle'<sup>2</sup> and the technological characteristics embodied in the goods place

---

2) L.T.Wells (1986) in Khan (ed.)

them at the lower end of the technological spectrum.<sup>3</sup> Posing an evolutionary and undirectional view of technological development Lall argues that DCMNCs, once having reached a higher level of the technology ladder do not have incentive to climb down. TWMNCs who have developed a 'niche strategy'<sup>4</sup> enter ~~the~~ sectors and do not have to directly compete ~~with~~ these against DCMNCs in technologically similar products. However, technologically dissimilar commodities may fulfil certain similar economic needs so that the products produced by DCMNCs and TWMNCs may be economic substitutes. Hence perhaps a case can be made in favour of the fact that there is indeed competition between products produced by DCMNCs and TWMNCs involving substantially different technology. In fact, Wells<sup>5</sup> notes that the competition will be the most acute at the 'tail end of the product cycle'. In cases TWMNCs successfully compete against DCMNCs the dependence of the latter can be ~~cut~~ away with ~~done~~. However, it must be remembered that even for a similar product (in the sense of satisfying similar wants for 'rational' consumers), TWMNCs and DCMNCs may cater to different market segments; while TWMNCs will attract a

---

3) S.Lall (1984) World Development.

4) A term coined by Vinod Banjoet (1980); quoted by L.T. Wells (1983) & R.B.Lall (1986)

5) Wells (1986) Ibid

larger population with smaller purchasing power per capita, DCMNCs are likely to attract the consumers from the top income groups with their stress on advertising and promoting brand names and transforming the goods into status symbols for the consumers. who are able to buy them. Thus, when markets are segmented, there need not be any competition between DCMNCs and TWMNCs at a point of time and the dependence on DCMNCs will continue. However, over a period of time, there is likely to be an increasing competition over the market share - especially in capturing the 'border line areas'. In such cases one may speculate that DCMNCs will have to adapt certain attributes of TWMNCs and vice-versa; the former may try to be more price-competitive and the latter may develop brand names. We do not know, how far the DCMNCs have made efforts to become price competitive. They need not have, in any case, if sales can be increased by an increasing advertising expenditure as Baumol's sales maximisation model postulates. That a few TWMNCs on the other hand, have adopted certain attributes of DCMNCs are noted from the fact that 'San Miguel' (Philippine beer) and 'Inca Cola' (Peru's cold drink) are important brand names from the developing countries which are also cheaper than similar products



manufactured by DCMNCs.<sup>6</sup>

TABLE - 6.1

Share of intra-developing countries' overseas investment  
in total DFI in selected host developing countries.

| Country   | Year   | Percentage | Country     | Year | Percentage |
|-----------|--------|------------|-------------|------|------------|
| Argentina | 1976   | 1.73       | Hong Kong   | 1976 | 2.76       |
| Brazil    | 1979   | 0.60       | Indonesia   | 1976 | 21.82      |
| Chile     | 1974-8 | 0.95       | Peru        | 1978 | 2.00       |
| Colombia  | 1978   | 6.48       | Philippines | 1976 | 3.37       |
| Ecuador   | 1977   | 6.40       | Thailand    | 1975 | 24.86      |
| Guatemala | 1976   | 6.80       | Venezuela   | 1979 | 0.78       |

Source: S. Chishti, p.106 in Khan (ed).

Multinationals of the South, 1986.

6. We may note, in this context that DCMNCs should not be lumped together as a homogeneous unit as there is extreme concentration of the number of subsidiaries (and the amount of DFI) among the top 5% of the parent DCMNCs: they account for 80 per cent of the subsidiaries. They operate primarily at the middle and higher echelon of the technology spectrum and are not likely to be unduly bothered at the present juncture by the presence of TWMNCs. It is the remaining 95 per cent of the parent DCMNCs accounting for 20 per cent of the subsidiaries who are likely to be affected. Country-wise, in host South East Asian countries, it is Japanese MNCs who are likely to be most affected as compared to other DCMNCs, as Japanese MNCs operate at the tail end of the product cycle and have to compete with TWMNCs.

So far, we noted the dependence on DCMNCs in the manufacturing sector from the Third World consumers' point of view.

However, even from the point of view of TWMNCs themselves, they are not independent from the DCMNCs especially because of the fact that the original technology itself is imported from the North. Thus, according to an interview conducted by C. Cordeiro and reported by Wells (1983), 42 out of 52 Indian firms had obtained their technology from foreign sources. R. Lall's interviews also show that, but for inavailability of finance capital because of the Government of India's policy on foreign exchange outflow for IJVs abroad, Indian partners in the joint ventures would have, in many cases, preferred imported technology to the indigenous one. We have already pointed out in earlier chapters that TWMNCs' R & D is concentrated in process adaptation to suit LDC requirements. There is hardly any development of basic design and product development: none of them seems to be at the technological frontier. In such cases the international (developed countries') finance capital may make Indian and other TWMNCs their junior partners in their generation in these Third World countries where their entry is looked at with suspicion. They can reap political advantage by operating under the

banner of South-South cooperation.<sup>7</sup> Both partners derive economic advantages: TWMNCs from the sophisticated technology developed by DCMNCs and the DCMNCs from cheap manpower (managerial and technical), materials and fabrication capacity available in the Third World. We have already noted the collaboration made by Indian large Business Houses with international finance capital (World Bank for e.g.) in an earlier chapter. What is more, subsidiaries of DCMNCs operating in India have six 'Indian' joint ventures in operation accounting for 5.64 per cent of Indian equity (in ventures in operation) abroad and 2 ventures under implementation accounting for 9.54 per cent of Indian equity (in ventures under implementation).<sup>8</sup> They have been able to use the Indian label although they do not necessarily have Indian partners in the LJV's abroad thus retaining imperialistic hold over third world markets.

It seems that only in the manufacturing sector - especially in small-scale manufacturing - that the TWMNCs have played any significant role. In most other sectors, especially trade in primary commodities<sup>9</sup> and in mining<sup>10</sup>,

---

7. See DN (EPW, June 11, 1988) in this context.

8. See K.V.K. Rangathan (1988) p.23 Table - 7.

9. See S. Chishti (1986) in Khan (ed).

10. See Dunn and H. Korner (1986) in Khan (ed).

TWMNCs have not had any significant role to play. They have not yet been able to overcome institutional barriers to promote South-South trade. These barriers result from the colonial pattern of development of trade of these countries. Chishti notes "facilities for trading, shipping, insurance and banking as well as channels for communication and marketing remain oriented to trade between the North and the South".<sup>11</sup> Dunn and Korner have this much to say on this issue, "In 1980, the TNCs (of the North) dealt with approximately 70-80 percent of the world wide raw materials trade. In some products (coffee, wheat, wood, cotton, tobacco, jute, ironore, bauxite/aluminium) their share amounted to 90 per cent and above".<sup>12</sup> According to Axel J. Halback, "the share of intra-company (of DCs) trade in the case of highly vertically integrated production is also high, in many products it is at least 50 per cent and in some it clearly rises above this (bauxite 88%, cotton 69%, bananas 61%). Only a few developing countries have so far succeeded in penetrating at least partially the established production chains and marketing relationships of the vertically integrated raw

---

11. See S. Chishti (Ibid) p. 95.

12. Dunn and Korner (1986) Ibid p.120.

materials corporations and to set up their own national manufacturing capacities and marketing systems. (ibid. p.23, unauthorised translation)".<sup>13</sup> Thus, we can conclude that TWMNCs have so far played a minor role in promoting South-South trade.

While for most DCMNCs' 'traditional pattern of foreign investments' were in the 'extractive industry sector', the TWMNCs did not follow this pattern.<sup>14</sup> The high capital intensity of primary commodities' exploitation and processing and a long gestation lag coupled with requirements of large funds to achieve optimal production level posed a severe obstacle in this regard.

Table 6.1 shows the share of intra-developing countries' overseas investment in total DFI in selected host developing countries. We see that except for Thailand and Indonesia, the share of DFI by TWMNCs is miniscule. Even if the share has increased of late ( it is unlikely after 1980 especially in the host Latin American countries) it can not be significant enough to pose an effective threat to DCMNCs.

---

13. A.J. Halback, Zunehmende Kooperation der Entwicklungsländer im Rohstoffbereich in ifo schnellendienst 29/85, p.18. quoted by Dunn and Korner (1986) ibid p.120-21.

14. M. Svetlicic (1986) in Khan (ed) p. 71.

We conclude that TWMNCs are mostly confined to the small scale manufacturing sector (except for S. Korea, who has marketing and trading overseas ventures). It seems that small scale need not necessarily be a source of competitive advantage, it may be a result of the financial constraint faced by TWMNCs in the context of the BOP problems of the parent countries. If that be so, and if economies of scale exist, then DCMNCs are able to reap and repatriate a higher level of profits than TWMNCs who can not compete in these manufacturing sectors where the scale factor is important. Hence, it is unlikely that TWMNCs on their own will be able to bring about structural changes by breaking the institutional barriers—resultant of colonial and imperialist policies when they are themselves dependent on DCMNCs for their technology imports. However, to the extent that they are able to bring about changes within the structure, and by increasing the number of multinationals operating in a particular sector of a host developing country, the bargaining power of the host developing countries will improve to a certain, albeit limited extent.

C. TWMNCs : AN AGENT FOR HOST COUNTRY INDUSTRIALIZATION ?

Now we shall look into the question of South-South cooperation by TWMNCs from the angle of industrialisation of the host LDCs.

In terms of providing a more appropriate technology through product and process innovation (e.g. tropicalisation,<sup>15</sup> substitution of local for imported inputs,<sup>16</sup> higher capacity utilisation,<sup>17</sup> greater flexibility in machine use, lesser automation<sup>18</sup>) and using cheaper but equally efficient (or more as the host and home country production environments of TWMNCs are more similar to that of DCMNCs) managerial personnel, and in preferring joint ventures to subsidiaries,<sup>19</sup> TWMNCs have saved on capital and foreign exchange and provided fuller employment to the local labour force as compared to the DCMNCs.<sup>20</sup>

TWMNCs had originally imported foreign technology in their parent countries but had modified them to suit their home country requirements. Their countries of origin, placed at an intermediate level (in terms of acquiring and developing technological skill and know-how) between the DCs and the comparatively lesser developed LDCs, are better placed to play as a key agent to technology transfer (even

- 
15. E. White (1981) in the context of Brazil's and S. Lall (1982) in the context of India's trucks. There are examples for other products as well.
  16. Lecraw (1977) in the context of TWMNCs in Thailand.
  17. L.T. Wells (1983).
  18. L.T. Wells for TWMNCs in general and R.Lall (1986) for India, in particular.
  19. L.T. Wells (1983) *ibid.*
  20. L.T. Wells (1983) *ibid.*

as a comprador to DCMNCs) as compared to the DCMNCs. Since we have already pointed these out in our earlier chapters, we shall not elaborate on these. However, it must be pointed out that 'successful' industrialisation of the host developing country on the basis of production by the MNCs—be they from the North or the South—must accompany a process of 'learning by doing' on the part of would-be local managers, entrepreneurs, technical personnel and workers. Otherwise, like H.W. Singer,<sup>21</sup> one would be forced to argue that economists have become slaves of the geographers simply because industries located in the host countries without any concurrent process of 'learning by doing' and development of the crucial 'human capital' can not foster industrialisation in the 'real sense'. (i.e. development of an 'industrial culture' among the local populace). Hence, from the host country point of view, it need be explicitly stated in the terms of agreement between the partners in a joint venture that the expatriate personnel ought to be replaced by local personnel over a stipulated period of time and the actual control should be vested with the host partner.

---

21. H.W. Singer (1950) 'The Distribution of Gains between the Investing and the Borrowing Countries', American Economic Review.



However, in these respects, the performance of TWMNCs has been only a mixed one. Wells, for example has noted that the continued heavy reliance of LDC investors on expatriate managers and technicians indicates that the transfer of technology has not been rapid.<sup>22</sup> We shall now restrict ourselves to LJV's for which we have more information. Conflicts between the partners seem to have ensued when, for example,<sup>23</sup> (i) LJV's failed to absorb local personnel in key positions as demanded by the partner in the host country (ii) Also, there have been problems in regulating the quota of Indian immigrants including those working in joint venture enterprises. (iii) Indian equity participation, in the form of export of indigenous plant, machinery and equipment required for the JV/WOS<sup>24</sup> - a clause in GOI's policy outline on LJV's Abroad - as equity participation in the form of cash permitting the importing of "most suitable machinery through international tenders"<sup>25</sup> have irked host LDCs like Malaysia on account of the 'tied' equity participaty . To say the least, this does not do tion. justice to the industrialising aspirations of the host LDCs and to the norm of 'collective self-reliance' based on

---

22. Wells (1983) p.141.

23. R.G. Agarwal (1984) Joint Ventures Abroad. p. 92.

24. K.V.K. Ranganathan (1983) Annexure - I.

25. R.G. Agarwal (1984) ibid. p.87.

mutual benefit.

To conclude this section, it seems that we can not argue *a priori* as to the direction the path of industrialisation through South-South co-operation will take on the basis of (private sector) TWMNCs. For they are here to do business; like any other business concern they are profit-oriented. However, their structural characteristics are such that they are better placed than DCMNCs to foster industrialisation which, unlike creating 'enclaves',<sup>26</sup> will be better suited to the factor endowments and markets of the LDCs. At the outset, there should be a clarity of vision regarding the terms and conditions which both parties will have to satisfy including the terms for the distribution of gains. For achieving collective self-reliance, co-operation and not conflict will be an ideal solution. Hence areas where conflicts can arise should be clarified, and a more positive and rationalistic stance-based on the profit calculus of the two parties should be favoured over the emotionally surcharged atmosphere generated in political fora on South-South co-operation.

---

26. See Singer (1950) *ibid.*

D. The Government: A party to South-South Co-operation  
through TWMNCs?

- (i) In this section, we discuss the role of the host and the home country governments in fostering South-South co-operation through TWMNCs. We start with the host country governments.
- (ii) Kenneth Kaunda, President of Zambia, is supposed to have argued in the context of DCMNCs that something worse than the exploitation by MNCs is not being exploited at all. Thus, for him, autarky is not the best policy. If that be so, TWMNCs can better foot the bill without some of the associated economic and political costs incurred in the context of DCMNCs, as we have argued before. Julius Nyerere, former President of Tanzania and head of the Commission for South-South Co-operation, has been quoted as wanting: "TWMNCs owned by us and controlled by us to serve our purposes".<sup>27</sup> In spite of the hopes, neither host nor home governments have unanimously favoured the expansion of TWMNCs.

---

27. Quoted in L.T. Wells (1983) p.137.

(11) a. The host governments fear that TWMNCs will not only pose stiff competition to the DCMNCs at the tail end of the product cycle, they may also prevent entry of the local firms by pre-empting economic space especially if the latter are at a comparative disadvantage. Wells notes, "the greatest cost posed by investors from other developing countries is likely to be that they might prompt exactly those kinds of opportunities that local firms would soon take up in the absence of foreign investment."<sup>28</sup> Here the host government has two alternatives: one is to allow TWMNCs and enable them to invest through joint ventures which may provide the necessary opportunity to learn the required technological and managerial skills of running the unit which may subsequently be utilised in running their own independent units. The second choice is to debar entry and make own R & D initiative for learning. While in the short-run, the first choice may be preferable to the host country; in the long run, it may be the second choice. But with the latter, there may be an associated problem of having a technological lag of decades. In general, the choices are however, not mutually exclusive. In fact, the desired role of the host government may be to decide on the 'weights' to be given to each choice:

---

28. Wells (1983) p.143.

thus allowing entry of TWMNCs into sectors which are in any case, relatively more inaccessible to the local firms and debarring them where 'learning' is rudimentary and there are possibilities of reaping dynamic comparative advantage in the near future. Once a policy decision is taken the government should stick to it. However, what we have presented above seems to reflect a rational economic choice which need not be fulfilled in practice - given the constraints imposed by the political economy of the state. We have noted some of these in the earlier chapters.<sup>31</sup>



We note that there are other important costs related to DFI by TWMNCs which the host country government has to take note of. Wells points out, "the foreign investor from a developing country is even more likely to be involved in questionable payments to government officials than

---

31. Thus, for e.g. political instability and ethnic strife in the 60's (September Revolution in Ethiopia (1974) civil war in Nigeria (1967-70), Idi Amin's anti-Asian policy) coupled with the populist slogans for Africanisation/nationalisation of the new governments led to the abandonment of many IJVs established with the co-operation of the earlier governments. Thus, in Ethiopia, out of 9 IJVs approved, 4 had undergone production - one of them being the first IJV to be operational in 1960. After Sept. 74 revolution, all of them had to be abandoned. To date, not a single IJV is operational or under implementation in Ethiopia. Similarly, the ethnically Chinese investors (from Taiwan, Hong-Kong) are looked at with distrust in Indonesia - for non-economic reasons (Wells 1983) and are discriminated against by the host country governments.

is the firm from an industrialised country. Managers of developing country firms suggest that such payments are easier when managers are related, when the firm is small. when book keeping is informal and when the parent faces home government controls, such as those imposed in the United States under the Foreign Corrupt Practices Act"<sup>32</sup> However, we do not completely agree with his views when we note that the DCMNCs can exert considerable influence over the host government, thanks to the support they receive from their home governments. Moreover, even if bribes are paid by TWMCs; they may only be to neutralise the pre-existing bias against them. As Wells himself pointed out; the bureaucrat of the host country, in order to maximise his career prospects under uncertainty, will choose a well-known DC firm to an unknown developing country firm to form a joint venture with a host country firm , ceteris paribus.

However, not only do the DCMNCs receive their support from their respective governments, in the internationalisation of their operations in the Third World, TWMCs receive it also. This may be true for Indian firms.

---

32. Wells (1983) p.141.

The realisation that Indian foreign policy (Indian state) and Indian business operations (Indian big capital) abroad were complexly intertwined has occasionally provoked sharp negative reactions to Indian DFI by certain host country governments.<sup>33</sup> This is most conspicuous in India's neighbouring areas i.e. South Asia. "In pursuit of the aim of establishing a regional hegemony, India's neighbours have been subjected to economic, political, military and diplomatic pressures to force them to accept India's regional overlordship."<sup>34</sup> However, even while pressures from India seem to have been applied and South Asia has been an important market for Indian manufactures. till 1970's, none of these countries in this region was a host to important IJVs (despite investment opportunities). In fact, these countries retaliated to Indian overtures by erecting policies that expressly discriminated against IJVs. Bangladesh and Pakistan have not shown any interest to let Indian industrialists operate JVs in their countries. "Sri Lanka, though comparatively receptive, its more aggressive foreign investment policies ('free industrial zones') are directed primarily at non regional powers."<sup>35</sup>

---

33. D.J. Encarnation (1982): The Political Economy of Indian Joint Ventures Abroad, in International Organization Winter p.58.

34. DN Ibid p.1203.

35. Encarnation (1982) Ibid, p.58.

Wells noted that Sri Lanka would prefer a political lightweight like Hong Kong to India on political rather than economic grounds.<sup>36</sup> This is true for Nepal as well. that India's ambition of establishing regional hegemony could be thwarted shows that it may not yet have emerged as a regional superpower (although of late it is showing tendencies towards that direction especially in Sri Lanka). It seems that DCMNCs are likely to be enjoying political leverage to a much greater than TWMNCs. And India can establish its regional hegemony only through an "alliance with a super power's global hegemony".<sup>37</sup>

So far, we analysed the political and economic costs associated with DFI of TWMNCs - borne by the host country government - negating the principle of collective self-reliance through South-South Co-operation.

(ii) b. Now, we turn to the benefits that TWMNCs can confer to the host developing countries. The host government is likely to be motivated to invite TWMNCs over DCMNCs on the following grounds which will be briefly highlighted as they have been detailed in the first chapter.

---

36. Wells (1983) p.138

37. DN:Ibid, p.1203



Wells has noted that joint ventures from developing countries pay less royalties than US - based firms. Also, the joint ventures and wholly owned subsidiaries from developing countries repatriate profits to a lesser extent as compared to DCMNCs.<sup>38</sup>

While for most TWMNCs, production is directed at the host country market, a "small fraction of firms" produce for third country exports. "They can, however, play a disproportionately large role in the development process. If a government wants to develop a sector that manufactures for exports, foreign investors from other developing countries offer a way to begin."<sup>39</sup> The TWMNCs as exporters to DC<sup>\*</sup> marketing channels and contacts which the local firms can exploit by demonstrating their skills.<sup>40</sup>

Some host country governments rush towards the most advanced technology without looking as to how the factor proportions involved in this technology match that of the local economy's endowment. Some of them associate small scale technology as inevitably out-of-date and inefficient. Without advocating that beauty necessarily lies in small size, there may be indeed be a case for

---

38. Wells, (Ibid) p.140.

39. Wells, (1983) Ibid p.140.

40. Wells, ibid. p.141.

small scale technology especially if it has a high output-capital ratio,<sup>41</sup> has a more optimal capacity utilisation<sup>42</sup> and caters to a wider market on account of its lower price.<sup>43</sup>

In an import-substituting industrialisation, the role of TWMNCs in keeping prices low is commendable. Also, unlike DCMNCs, they do not compete on an advertising-based strategy and cannot be criticised on grounds of transmitting alien cultural values which DCMNCs are prone to as well as wasting scarce resources in socially unproductive avenues.

Besides, Green points out two more benefits without substantiating them with empirical evidence, noting that these advantages need not be automatic and/or applicable to all TWMNCs.

"(1) Greater responsiveness to host concerns - or even greater respect for national concerns and more rapid understanding of what is at issue so serious negotiations can begin - is useful both in avoiding conflict and in augmenting host economy gains.

41. This is not true for the small scale sector in India. See 'Is small beautiful?' By N. Banerjee in Bagchi and Banerjee (ed). (1982) Change and Choice in Indian Industry.

42. Wells (1983) notes that DCMNCs had 26 percent capacity utilisation and TWMNCs had 48 percent capacity utilisation for a sample of firms, thanks to the latter's small size.

43. Moreover, "Southern based and adopted skills and technologies are likely to be easier to transfer and

(ii) lesser inequality in bargaining power usually leads to lesser inequality in the bargain finally struck and by increasing the options available to prospective hosts, 'new' MNCs increase Third World bargaining power vis-a-vis old MNCs as well" <sup>44</sup>

(iii) Now, we turn our attention towards home governments. Most home governments of developing countries face a dilemma in permitting the indigenous firms to invest abroad. Many of these economies are capital scarce reflected in their investment - saving gap. Also, they are constrained by gaps in their balance of payments. In such a scenario, outflow of capital overseas represents a paradox which is however, more apparent, than real. For, the investment-saving gap for India, for e.g. is in a financial and aggregate sense - especially when looked at from a macro economic perspective. However, if we look sector-wise and within the manufacturing sector, industry-wise, one can notice a certain degree of disproportionality: thus excess demand in certain sectors can co-exist with excess supply in certain others. Hence an excess of ex ante investment, over ex ante saving - in an overall sense - can coexist, with unutilised capacity in certain sectors, chiefly in the basic and capital goods sector. (However, looking at, from a Harrod-Domar perspective, unutilised capital stock may itself be a result of

---

among Southern economies than Northern based TNC Skills and Technologies" Green (P.65) in Khan (ed).

44. Green (1986) in Khan ed. p.65.

underinvestment, noting the dual role of investment, resulting in a disproportionality crisis). In India, import-substitution led industrialisation having lost its force by mid 60's, India's basic and capital goods sector registered a negligible rate of growth upto the mid 70's. DN notes, "Since 1967, many machine producing sectors of Indian industry have had excess capacities, if not, continuously at least intermittently.<sup>45</sup> This excess capacity thus proved to be an important, motivation for the Indian government to allow firms to invest abroad.

The question may arise: why not simply export? Balakrishnan<sup>46</sup> has provided the answer in the context of textile machinery. India did not, have an 'image' for its machinery while it had for its textiles. Hence the question of machinery exports did not arise. But DFI facilitated export of machinery, spare parts and equipment and these constitute most of the Indian equity in ventures abroad. There were regulations on the outflow of finance capital in the form of 'hard' foreign currency. The joint venture if successfully run on the basis of cheap managerial and entrepreneurial personnel could develop. In the long run, a favourable 'image' for Indian machinery and boost India's machinery exports. Similarly,

---

45. DN: EPW 11 June 1986.

46. Balakrishnan (1976) ESW May, Review of Management.

Indian capital goods exports in the Middle East could not compete with that from the developed countries, which according to Balakrishnan was due to a lack of image for Indian capital goods abroad.

Chishti has noted that IJVs had adversely affected India's exports of final goods in the destination countries but had a favourable impact on the export of the intermediate inputs. Thus she argues: "These (Indian) investments assist trade creation by generating trade flows of various goods and services such as machinery, equipment and technology, while exports of final goods are reduced. In fact, in the case of India two important objectives are discernible. These investments assist trade creation by generating trade flows of various goods and services such as machinery, equipment and technology while exports of final products are reduced. In fact, investments effected by India seem to have achieved these objectives: it has been estimated that, in the initial period, there was a loss of 50-60 percent of the market for a final product<sup>47</sup> but it led to the exchange of a number of other goods and services. Thus the resultant trade flows in various forms between India and the countries in which the investments have taken place have been in the form of the export of machinery and equipment, technology and additionally

---

47. IIFT (1977).

raw materials, spare parts, etc. By 1983 (US \$1,062 million) equity exports accounted for 21.7 percent additional exports, 67.6 percent machinery and components, and raw materials 10.7 percent."<sup>48</sup>

Moreover, Chishti pointed out, "many of the corporations of the South invest overseas to defend their export markets: according to one study as many as 85 percent".<sup>49</sup> This seems to be true for most parent countries - India's included. In the context of South Korea, "the greater part, of manufacturing investment took place in the developing countries which the Korean firms had previously served with exports thus preserving South Korean interest in these markets."<sup>50</sup>

Thus we can conclude from the parent government's view that while there may be a short run contradiction between the outflow of foreign exchange and the BOP problem; in the long run, it can further the inflow of foreign exchange by protecting, retaining and expanding export markets and sectors. Also, it enables a fuller utilisation of capacity of capital-physical and human- for which there may not be any opportunity cost if they are lying idle. Also, DFI

---

48. S. Chishti p.104.

49. Ibid, p.101.

50. Ibid, p.104.

provides a steady and assured supply of raw materials - important for raw-material-scarce countries like South Korea when resource nationalism threatens its supply.<sup>51</sup>

E. Conclusion

In the near future, TWMNCs are not likely to pose stiff competition to the DCMNCs - except those that are in the tail end of the product cycle. Both trade - both of the North-South and South-South variety - as well as mining are likely to be almost, completely dominated by DCMNCs. However, by virtue of the factors already discussed - TWMNCs seem to be more favourably disposed towards the industrialising aspirations of the developing countries and may even show a tendency of bridging the intra Third World developmental gap. At the least, by simply increasing the number of MNCs in a particular sector in a host country, TWMNCs can raise the bargaining strength of the host countries. These have important implications for South-South Co-operation.

The role of the host and the home country governments is also important. The host country government can provide

---

51. Jo (1981) and Chishti p.104. (1986).

incentives to TWMNCs in such a way that they can effectively compete against DCMNCs without at the same time hampering the interests of the local firms. The balance of payments problem faced by the home governments often creates an uncomfortable situation for South-South Co-operation in that it brings about a 'tied' element in the equity contributed. However, unlike in the case of DCs, it is a result of acute foreign exchange crisis rather than a means to exploit the indebted countries by tying aid at source.

Host country governments should recognise the fact that the home country government is not always in a position to comply to their request of providing 'untied' equity in the form of foreign exchange. This is but one example which shows as to how government-to-government friction can arise.

There are four partners in South-South Co-operation through TWMNCs - the TWMNCs themselves, local firms, the parent/home country government and the host country government. For South-South Co-operation to succeed it is to be seen that none of these partners loses and at least one benefits (possibly more) through co-operation.



CHAPTER - VII

A COMPARISON BETWEEN INDIAN AND OTHER THIRDWORLD

MULTINATIONALS :

SOME CONCLUSIONS

A. INTRODUCTION

In the first chapter, we presented a broad overview of the characteristics of the TWMNCs and the extent to which they diverge from those of the DCMNCs. We lumped the developing country multinationals into TWMNCs and gave them a homogenous character. However, in / chap- /this ter, we shall note that the South is not a homogenous entity. There are country - to - country divergences in the pursuance of trade and industrialisation policies and the degree of attainment of economic self-reliance, including policies regarding the entry of foreign (DC) capital. While some countries like India seem to have pursued an extremely inward-looking policy with a bias against exports, other countries like Hong Kong and Singapore have been extrovertly export-oriented. Countries like South Korea have sought to attain a balance between the two: in fact, it seems to have an import substitution led export promotion policy. In terms of indicators like per capita income, literacy, life-expectancy, and the level /structure /and of industrialisation also, countries of the South differ

from one another. While some developing countries are hosts to the TWMNCs, some are parents and other countries fall in between. This reflects the developing countries at their various stages of development.

We shall, to begin with, in terms of a few relevant economic indicators, place the Third World Multinationals in a comparative perspective. We shall try to show as to where and as to what extent the TWMNCs diverge on account of their country of origin and whether, it was legitimate indeed to lump the TWMNCs into a single entity. Since our focus of interest is India/MNCs, our comparison will be between Indian MNCs on the one hand and the 'rest of the Third World Multinationals' (OTWMNCs) on the other-fully acknowledging the fact that OTWMNCs is not a homogenous entity. And this heterogeneity will be emphasised when and where it arises.

While the internationalisation of LDC firms seems to have started around the turn of the century with overseas activity by Argentine firms, the real upsurge of LDC internationalisation came in the late 1960's for open economies like Hong Kong and Singapore, and in the 1970's for other industrialising countries like Brazil, Mexico, Argentina, South Korea and India. These were trailed by small bursts of overseas activity by firms from a variety

smaller LDCs in Latin America and Asia.

In view of the scantiness of the data on LDCs, it is difficult to make comparisons on the relative position of India as a capital exporter. In September, 1979, the total equity overseas in IJVs Abroad came to Rs. 800 million (i.e. US \$ 100 million) in 192 projects in production and under implementation.<sup>1</sup> In mid 1983, the total equity stock tied up with these various projects amounted to about Rs. 1220 million (roughly US \$ 122 million)<sup>2</sup> in 140 projects in operation and 88 under implementation. According to the latest available data (as of 20.8.86), in 190 ventures in production and under implementation, the total Indian equity abroad amounted to Rs. 1096.5 million or US \$ 91.3 million.<sup>3</sup> The figure for the stock of equity, however, does not include the equity involved in about 250 subsidiaries<sup>4</sup> set up by Indian firms abroad, as hardly any official data are available.

According to White,<sup>5</sup> the existing investments of the Latin American countries in that region (which probably

---

1. S. Lall World Dev. 1980

2. R. Lall.

3. K.V.K.R. p.12.

4. S. Morris, EPW Nov. 14, 1987.

5. E. White, in Kumar and Mc Lead (eds): Multinationals from the Developing countries.

accounts for the greatest bulk of their activity) by 1978 came to US \$ 60 million for Brazil, \$ 62 million for Mexico, \$ 37 million for Argentina, \$ 55 million for Colombia and \$ 54 million for Venezuela. However, given anecdotal evidence and IMF statistics, it seems that investments from Brazil and Argentina have been underestimated.

Dunning<sup>6</sup> has provided one of the most comprehensive estimates of the total stock of FDI by developing countries. According to his estimates, Hong Kong<sup>7</sup> appears to be far and away the leader with FDI of \$ 2,500 to \$ 3,000 million. If we categorise the countries into groups, we have.<sup>8</sup>

- Group I : Exceeding \$ 2,500 million : Hong Kong
- Group II: \$ 750 - \$ 1,750 million : Singapore, Brail, Argentina.
- Group III: \$ 100 - \$ 400 million : Mexico, Venezuela, Taiwan, Colombia, Korea, Malaysia, India, Indonesia, Kawait, Israel, Libya,
- Group IV: less than \$ 100 million : The Rest (Chile, Gabon, Egypt etc)

If per capita incomes in countries with significant manu-

---

6. Dunning: 'The Investment Development Cycle and Third World Multinationals' in K.M. Khan (ed) Multinationals of the South (1986).
7. However, the data on Hong Kong suffers from a limitation in that it includes funds channeled by DC firms via Hong Kong subsidiaries and includes giant international firms which are practically British.
8. Excluding oil investments.

facturing sectors are used as a composite index of factors leading to ownership advantages (industrialisation, literacy, R & D, etc), the general picture is more or less as one would expect. Thus the richest developing countries are Hong Kong and Singapore, followed by Brazil, Argentina, Taiwan and Mexico, and again followed by Malaysia, Philippines, Thailand, etc. India, with one of the lowest per capita incomes of the world and with one-third of the per capita income of the poorest of these countries, is clearly the odd man out. However, this is not surprising, as in 1976, after Brazil and Mexico, India had the third largest contribution to value added in manufacturing among the developing countries.<sup>9</sup>

Thus, we note that, while India is most unfavourably placed in terms of per capita income - an indicator of possession of ownership advantages like R & D ; it is very favourably placed in terms of the manufacturing value added - a factor conducive to internationalisation - as compared to other developing countries whose firms have internationalised their operations.

#### B. COMPARISON OF FIRM - LEVEL CHARACTERISTICS OF TWMNCs

Now we shall compare and contrast the firm - level charac-

---

9. S. Lall World Development (1982).

teristics of Indian and other TWMNCs in the fields of marketing, managerial skills, finance and technology.

### B.1 Marketing Skills

It has two components. The first component is the ability to differentiate a similar product through the promotion of brand names, which is, with a few exceptions, the sole preserve of DCMNCs. The second component is the ability to understand consumer wants: TWMNCs from different countries have shown a different level of understanding of consumer preferences. This is due to country-specific characteristics which include the market structure and government policies. The inward or the outward orientation of a country's trade policies, especially, seem to have a bearing on its developing the marketing skills. In chapter II, we had pointed out that South Korea, which was extremely dependent on imported raw materials and capital goods for its industrialisation, had to accelerate its rate of growth of exports even when faced by international recession and increasing trade barriers of the advanced countries. Hence, 60 per cent of its DFI were concentrated in on-site service areas like trading, banking, transportation and warehousing in order to promote exports, by establishing marketing network and distribution channels. Its aggressive stance was sharply in contrast to the inward looking India characterised by ex-

port- pessimism. In a poor country like India where almost anything sells because of low exposure to foreign goods in a highly protected market, quality improvement and maintenance and associated marketing abilities can be done away with. No wonder, Indian exports lost its share in the world economy when other developing countries surged ahead. Indian firms should have established more marketing and trading joint ventures for promotion of their exports and development of 'image' for Indian goods. While the 80's indeed seem to reflect this trend, a lot more needs to be done.

Like Korea, Hong Kong has also used its trading ventures to develop marketing net work. Hence advertising has not played a significant role. But what is initially important is to tap the existing distribution channels by developing systematic contacts with the trading agents and supplying quality goods (as distinct from shoddy products which some Indian firms have been accused of exporting). The export-oriented Hong Kong and Singapore firms have learnt to keep abreast of fast-moving fashions and to maintain quality. Big Latin American countries with rich markets have also set high standards of marketing ability.<sup>10</sup>

Thus, while DCMNCs through their marketing skills have reaped monopolistic advantages, OTWMNCs have at least

---

10. Lall (1982).

been able to use them to withstand international competition. However, Indian firms have not performed well in international marketing.

However, one thing that is common for all TWMNCs is that most of them (with a few notable exceptions like San Miguel of Philippines and Inca Cola of Peru) compete on the basis of price, through production at a low cost. Wells notes, "when Indian firms have exported products that must compete with brand names and service, they have tended to sell them at low prices, .... sewing machines and bicycles were sold at 20 to 30 percent below the price of European exports".<sup>11</sup> This is true for OTWMNCs as well. Thus the most important component of marketing of TWMNCs is its price which gives them a competitive edge over DCMNCs in market structures characterised by less advertising based marketing skills.

### B.2 Managerial Skills

TWMNCs, like DCMNCs, have shown aggressive managerial skills although for the former, this is restricted to their own sphere of technical capabilities. In fact, for all TWMNCs, their chief economic asset for reaping comparative advantage over DCMNCs is by virtue of possessing a

---

11. Wells (1983) p.58.



cheaper but equally efficient managerial and technical manpower. In fact, it has been argued that by virtue of a better understanding of the host developing country's socio-economic environment (involving labour and government relations), they are superior to the managers of the DCMNs. Firms from all countries - India,<sup>12</sup> Korea,<sup>13</sup> Hong Kong,<sup>14</sup> and Latin American countries<sup>15</sup> have attributed their prime competitive advantage to their possessing a highly professional but cheap managerial manpower.

However, it seems that differences in the competitive atmosphere generated by the trade and industrial policies of the parent countries had their impact on the management. Thus extremely foreign trade dependent economies like Hong Kong and Singapore reflected a much more aggressive and dynamic management style, than say, managers from inward looking countries like India. Also their understanding of the 'market pulses' differed as we have argued under 'marketing' subsection. Another difference is that while Indian and ethnically Chinese managers in joint ven-

---

12. R. Lall (1986), S.Lall (1982), Wells (1983), Lecraw (1977).

13. Jo (1981).

14. Chen (1981).

15. White (1981).

tures abroad have very close family ties with those who run the parent firms, this is not so for firms from Latin-American countries. Extended families of Spanish origin have not shown the coherence and trust amongst themselves. This creates a difficulty of exchanging information and managing subsidiary units located far from direct family control and supervision.<sup>16</sup> However, gradually, in India also, the recruitment of managers from with/the family is/in declining and professionally qualified managers are being recruited,<sup>17</sup> though preferably from with/the extended/in family.

### B.3 Finance

Given the imperfect nature of the international capital market, any firm can not obtain as much capital as it likes at a given price, i.e. the firm is not a price-taker. In this scenario, the sheer size of the firm is a very important factor determining the accessibility of credit. For small and relatively obscure firms, with little credibility, the premium at which they can borrow funds is high.<sup>18</sup>

---

16. Wells (1983) p. 82.

17. Ibid. p. 83.

18. S. Lall (1982).

In this financial context we can divide the parent countries into two, those which suffer from balance of payments problems and those which do not (at a given point of time). Those which do, generally enforce strict restrictions against outflow of foreign exchange (for e.g. India (almost throughout 1960-85) and Latin American countries (in the '80's)) which adversely affect the growth and diversification of TWMNCs from these countries. They have to especially remain confined to the manufacturing sector (especially in the Indian case) where equity capital can be in the form of export of machinery and equipments. The small size of TWMNCs may not necessarily be a source of competitive advantage as most of the literature of TWMNCs suggests,<sup>19</sup> but may reflect an acute financial crisis of their parent countries.<sup>20</sup> As a result, Indian manufacturing firms can not venture into those sectors where initial over-head costs (fixed capital requirements) are high. South Korea, which suffered a balance of payments crisis almost throughout the 60's and the 70's, however, pursued a much more aggressive strategy to boost their exports through their non-manufacturing joint ventures- especially in trading and marketing.<sup>21</sup> However, in the Indian case, since a major

---

19. Lecraw (1977), Jo (1981), White (1981), Wells (1983).

20. R. Lall (1986).

21. See Chapter II and Jo (1981).

portion of Indian equity in the non-manufacturing sector has to be in the form of cash remittances abroad, its growth has been adversely affected - thereby creating a vicious circle as these non-manufacturing ventures (especially in trading, marketing and ware-housing) could have boosted Indian exports.<sup>22</sup>

For Latin American countries, the absence of a foreign exchange constraint/ permissive factor towards LADFI /was a in the 60's and 70's. TWMNCs from Hong Kong and Singapore do not seem to have been affected by the financial constraint as much as other countries were. The weakening of the financial constraint for South Korea in the 80's is likely to accelerate their DFI.

#### B.4 Technology

Most economists argue that the role of the TWMNCs is confined to the bottom end of the technology-skill spectrum. The accumulation of local skills and technology is taken to be a direct function of the per capita

---

22. India, of late, has opened numerous bank (nationalised) branches across the world and the NRIs are being given incentives to deposit money in Indian banks. This might ease the financial constraint somewhat in the short-run. However, in the long-run, India must use the funds productively in order to be able to repay the principal with the high rate of interest without recursing to market borrowing from abroad.

income, so that the poorest countries have a natural comparative advantage in the production and export of the lowest skill and simplest technology products. While those higher up the income ladder have a corresponding comparative advantage in the production of somewhat more complex goods, TWMNCs are supposed to have competitive advantages through product adaptation to suit LDC conditions (process adaptation to smaller scale, use of local raw materials, lower overhead costs and involving less automation). They operate relatively simple old technology and transfer them to the host countries gaining from cheaper manpower.

However, it seems that the above picture is an oversimplification. There are indeed firms from Hong Kong, Singapore, South Korea, India, Brazil, Mexico and Argentina which conform to this. But there are also other firms which do not. Perhaps, the manufacturing joint ventures from South Korea best fits the model.<sup>23</sup> Although, the enormous Korean companies (e.g. Hyundai) have entered fairly advanced areas of foreign investment, they are still concentrated in traditional products like textiles, plastics, cement and simple metal goods.<sup>24</sup>

---

23. Jo (1981). See also ch.ii of our dissertation.

24. Lall (1982).

Hong Kong firms were also concentrated in traditional products like textiles, plastics, footwear, etc in their direct foreign investment. But the 70's saw a shift in their industrial distribution of DFI towards a relatively more complex and capital-intensive industries like chemicals and consumer electronics.<sup>25</sup> However, in the early 80's they still lacked a basic capital/intermediate goods production capacity<sup>26</sup> because of environmental reasons<sup>27</sup> and because of the small size of the market. This also accounts for the decline of Hong Kong firms' investment in Singapore when the Singapore government became more interested in "capital and technology intensive industries in which Hong Kong firms are not yet ready to take part."<sup>28</sup> Their technological capability resides in the organisation and implementation of production of light consumer goods: this is backed by excellent marketing expertise, financial access and export contacts.

Latin American firms are technologically much more sophisticated than firms from South East Asian countries. However, when it comes to deriving comparative

---

25. Chen (1981).

26. Lall (1982).

27. Ibid. Hong Kong firms could not manufacture chemically locally because of environmental reasons.

28. Ibid, p.88

advantage with respect to DCINCs, it is on the basis of "small-scale, simple, less-expensive production techniques" and by virtue of "adaptation to local conditions".<sup>29</sup>

The Indian manufacturing parent firms have located their ventures in a very wide range of activities. This extent of diversification is comparable to that by Latin-American MNCs and exceeds the diversification made by South East Asian firms. The quest for technological and industrial self-reliance (though as yet, unsuccessful), the hallmark of Indian planning - is responsible for this. While a number of simple, relatively low-technology and labour-intensive ventures are, as received theory predicts, present (textiles, Sugar, simple metal products), roughly half of foreign equity in manufacturing joint ventures is accounted for by ventures in more complex and capital-intensive (steel mills, paper and pulp, chemicals) or skill and technology-intensive (machinery, pharmaceuticals, transport equipment) activities.<sup>30</sup> While, it may be true that Indian MNCs "can not be labelled as producers of low R & D products",<sup>31</sup> none will argue that Indian enterprises are

---

29. White (1981) p.175-176.

30. S. Lall (1982).

31. Ibid.

major innovators in the sense of reaching the technological frontiers or having created new technological break throughs. In fact, Indian R & D did not even involve a change in basic design and there was no evidence of any adaptive effort from considerations of scale. Indian firms did not derive competitive advantage from technology embodied in Indian machinery and they would like to use imported machinery. Indian R & D was limited to adaptation in substituting raw materials and accommodating to local tastes and requirements,. Looking at the TWMNCs from the Indian angle, it would seem that "the role of indigenously adapted technology may have been over-emphasized in the literature."<sup>32</sup> However, it is true that, for any given industry, Indian firms tend to be more labour-intensive than its DCMNC counterpart.<sup>33</sup> The same observation has also been made in the context of Latin America,<sup>34</sup> South Korea<sup>35</sup> and Hong Kong,<sup>36</sup>

---

32. R. Lall (1986) p. 46.

33. Ibid. Also Lecraw (1977).

34. White (1981).

35. Jo (1981).

36. S. Chen (1981).



To conclude this section, while most TWMNCs compete against DCMNCs only at the tail end of the product cycle<sup>37</sup>. Indian firms - in line with their Latin American (especially Brazillian) counterparts - "have ventured into technologically advanced, often very capital-intensive activities and in some cases competed directly with DCMNCs - especially in the production of intermediate products (chemicals, rayon) where continuous processes render down-scaling and adaptation nearly impossible and also in the production of mini-computers,<sup>38</sup> jeeps, trucks and machine tools. The embodied element of technology in Indian plant, equipment and component is quite high".<sup>39</sup>

In sum, therefore, India emerges as the most diversified and technologically advanced foreign investor in the Third World although its rate of growth of DFI has declined in recent years. In quantitative terms, however, India's export performance as well as DFI leaves much to be desired. We had argued elsewhere that for India (as well as for most other developing countries), DFI and exports are complementary rather than substitutes. Furthermore, India's low rates of growth of exports and DFI are

---

37. Wolls (1986).

38. This may seem surprising but there is indeed one venture with Hindustan Computers Limited as the Indian partner. The venture, approved in 1979, is in operation in Singapore.

39. S.Lall (1982)

to be attributed primarily to a common factor - the low rate of growth of per capita income which in turn depends on the extent of R & D, technological change, literacy, productivity, etc. Hence in order to accelerate DFI from India, it has to pursue a more dynamic policy towards technology and related issues and in bringing about structural changes where bottlenecks exist so that India's per capita GNP can increase rapidly.

" B "

APPENDIX - I.

COUNTRY-WISE DISTRIBUTION OF JOINT VENTURES (AS ON 29.8.1986)

(IN OPERATION (IO) AND UNDER IMPLEMENTATION (UI))

SOUTH-EAST- ASIA.

I. THAILAND:

A. I.O.

| S.No | Name of Indian Company                   | House Asso. | Field of Collaboration                | Equity (\$) | Yr. of approval |
|------|--|-------------|---------------------------------------|-------------|-----------------|
| 1.   | Ballarpur India Ltd.                     | Thapar      | Pulp                                  | 47.00       | 1978            |
| 2.   | Birla India Ltd.                         | Birla       | Synthetic & Cotton Yarn               | 1.00        | 1969            |
| 3.   | Gwalior Rayon Silk Manufacturing Co.Ltd. | Birla       | Viscose Staple Fibre                  | 20.00       | 1978            |
| 4.   | -do-                                     | Birla       | Cartab Black                          | 1.00        | 1978            |
| 5.   | Hoda Steel Prds.Ltd                      | Hoda        | Hacksaw Blades                        | 49.00       | 1975            |
| 6.   | Indian Dyestuff Inds.Ltd                 | Mafatlal    | Dye stuff                             | 60.00       | 1980            |
| 7.   | Sacha exports Investors Pvt.Ltd.         | -           | Steel rolling Mills                   | 10.00       | 1969            |
| 8.   | Sri Ambica Mills Ltd.                    | Sri Ambica  | Dye Stuff, Pigment, Optical bleaching | 50.00       | 1980            |
| 9.   | Usha Margin Black Ltd.                   | Jwajar/PCC  | Steel Wire                            | 45.00       | 1979            |

B. U.I.

|    |                                       |               |   |       |      |
|----|---------------------------------------|---------------|---|-------|------|
| 1. | Golden Tobacco Co.Ltd                 | Dalnia        | Cigarette Tissue & other speciality paper | 1.00  | 1983 |
| 2. | Indian Railways Cons. Company Limited | Public sector | Construction of Railroads projects        | 47.00 | 1980 |

II. INDONESIAA. I.Q.

|     |  |          |  |       |      |
|-----|--|----------|--|-------|------|
| 1.  | Bombay Dyeing & Mfg. Company Limited   | N. India | Textile Mill                             | 40.00 | 1978 |
| 2.  | Century Spg.&Mfg. Company Limited      | Birla    | Textile Yarn                             | 45.00 | 1978 |
| 3.  | Godrej & Boyce Mfg. Company Pvt.Ltd.   | Godrej   | Steel Furniture                          | 60.00 | 1965 |
| 4.  | Gokak Patel Valkart Ltd.               | Tata     | Textile Mill                             | 44.00 | 1979 |
| 5.  | Gwalior Rayon Silk Manfg.(NVE) Co.Ltd. | Birla    | Viscose Staple Fibre                     | 20.00 | 1978 |
| 6.  | Kucum Products Ltd.                    | Birla    | Solvent Extraction Margarine             | 47.50 | 1975 |
| 7.  | Raymonds Woollen Mills Ltd.            | J.K.     | Engg. Steel Filoc&Rings                  | 30.00 | 1974 |
| 8.  | ASC.Engg.&Allied Ind.Ltd               | Mittal   | Wire rods for Steel Round Bars           | 20.00 | 1977 |
| 9.  | Tungabhadra Inds.Ltd                   | Birla    | Viscose Staple Fibre                     | 22.00 | 1979 |
| 10. | Bharat Commerce Inds.Ltd               | Birla    | Textile Yarn                             | 42.50 | 1974 |
| 11. | Standard Mills Co.Ltd                  | Mafatlal | Machinery and equipment for Textile Yarn | 40.00 | 1981 |

B. UI. ZERO

III. MALAYSIA.A. II

|     |                                       |                  |  |         |      |
|-----|---------------------------------------|------------------|--|---------|------|
| 1.  | Ajit Wire Inds.Pvt.Ltd                | -                | Enamelled Copper & Aluminium Wire          | 53.00   | 1969 |
| 2.  | Ballarpur Indus.Ltd.                  | Thapar           | Palm Oil Refining                          | 40.00   | 1980 |
| 3.  | Birla Eastern Ltd.                    | Birla            | Palm Oil Processing                        | 18.08   | 1978 |
| 4.  | Contury Spg.&Mfg.Co.Ltd               | Birla            | Palm Oil Refining & Refraction             | 20.00   | 1978 |
| 5.  | Excel Process Pvt.Ltd                 | -                | Anodised Aluminium Prds.                   | 30.00   | 1974 |
| 6.  | Gajra Gears Pvt.Ltd                   | Gajra            | Automobile Gears Ltd.                      | 49.00 8 | 1977 |
| 7.  | Godrej & Boyco Mfg. Company Pvt. Ltd. | Godrej           | Steel Furniture                            | 83.00   | 1965 |
| 8.  | Godrej Soaps Ltd.                     | Godrej           | Palm Oil Refining & Refraction             | 30.00   | 1979 |
| 9.  | Gupta Machines Tools.Ltd              | -                | Precision Tools & Gauges                   | 22.00   | 1969 |
| 10. | Hindustan Safety Glass. Waro          | Birla/<br>Somang | Automobile Glass & Safety Glass            | 6.50    | 1973 |
| 11. | India Pistons Ltd                     | Simpson          | Pistons & Cylinder Liners                  | 49.00   | 1971 |
| 12. | JG Glass Inds.Ltd                     | Thapar           | Glass Containers                           | 28.70   | 1968 |
| 13. | Kirlockar Ele.Co.Ltd                  | Kirlockar        | Ele.Motor Pumps & Diesels                  | 40.00   | 1969 |
| 14. | - do -                                | - do -           | Trading & Marketing                        | 40.00   | 1980 |
| 15. | Kwality Textile Assco. Private Ltd.   | -                | Cotton & Blended Yarn                      | 49.00   | 1974 |
| 16. | L.G.Balakrishnan Bros.                | LG Bros.         | Chains for Cycles, Scooter and Automobiles | 48.00   | 1971 |
| 17. | Murugappa & Sons                      | Murugappa        | Cycle and Indls.Chains                     | 2.00    | 1971 |

|     |   |              |  |       |      |
|-----|---|--------------|--|-------|------|
| 18. | Polyofins Inds.Ltd                          | Mafatlal/FCC | HP Polytholono Pipes & Fittings        | 24.00 | 1975 |
| 19. | Sarabhai Chemicals                          | Sarabhai     | Pharmaceutical Prds.                   | 40.00 | 1976 |
| 20. | Tata Engg.&Loco.Co.Ltd                      | Tata         | Assembly of Mfg. of Commercial Vehiolo | 29.00 | 1975 |
| 21. | Tata Oil Mills Co.Ltd                       | Tata         | Neutralised Palmolein Soaps etc.       | 37.37 | 1971 |
| 22. | Zaver Chand Gahwad. Private Ltd.            | -            | Metal Flexible Tools                   | 49.00 | 1975 |
| 23. | Bombay Auto Ancillarios and Investment Ltd. | -            | Tube Valves                            | 49.00 | 1972 |

B.IL&I.

|    |                   |                  |  |       |      |
|----|-------------------|------------------|--|-------|------|
| 1. | Birla Eastern Ltd | Birla            | Palm Komal Oil                           | 25.69 | N.A  |
| 2. | Fusogear Ele.Ltd  | -                | Manufacture of LT Fuses                  | 0.00  | -    |
| 3. | Ranbaxy Lab. Ltd. | Bhai Mohan Singh | Mfg.Markoting of Drugs & Pharmaceuticals | 49.00 | 1983 |

IV.SINGAPORE:

A.L&O.

|    |                                |             |   |       |      |
|----|--------------------------------|-------------|---|-------|------|
| 1. | Amritlal Chemox.Ltd            | Doshi       | Trading &Marketing.                       | 24.50 | 1979 |
| 2. | Bhuva International            | -           | Trading & Mrkg. of Chemicals & Dyes       | 80.00 | 1980 |
| 3. | Durametallie India Ltd         | Chomplast   | Mech.Saloe & Related Products             | 49.00 | 1981 |
| 4. | Essar Bulk Carriers Ltd        | Essar       | Shipping Offshore Engg. Related Activity. | 10.00 | 1980 |
| 5. | First Leasing Co.Of India Ltd. | Chidambaram | Leasing Operators                         | 49.00 | 1980 |
| 6. | Godrej & Boyce Mfg.Co.         | Godroi      | Steel Office Furniture & Equipment        | 52.30 | 1980 |

|     |                                     |             |  |        |      |
|-----|-------------------------------------|-------------|--|--------|------|
| 7.  | Aindustan Computers Ltd. Nadai(HCL) |             | Micro & Mini Computers                             | 43.75  | 1979 |
| 8.  | J.Thomas & Co.PVT.Ltd.              | Birlo       | Tea Auction Contros7                               | 73.00  | 1986 |
| 9.  | National Engg.Ind.Ltd               | Birlo       | Technical Management.Mrk.<br>Consultancy Services. | 40.00  | 1979 |
| 10. | Parlo(Exports)Pvt.Ltd.              | Parle       | Soft Drink & Synthotic<br>Juice Powder Concentrate | 47.00  | 1975 |
| 11. | Southern Ind. Cor.Ltd               | Chidambaram | Enamelled Wiro                                     | 33.33. | 1976 |
| 12. | Stool Tuborg Ind.Ltd                | Bhoti       | Precision Steel Tuboa                              | 35.30  | 1981 |
| 13. | Tata Engg. & Loco.Co.               | Tata        | High Precision Tooling                             | 36.00  | 1977 |
| 14. | Teksans Ltd.                        | -           | Automobile Ancillary,<br>Radiators etc.            | 46.00  | 1970 |
| 15. | Voltas International                | Tata        | Marketing Textile Mach.                            | 40.00  | 1982 |

B.U.I.

|    |  |                    |                            |       |      |
|----|--|--------------------|----------------------------|-------|------|
| 1. | Hopox India Ltd.                       | Poddar             | Synthetic Rosing           | 25.00 | 1982 |
| 2. | Partap Steel Rolling<br>Mill Pvt. Ltd. | Partar<br>Maheswar | Special Steel              | 75.00 | 1981 |
| 3. | Tea Trading Corp.India                 | Public Sec.        | Tea Blending-cum-packaging | 40.00 | 1981 |

V. PHILIPPINES:

A. I. Q.

|    |                        |       |      |       |      |
|----|------------------------|-------|------|-------|------|
| 1. | Eastern Spng.Mill Ltd. | Birlo | Yarn | 18.28 | 1975 |
|----|------------------------|-------|------|-------|------|

B. U. I. CERO.

VI. HONG KONG.

A. I. Q.

|    |   |   |                                     |       |      |
|----|---|---|-------------------------------------|-------|------|
| 1. | Dovelopment Consultant.<br>Private Ltd. | - | Engineering Consultancy<br>Service. | 65.00 | 1974 |
| 2. | Mohru Jowollers.                        | - | Jewellery & Gems Trading            | 60.00 | 1980 |

UI.

|    |                                   |          |                      |       |      |
|----|-----------------------------------|----------|----------------------|-------|------|
| 1. | Mangalva Investment &<br>Trading. | Mafatlal | Promotion of Exports | 40.00 | 1986 |
|----|-----------------------------------|----------|----------------------|-------|------|

VII. FIJI.

A. I.O.

|    |                       |         |                            |       |      |
|----|-----------------------|---------|----------------------------|-------|------|
| 1. | Asian Paints (I) Ltd. | Choksoy | Paints, Enamels & Varnish. | 51.00 | 1977 |
|----|-----------------------|---------|----------------------------|-------|------|

B. U.S. ZERO.

VIII. TONGA.

A. I.O.

|    |                       |         |                           |       |      |
|----|-----------------------|---------|---------------------------|-------|------|
| 1. | Asian Paints (I) Ltd. | Choksoy | Paints, Enamels & Varnish | 25.00 | 1981 |
|----|-----------------------|---------|---------------------------|-------|------|

KENYA:

AFRICA

I.O.

|    |                           |            |                                   |       |      |
|----|---------------------------|------------|-----------------------------------|-------|------|
| 1. | Botton India              | -          | Automobilo Ancillary              | 45.00 | 1972 |
| 2. | Gangappa Bros.Ltd.        | -          | Enamelled Copper & Aluminium Wire | 15.00 | 1979 |
| 3. | Kirlockar Bros.Ltd.       | Kirlockar  | Marketing Kirlockar Prds.         | 51.00 | 1978 |
| 4. | LIC & GIC of India        | Pub.sector | Life Insurance & Genl.Ins         | 55.00 | 1978 |
| 5. | Orient Paper Mills Ltd.   | Birla      | Pulp and Paper                    | 29.34 | 1970 |
| 6. | Raymond Woollen Mills Ltd | JK         | Woollen Textile Yarn & Gar        | 68.00 | 1966 |

U.I.

|    |                            |               |                                       |       |      |
|----|----------------------------|---------------|---------------------------------------|-------|------|
| 1. | Indian Prds.Trdg.Co.Ltd.   | -             | Sulphuric Acid & Non-Ferrie Aluminium | 30.00 | 1982 |
| 2. | Mohan Moakin Breweries Ltd | Mohan Mearlin | Distollery and Bottling Plant         | 26.00 | 1980 |

NIGERIA:

I.O.

|    |                     |            |                             |        |      |
|----|---------------------|------------|-----------------------------|--------|------|
| 1. | Aluminium Inds.Ltd. | Seehasayce | Cables & Conductors         | 6.15   | 1981 |
| 2. | Ballarpur Inds.Ltd. | Thapar     | Glass Bottles & Containers. | 49 .00 | 1981 |



|                     |   |                  |                                       |       |      |
|---------------------|---|------------------|---------------------------------------|-------|------|
| 3.                  | Best & Crompton Engg.Ltd                | MK.Kumar         | Transmission Lines Exen.              | 40.00 | 1978 |
| 4.                  | Birla Broc.Pvt.Ltd.                     | Birla            | Consultancy Services                  | 30.00 | 1973 |
| 5.                  | -do-                                    | -do-             | Light Engg.Goods                      | 40.00 | 1969 |
| 6.                  | Champa Beverages P.Ltd                  | C.Singh          | Soft Drinks                           | 10.00 | 1981 |
| 7.                  | H.M.T. Ltd.                             | Pub.sector       | Synthetic Rosins                      | 25.00 | 1982 |
| 8.                  | Hyd.Asbestos Cement products Ltd.       | Birla            | Asbestos, Cement Prds.                | 30.00 | 1979 |
| 9.                  | Karamchand Thapar B.Ltd                 | Thapar           | Waste Cotton Yarn Blkts.              | 75.00 | 1979 |
| 10.                 | Mecon (India) Ltd.                      | P.Sector         | Consultancy Services.                 | 50.00 | 1982 |
| 11.                 | Ranbaxy Lab. Ltd.                       | Bhai Mohan singh | Drugs & Pharmaceuticals               | 49.00 | 1983 |
| 12.                 | Telecommunications Consultancy (I) Ltd. | Public Soc.      | Consultancy services                  | 40.00 | 1981 |
| <u>U.I.</u>         |   |                  |                                       |       |      |
| 1.                  | Best & Crompton Engg.Ltd.               | M.K.Kumar        | Manufacture of Car.Bushes             | 40.00 | N.A  |
| 2.                  | Unique Pharmaceuticals Labs Pvt. Ltd.   | -                | Pharmaceuticals                       | 60.00 | 1982 |
| 3.                  | United Chem.Ind.Ltd.                    | -                | Manufacture of Pharmacs. Formulas.    | 37.50 | 1983 |
| <u>SEYCHUELLES:</u> |   |                  |                                       |       |      |
| <u>I.O. ZERO.</u>   |   |                  |                                       |       |      |
| <u>U.I.</u>         |   |                  |                                       |       |      |
| 1.                  | Karamchand Thapar & Bros Ltd.           | Thapar           | Sea Resort Hotel                      | 31.70 | 1978 |
| <u>EGYPT:</u>       |   |                  |                                       |       |      |
| <u>I.O.</u>         |   |                  |                                       |       |      |
| 1.                  | Oboroi Hotels(I)P.Ltd                   | Oberoi           | Develop and Manage Hotels             | 50.00 | 1983 |
| UI.1                | Tea Tradg.Corp.Ind.Ltd                  | P.Sector         | Blending & Packaging of Tea.          | 49.00 | 1980 |
| <u>MAURITIUS.</u>   |   |                  |                                       |       |      |
| <u>I.O.1.</u>       |   |                  |                                       |       |      |
| 1.                  | Exporters India                         | -                | Manf. of Ready Made Garms.            | 70.00 | 1977 |
| 2.                  | Kirloskar Bros.Ltd.                     | Kirloskar        | Assembles, Manufe.Power driven pumps. | 73.40 | 1976 |

UI. 1. Concod Intl.P.Ltd. - 5 star Hotel 5.00 1982

UGANDA:

IO. 1. Birla Jute Mfg.Co.Ltd Birla Jute goods,bags,hossian 44.50 1968

UI. ZERO.

SENEGAL:

IO. 1. IFFCO CO-OP. Fertilizere & Phospheric Acid. 18.20 1981

UI. ZERO.

THE MIDDLE EAST.U.A.E.I.O.

|    |                         |           |   |       |      |
|----|-------------------------|-----------|---|-------|------|
| 1. | Ajit India Pvt.Ltd      | -         | Aluminium Architectitural products.       | 40.00 | 1974 |
| 2. | Ballarpur Inds.Ltd.     | Thapar    | Construction of Trdg.                     | 33.00 | 1977 |
| 3. | Balmer Lawrie & Co.Ltd  | P.Sector. | Container/St.Drum Plant                   | 49.00 | 1982 |
| 4. | Gammon India Ltd.       | Gammon    | Civil & Mech.Engg.Con.                    | 50.00 | 1977 |
| 5. | Phoenix Dist.Pvt.Ltd.   | -         | Sulphuric Acid                            | 10.00 | 1974 |
| 6. | Pure Ice Cream Co.P.Ltd | -         | Manf.& Mrkg.of Ice cream                  | 14.20 | 1977 |
| 7. | K.M.Gokuldas            | -         | Cylinder & Tanks for LPG and other Gasons | 20.00 | 1974 |
| 8. | Ramanad Segar           | -         | Markoting of Films                        | 0.00  | 1979 |
| 9. | S.V.Shah Cons.Ser.P.Ltd | -         | Construction Work.                        | 40.00 | 1977 |

UI . ZERO.

S.ABABIA.

|       |                         |          |                          |       |      |
|-------|-------------------------|----------|--------------------------|-------|------|
| IO.1. | Doocan Enter.(P) Ltd.   | -        | Rubber Rings & prds.     | 20.00 | 1975 |
| 2.    | KMA International Ltd.  | Kamani   | Galvanising St.Strls.    | 24.77 | 1982 |
| 3.    | Oberai Hotel(I)P.Ltd.   | Oberai   | Management Co.For.Hotels | 25.00 | 1978 |
| UI.1. | Bombay Suburban Ele.Sup | Bom.Sub. | Construction & Contn.    | 30.00 | 1984 |
| 2.    | National Eng.Inds.Ltd   | Birla    | Openl.&Maintnc.Services  | 40.00 | 1984 |

OMAN:

|       |                          |      |  |       |      |
|-------|--------------------------|------|--|-------|------|
| IO.1. | Voltas International Ltd | Tata | Water well drilling,<br>Sprinklor Irrigation | 20.00 | 1982 |
| UI.1. | Western India Erec.Ltd   |      | Undertaking & exocg.<br>Project power field. | 49.00 | 1985 |

KUWAIT:

|       |                              |  |                          |       |   |
|-------|------------------------------|--|--------------------------|-------|---|
| IO.1. | Vijaya Tanks & Vessels B.Ltd |  | General Contracting Act. | 49.00 | - |
|-------|------------------------------|--|--------------------------|-------|---|

UI. ZERO.N. YEMEN:IO. SEERO

|       |                           |       |  |       |      |
|-------|---------------------------|-------|--|-------|------|
| UI.1. | Voltas International Ltd. | Tatas | Undertake Projects/Jobs<br>Management irrigation | 10.00 | 1986 |
|-------|---------------------------|-------|--|-------|------|

BHARAIN:

|       |                        |   |                        |       |      |
|-------|------------------------|---|------------------------|-------|------|
| IO.1. | Alcon Constructions.   | - | Construction Job       | 49.00 | 1977 |
| .2    | Data Systems Sor.P.Ltd | - | Computer Soft.Conslny. | 49.00 | 1983 |

SOUTH ASIANEPAL:

|       |   |              |                                 |       |      |
|-------|---|--------------|---------------------------------|-------|------|
| IO.1. | Jensen & Nicholson(I)Ltd                                      | -            | Manufacture of Paints           | 51.00 | 1983 |
| 2.    | Mohan Moalin Ltd.   | Mohan Moalin | Manf.Bottling Bear              | 20,00 | 1981 |
| 3.    | Oberai Hotels(I)P.Ltd   | Oberai       | Hotel                           | 8.71  | 1977 |
| 4.    | Union Carbido(I)Ltd.  | FCC          | Dry Batteries                   | 77.35 | 1980 |
| 5.    | There is another JV whose characteristics could not be found) |              |                                 |       |      |
| UI.1. | Asian Paints(I)Ltd.   | -            | Paints, Enamels & Varnish       | 51.00 | 1984 |
| 2.    | Hyd.Absts.Cement.Prdt.  | Birla        | Exploration of Minerals         | 25.00 | 1976 |
| 3.    | ITC Ltd.  | FCC/IIC      | Manf. of Cigarettes.            | 49.00 | 1984 |
| 4.    | Organo Rubbor P.Ltd   | -            | Manf.of Rice Mill, Rubber       | 26.00 | 1986 |
| 5.    | Orissa Inds.Ltd.  | Thunjhanwala | Mining Magnesite MPG of<br>REP. | 50.00 | 1978 |

SRI LANKA:

|        |                                   |                   |                                      |       |      |
|--------|-----------------------------------|-------------------|--------------------------------------|-------|------|
| IO. 1. | Adhesives & Chl.P.Ltd             | -                 | Starch based & Chmls.                | 30.00 | 1982 |
| 2.     | Ashok Leyland Ltd.                | F.C.C.            | Aspy.Mafg.of Clmm.Vchl.              | 27.00 | 1983 |
| 3.     | Asia Match Co.P.Ltd               | -                 | Wax Matches, Book Matches            | 25.00 | 1983 |
| 4.     | Bhor Industries Ltd               | Tharsey/<br>Tanna | PVC Leather Cloth                    | 41.26 | 1967 |
| 5.     | Colour Chemicals Ltd              | Ghia/Khatau       | Pigment emulsion                     | 40.00 | 1979 |
| 6.     | Champak Inv. & Fin.<br>Ltd        | Birla             | Financial Services                   | 40.00 | 1982 |
| 7.     | Jay Engg. Works Ltd.              | Shriram           | Sewing Machine & Elec.<br>Fans       | 49.00 | 1961 |
| 8.     | Kwality Ice Cream<br>Pvt. Ltd.    | Kwality           | Restaurant                           | 33.33 | 1982 |
| 9.     | M.S. Consultants<br>Pvt Ltd       | -                 | Cotton Yarn, Hosiery<br>Project      | 80.43 | 1979 |
| 10.    | Necklai & Fin.<br>Consultancy     | -                 | Internationally Money<br>Brokers Co. | 50.00 | 1981 |
| 11.    | Ponds India Ltd                   | FCC               | Toiletries, Cosmetics                | 40.00 | 1980 |
| 12.    | Shanti Vihar Hotels<br>Pvt Ltd    | -                 | Vegetable Restaurant                 | 49.00 | 1981 |
| 13.    | Sita World Travel<br>(J) PA. LTD. | -                 | Promoting Travel &<br>Tourism        | 30.83 | 1981 |
| 14.    | Swastik Glass Works               | -                 | Glass & Glassware                    | 4.86  | 1967 |
| 15.    | Utkal Exports P. Ltd.             | -                 | Industrial Rubber<br>Products        | 22.50 | 1981 |
| 16.    | Voltas International              | Tata              | Bored Piling Tube,<br>Well Drilling  | 25.00 | 1982 |

|       |                         |           |                               |       |      |
|-------|-------------------------|-----------|-------------------------------|-------|------|
| UI.1. | Bongal Water Proof Ltd. | -         | Rubber Gloves, Water Bottles. | 75.00 | 1982 |
| 2.    | Dujodwala Industries    | Dujodwala | Synthetic Rosins              | 36.30 | 1979 |
| 3.    | Indian Hotels Co.Ltd    | Tata      | Hotels                        | 32.25 | 1980 |
| 4.    | Indo Hax Ltd.           | -         | Manufacture of Cutting Tools  | 50.00 | 1983 |

DEVELOPED COUNTRIES

U.S.A.

|       |                              |           |                              |       |      |
|-------|------------------------------|-----------|------------------------------|-------|------|
| I.O.1 | Bajaj Auto Ltd.              | Bajaj     | Marketing of Bajaj vehicles  | 30.00 | 1981 |
| 2.    | Gedrie Maigo Exports.Ltd     | -         | Trading & Mktg.of Sea food   | 50.00 | 1980 |
| 3.    | Ghai Lamba Catering.Co.      | Kwality   | Indian Style Restaurant      | 32.00 | 1973 |
| 4.    | Kirloskar Bros.Ltd.          | Kirloskar | Marketing of Pumps           | 30.00 | 1980 |
| 5.    | Krishna Hotels P.Ltd         | -         | Indian Style Restaurant      | 25.00 | 1974 |
| 6.    | United Builders Cons.(P)Ltd. |           | Rent estate investment       | 90.00 | 1980 |
| UI.1: | Bisleri Beverages(P)Ltd.     | Parlo     | Manf.of non Alcoholic bvg.   | 25.00 | -    |
| 2.    | ITC Ltd.                     | FCC/ITC   | High speciality In.Food Rst. | 49.00 | 1986 |
| 3.    | R.S.Avtar Singh & Co.        | -         | Hotel Indian Restaurant      | 50.00 | -    |
| 4.    | Wipro Ltd.                   | -         | Computer Software exports    | 49.00 | -    |

U.K.

|       |   |           |  |       |      |
|-------|---|-----------|--|-------|------|
| IO.1. | Central India Machine Mfg. Birla                |           | Trading.                                     | 50.00 | 1984 |
| 2.    | Chambalilal Invst. & Financial<br>Constrs. Ltd. |           | Birla Financial Consultancy                  | 50.00 | 1981 |
| 3.    | Clorostat (I) Ltd.                              | -         | Marketing Electronics Prds.                  | 49.70 | 1980 |
| 4.    | Doccan Mechanical & Chemicals<br>Indsl.(P) Ltd. |           | Erection Service                             | 45.00 | 1980 |
| 5.    | Ghai Lamba Catering(P) Ltd.                     | Kwality   | Indian Style Restaurant                      | 32.00 | 1966 |
| 6.    | -do-  | -do-      | Restaurant                                   | 40.00 | 1977 |
| 7.    | Karna Hotel (P) Ltd.                            | -         | Vegoterian Restaurant                        | 60.00 | 1973 |
| 8.    | Kirloskar Bros. Ltd.                            | Kirloskar | Marketing of Pumps                           | 30.00 | 1980 |
| 9.    | Oboroi Hotels(I)P.Ltd.                          | Oboroi    | Develop&Manage hotels in<br>other countries. | 60.00 | 1982 |
| 10.   | Orient Longmans Ltd.                            | -         | Book Publishing                              | 50.00 | 1981 |

|                      |                                    |             |  |       |      |
|----------------------|------------------------------------|-------------|--|-------|------|
| UI.1.                | Birla Bombay Pvt.Ltd               | Birla       | Consultancy Services                       | 51.00 | 1985 |
| 2.                   | -de-                               | "           | -de-                                       | 51.00 | 1985 |
| 3.                   | Kirloskar Bros.Ltd.                | Kirloskar   | Purchase of Shave at SPP.Int               | 19.38 | 1985 |
| 4.                   | Nudeerswara Over.Inds.<br>(P) Ltd. | -           | Trading and marketing of<br>granite blocks | 34.00 | 1986 |
| <u>YUGOSLAVIA:</u>   |                                    |             |  |       |      |
| IO.1.                | Usha Martin Black Ltd.             | JHAWARI FCC | Steel Wire Ropes                           | 20.00 | 1978 |
| UI. ZERO.            |                                    |             |  |       |      |
| <u>WEST GERMANY:</u> |                                    |             |  |       |      |
| IO.1.                | Kirloskar Oil Engines.             | Kirloskar   | Assembly of Diesel Engines                 | 49.00 | 1965 |
| 2.                   | Sigma Rubber(P) Ltd.               | -           | Mrkg.Automobile & Rubber Prds              | 60.00 | 1981 |
| UI. ZERO.            |                                    |             |  |       |      |
| <u>CYPRIS:</u>       |                                    |             |  |       |      |
| IO. ZERO             |                                    |             |  |       |      |
| UI.1.                | I.T.D.C.                           | Pub.sector  | 5 Star Hotel                               | 26.00 | -    |
| <u>GREECE:</u>       |                                    |             |  |       |      |
| IO.ZERO              |                                    |             |  |       |      |
| UI.1.                | Mahindra & Mahindra Ltd            | Mahindra    | 4 Wheel-driven Utility Vhls.               | 55.00 | 1981 |
| <u>AUSTRALIA:</u>    |                                    |             |  |       |      |
| IO.1.                | Oberai Hotels (I)P.Ltd             | Oberai      | Operating Hotels                           | 50.00 | 1979 |
| UI.ZERO              |                                    |             |  |       |      |
| <u>SWITZERLAND:</u>  |                                    |             |  |       |      |
| IO.1.                | Pransukhlal & Co.P.Ltd             | Mafatlal    | Trading Activity                           | 33.00 | 1983 |
| UI.1.                | Chic Creation (I) Ltd.             | -           | Marketing Readymade Garments               | 50.00 | 1981 |
| <u>NETHERLANDS:</u>  |                                    |             |  |       |      |
| IO.1.                | Mughal Mhal Restaurant             | -           | Indian Style Restaurant                    | 50.00 | 1981 |
| UI.ZERO.             |                                    |             |  |       |      |
| <u>GIBRALTAR.</u>    |                                    |             |  |       |      |
| IO.1.                | ESV INTV(Engg.&Expert)             | -           | Consultancy Service                        | 40.00 | 1982 |
| UI.ZERO              |                                    |             |  |       |      |

HUNGARY:

IO.1. ZERO.

UI.1. Chinar Exports.P.Ltd - Promotion of Exports 49.00 1986

---

SOURCE:- Based on Annexure-3 of K.V.K.Ranganathan P.P.40-46

ORIGINAL SOURCE:- i) Based on the data provided in the IIC: Factsheets on Indian Joint Ventures Abroad for the period ending 20th August 1986.

ii) House Association is based on the information available at the corporate Studies Group, 11PA NEW DELHI.

APPENDIX - II. FROM THE OFFICIAL LIST.

HOUSE - WISE DISTRIBUTION OF INDIAN JOINT VENTURES ABROAD. (IN OPERATION  
(IO) & UNDER IMPLEMENTATION(II) As on 20.08. 1986.

| Sl No | HOUSE       | NAME OF INDIAN COMPANY              | COUNTRY        | FIELD OF COLLABORATION          | EQUITY (%) | YEAR OF APPL. | STATUS. |
|-------|-------------|-------------------------------------|----------------|---------------------------------|------------|---------------|---------|
| 1.    | BIRLA       | Birla Bombay Pvt.Ltd                | UK.            | Consultancy Serv                | 51         | 1985          | UI      |
| 2.    | "           | -do-                                | "              | "                               | 51         | 1985          | UI      |
| 3.    | "           | Birla Brothers Pvt.Ltd              | Nigeria        | Light Engg.Goods                | 40         | 1964          | IO      |
| 4.    | "           | -do-                                | "              | Consultancy Serv.               | 30         | 1973          | IO      |
| 5.    | "           | Birla Eastern Ltd.                  | Malaysia       | Palm uomal Oil                  | 25.69      | NA            | UI      |
| 6.    | "           | Birla Brothers P.Ltd                | Thailand       | Synthotic & Cot.                | 1.00       | 1969          | IO      |
| 7.    | "           | Birla Eastern Ltd.                  | Malaysia       | Palm Oil Process.               | 18.08      | 1978          | IO      |
| 8.    | "           | Birla Jute Mfg.Co.Ltd               | Uganda         | Jute Goods, Hessian Bags        | 44.55      | 1968          | IO      |
| 9.    | "           | Central India Mach.Co               | UK             | Trading                         | 50.00      | 1984          | IO      |
| 10.   | "           | Century Spnf.Mfg.Co.Lt              | Indonesia      | Textile Yarn                    | 45.00      | 1973          | IO      |
| 11.   | "           | -do-                                | Malaysia       | Palm Oil Refng.                 | 20.00      | 1978          | IO      |
| 12.   | "           | Eastern Spng.Mills Ltd              | Phillip.       | Yarn                            | 18.28      | 1975          | IO      |
| 13.   | "           | Gwalior Rayon Silk Mfg.(WVG) Co.Ltd | Indone-<br>sia | Viscose Stable Fib              | 20.00      | 1978          | IO      |
| 14.   | "           | -do-                                | Thailand       | -do-                            | 14.00      | 1972          | IO      |
| 15.   | "           | -do-                                | "              | Carbon Block                    | 1.00       | 1978          | IO      |
| 16.   | "           | Hyd.Asbestos Ce.P.Ltd               | Nepal          | Explorn. of Minls.              | 25.00      | 1976          | UI      |
| 17.   | with SOMANI | Hindustan SafetyGlass Wares Ltd.    | Malaysia       | Automobile Glass & Safety Glass | 6.50       | 1973          | IO      |
| 18.   | "           | Hyd.Abs.Cement P.Ltd                | Nigeria        | Asbestos Cent.Prds              | 30.00      | 1979          | IO      |
| 19.   | "           | J. Thomas & Co. p. Ltd              | Singapore      | Tea Auction Centre              | 73.00      | 1981          | IO      |
| 20.   | "           | Kusum Products Ltd                  | Indonesia      | Solvent Extraction<br>Marganne  | 47.50      | 1975          | IO      |



|     |        |                                  |           |   |       |      |    |
|-----|--------|----------------------------------|-----------|---|-------|------|----|
| 21. | BTRLA  | National Engg. Inds. Ltd.        | S. Arabia | Operation & Maintenance Service               | 40.00 | 1984 | U1 |
| 22. | "      | - do -                           | Singapore | Technical Management, Ministry, Consulting    | 40.00 | 1979 | 10 |
| 23. | "      | Orient Paper Mills Ltd.          | Kenya     | Pulp & Paper                                  | 29.34 | 1970 | 10 |
| 24. | "      | Tungabhadra Inds. Ltd            | Indonesia | Viscose Stable                                | 22.00 | 1979 | 10 |
| 25. | "      | Bharat Commerce & Inds.          | "         | Textile Yarn                                  | 42.51 | 1976 | 10 |
| 1.  | TATA   | Gekak Patel Velkart Ltd.         | Indonesia | Textile Mill                                  | 44.00 | 1979 | 10 |
| 2.  | "      | Indian Hotels Co. Ltd.           | Sri Lanka | Hotels  | 32.25 | 1980 | UI |
| 3.  | "      | Tata Engineering & Loco Co. Ltd. | Malaysia  | Assembly & Manufacture of Commercial Vehicles | 29.00 | 1975 | IO |
| 4.  | "      | " "                              | Singapore | High precision Tollings                       | 36.00 | 1977 | IO |
| 5.  | "      | Tata Oil Mills Co. Ltd.          | Malaysia  | Neutralised Palmolein Soap etc.               | 37.37 | 1971 | IO |
| 6.  | "      | Vision Investment Co.Ltd.        | N.Yeman   | Undertake projects/                           | 10.00 | 1986 | UI |
| 7.  | "      | -do-                             | Oman      | Water well drilling<br>Sprinkler Irrigation   | 20.00 | 1982 | IO |
| 8.  | "      | -do-                             | Singapore | Marketing Textile Machinery                   | 40.00 | 1982 | IO |
| 9.  | "      | -do-                             | Sri Lanka | Bored Piling<br>Tube-well drilling            | 25.00 | 1982 | IO |
| 1.  | THAPAR | Ballarpur Industries Ltd.        | Malaysia  | Palm Oil Refining                             | 40.00 | 1980 | IO |
| 2.  | "      | -do-                             | Nigeria   | Glass Bottles & Containers                    | 49.00 | 1981 | IO |

|    |          |  |             |                                     |       |      |    |
|----|----------|--|-------------|-------------------------------------|-------|------|----|
| 3. | THAPAR   | Ballarpur Industries Ltd.              | Thailand    | Pulp                                | 47.00 | 1978 | IO |
| 4. | "        | -de-                                   | UAE         | Construction & Trading              | 33.00 | 1977 | IO |
| 5. | "        | JG Glass Inds. Limited                 | Malaysia    | Glass containers of all kinds       | 28.70 | 1968 | IO |
| 6. | "        | Karam Chand Thaper & Bros.             | Nigeria     | Waste Cotton Yarn Blankets          | 75.00 | 1979 | IO |
| 7. | "        | -de-                                   | Seychelles  | Sea Resort Hotel                    | 81.00 | 1978 | UI |
| 1. | GODREJ   | Godrej & Boyce Mfg. co. Pvt Ltd.       | Malaysia    | Steel Furniture                     | 89.00 | 1965 | IO |
| 2. | "        | -de-                                   | Singapore   | Steel Office equipment & furniture  | 52.30 | 1980 | IO |
| 3. | "        | Godrej Soaps Ltd.                      | Malaysia    | Palm Oil Refining & Refraction      | 30.00 | 1979 | IO |
| 4. | "        | Godrej & Boyce Mfg.Co.P.Ltd.           | Indonesia   | Steel Furniture                     | 60.0  | 1976 | IO |
| 1. | MAFATLAL | Mangalya Trading & Investment Pvt Ltd. | Hong Kong   | Promotion of Experts                | 40.0  | 1986 | UI |
| 2. | "        | Poyelefins Industries Ltd.             | Malaysia    | HP Polythlene Pipes, Fitting        | 24.0  | 1975 | IO |
| 3. | "        | Prangukhlal & Co. P. Ltd.              | Switzerland | Trading activity                    | 33.0  | 1985 | IO |
| 4. | "        | Standard Mills Co. Ltd.                | Indonesia   | Machinery & Equipments for Textiles | 40.0  | 1981 | IO |

|    |           |                            |           |   |       |      |    |
|----|-----------|----------------------------|-----------|---|-------|------|----|
| 1. | KIRLOSKAR | Kirloskar Brothers Ltd.    | Kenya     | Marketing Kirloskar Products              | 51.00 | 1978 | 10 |
| 2. | "         | -do-                       | Mauritius | Assemble & Manufacture Power driven Pumps | 73.40 | 1976 | 10 |
| 3. | "         | -do-                       | U.K.      | Marketing of Pumps                        | 30.00 | 1980 | 10 |
| 4. | "         | -do-                       | U.K.      | Purchase of shares at Spl. International  | 19.38 | 1985 | UI |
| 5. | "         | -do-                       | U.S.A.    | Marketing of Pumps                        | 30.00 | 1980 | IO |
| 6. | "         | Kirloskar Electric Co.     | Malaysia  | Electric Meters, Pumps & Diesels          | 40.00 | 1969 | IO |
| 7. | "         | -do-                       | Malaysia  | Trading & Marketing                       | 40.00 | 1980 | IO |
| 8. | "         | Kirloskar Oil Engines Ltd. | W.Germany | Assembly of Diesel Engines                | 49.00 | 1965 | IO |

---

Source: Based on Annexure-3 of K.V.K.R. pp.40-46.

APPENDIX III  
INDIAN INVESTMENTS ABROAD WHICH ARE  
NOT COVERED BY THE OFFICIAL LISTS

Indian Subsidiaries Abroad (For large Houses only)

| Sl. No. | House  | Name of the Indian Company    | Country     | Equity (Rs.lakhs) | Remarks                          |
|---------|--------|-------------------------------|-------------|-------------------|----------------------------------|
| 1.      | TATAS  | Indian Hotel Co. Ltd.         | U.S.A.      | 3.79              | Wholly owned subsidiary Co.      |
| 2.      | "      | Lotham Finance Col Ltd.       | Indonesia   | 56.39             | Subsidiary of Forbes F. Camboll  |
| 3.      | "      | Tata Exports Ltd.             | Zambia      | 19.05             | 100% subsidiary                  |
| 4.      | "      | - do -                        | Oman        | 8.00              |                                  |
| 5.      | "      | Tata Zambia Ltd.              | Zambia      | 19.06             | 100% subsidiary                  |
| 6.      | "      | Virat Investment Co. Ltd.     | Sri Lanka   | 1.15              | Subsidiary of Voltas             |
| 7.      | "      | Vision Investment Co. Ltd.    | Singapore   | 1.11              | -do-                             |
| 8.      | "      | - do -                        | Oman        | 4.11              | -do-                             |
| 9.      | "      | Voltas Limited                | Sri Lanka   | 2.33              |                                  |
| 10.     | "      | Warrior (I) Ltd.              | Indonesia   | 56.47             | Subsidiary of F.F.Cambell        |
| 11.     | "      | Voltas International Ltd.     | UAE         | 10.78             | Subsidiary of Voltas Ltd.        |
| 1.      | BIRLAS | Indian Plastics Limited       | Indonesia   | 7.20              |                                  |
| 2.      | "      | Gwalior Rayon Silk Mfg.Co.Ltd | Philippines | 4.00              |                                  |
| 3.      | "      | Texmace Ltd.                  | Ethiopia    | 40.00             | Nationalised                     |
| 4.      | "      | -do-                          | Nepal       | 1.08              |                                  |
| 5.      | "      | UP Trading Co. Ltd.           | Malysia     | 2.94              | Subsidiary of Upper Ganges Sugar |
| 6.      | "      | Upper Ganges Sugar & Inds.Ltd | Nepal       | 0.18              |                                  |

|    |    |                                      |             |       |            |
|----|----|--------------------------------------|-------------|-------|------------|
| 1. | JK | Raymond Wedden Mills<br>(Kenya) Ltd. | Mauritius   | 0.63  | Subsidiary |
| 2. | "  | Raymond Wedden Mills Ltd.            | U.K.        | 0.03  | "          |
| 3. | "  | -do-                                 | Mauritius   | 13.01 | "          |
| 4. | "  | -do-                                 | Switzerland | 0.98  | "          |

---

N.B. Shaw Wallace has 11 ventures. 8 of which are in Sri Lanka.

Source: pg.37-39 KVKR:

Original source: Annual Reports of the Companies available at the Corporate Studies Group, IIPA, New Delhi.

BIBLIOGRAPHY

BOOKS AND ARTICLES

- Agmon, T. and C.P. Kindleberger (Eds.) (1977). : Multinationals from Small Countries, Cambridge, Mass.
- Agarwal, J.P. (1984). : Intra-Less Developed Countries' Foreign Direct Investment : A Comparative Analysis of Third World Multinationals, Kiel Working Paper, February.
- \_\_\_\_\_, (1985) : Pros and Cons of Indian Multinationals Abroad, Tubingen, J.B.Mehr.
- \_\_\_\_\_, (1986) : Third World Multinationals and balance of payments effect on home countries: a case study of India.
- Agrawal, R.G. (1981) : 'Third World Joint Ventures: Indian Experience' in K.Kumar and M.G.Mcleod (Eds.) Multinationals from Developing Countries.
- \_\_\_\_\_, (1984) : Joint Venture Abroad: Indian Experience, Ministry of Information and Broadcasting.
- Agarwala, O.P. (undated) : Intra-LDC Foreign Direct Investments. A Comparative Analysis of Third World Multinationals (Mimeographed).
- Balakrishnan, K. (1976) : "Indian Joint Ventures Abroad", Economic and Political Weekly, Review of Management, May 29.
- \_\_\_\_\_, (1982) : "The case of Indian Joint ventures Abroad", Vikalpa, Vol.7, No.2, April-June
- Banerjee, N. (1982) : "Is Small Beautiful?" in A.K. Bagchi and N. Banerjee (Eds.), Change and Choice in Indian Industry.
- Bhagwati, J.N. and P. Desai (Eds.) 1970 : India: Planning for Industrialisation and trade policies since 1951, OECD.
- Bhagwati, J.N. and J.G. Ruggie (Eds) (1984). : Power, Passions and Purpose, Cambridge, Mass.

- Bhagwati, J.N. and  
T.N. Srinivasan  
(1975) : Foreign Trade Regimes and Economic  
Development: India. New York.
- Busjeet, V.,  
(1980) : The Internationalisation of Firms  
from LDCs, unpublished Ph.D.  
dissertation, Harvard Business  
School, Cambridge, Mass.
- Casson, M.  
(1979) : Alternatives to the Multinational  
Enterprise. London, Macmillan.
- 
- (1987) : The Firm and the Market; Basil  
Blackwell, Oxford.
- Chen, E.K.Y.  
(1981) : 'Hong Kong Multinationals in Asia:  
Characteristics and Objectives' in  
K. Kumar and M.G. M.G. McLeod (Eds.)  
Multinationals from Developing Countries  
Lexington, Mass.
- 
- (1983) : Multinationals, Technology and  
Employment (London: Macmillan).
- 
- (1983) : "Multinationals from Hong Kong," in  
S.Lall et.al (Eds.) The New Multi-  
Nationals: The Spread of Third World  
Enterprises (Chichester, John Wiley).
- 
- (1983) : "Factor Proportions of Foreign and  
Local Firms in Developing Countries",  
in Journal of Development Economics,  
February.
- 
- (1984) : "Exports of Technology by Newly  
Industrialising Countries: Hong Kong"  
World Development (Vol.12, No.5/6).

- Chishti, S., et.al  
(1977)
- 
- (1986)
- Dahlman, C.J. and  
F.C. Sercovich  
(1987)
- Dahlman, C.J. and  
M. Cortez  
(1984)
- DN  
(1988)
- Diaz-Alejandro, C.,  
(1977)
- Demar, E.,  
(1970)
- Dunn, M.H. and  
H. Kerner  
(1986)
- Dunning, J.H.,  
(1977)
- : India's Joint Ventures Abroad,  
New Delhi, Indian Institute of  
Foreign Trade.
- : "Third World Multinationals and  
trade expansion among the countries  
of the South" in K. Khan (ed)  
Multinationals of the South, German  
Overseas Institute, Hamburg.
- : "Exports of Technology from some  
Industrial Economies and Local  
Technological Development", Journal  
of Development Economics.
- : Exports of Technology by Newly  
Industrialising Countries: Mexico",  
World Development, Vol.12, No.5/6.
- : "Nature of India's Export of Capital",  
in Economic and Political Weekly,  
June 11.
- : Foreign Direct Investment by Latin  
Americans" in T. Agmon and  
C. Kindleberger (Eds.) Multinationals  
From Small Countries, Cambridge, Mass.
- : "Capital Expansion and Growth", in  
A.K. Sen (ed) Growth Economics,  
Penguin.
- : "Comment on Chapter 5" in K.M.Khan  
(ed) Multinationals of the South,  
German Overseas Institute, Hamburg.
- : "Trade, location of economic activity  
and the Multinational Enterprise",  
in Ohlin (et.al) eds. The Inter-  
national Allocation of Economic  
Activity.



- (1979) : 'Explaining Changing Patterns of International Production: in defence of the eclectic theory', Oxford Bulletin of Economics and Statistics 41 (November).
- (1981) : "Explaining Outward Direct Investment of Developing Countries: In Support of the Eclectic Theory of International Production", in Kumar and McLeod (Eds) Multinationals from Developing Countries.
- (1986) : "The investment development cycle and Third World Multinationals", in Khan (ed) Multinationals of South.
- Dunning, J.H and J.M. Stepford (1983) : Multinationals: Company Performance and Global Trends, Macmillan.
- Encarnation, Dennis. J., (1982) : 'The Political Economy of Indian Joint Industrial Ventures Abroad', in International Organisation, Winter pp.31-59.
- Green, Reginald. H., (1986) : Operational Relevance of Third World Multinationals to collective self-reliance: some problems, provocations and possibilities, in Khan (ed) Multinationals of the South German Overseas Institute, Hamburg.
- Haralambos, M., (1980) : Sociology: Themes and Perspectives
- Harrod, R.F. (1970) : 'Dynamic Theory', in A.K.Sen (ed) Growth Economics, Penguin.
- Hirsch., (1977) : Rich Man's Poor Man's and Every Man's Goods: Aspects of Industrialization, Tübingen.

- Horst, T., (1982) : "Firm and Industry Determinants of the Decision to Invest Abroad: An Empirical Study", : Review of Economics and Statistics, Vol.54, pp.258-66.
- Hymer, S., (1976) : The International Operations of National Firms: A Study of Direct Foreign Investment.
- Jo, Sung-Hwan (1981) : 'Overseas Direct Investment by South Korean Firms: Direction and Pattern', in Kumar and McLeod (eds) Multi nationals from Developing Countries.
- \_\_\_\_\_ (1981) : "The LDC Growth Process and Emerging Pattern of Outward Direct Investment: the case of South Korean Investors". (Honolulu: Culture Learning Institute, East-West Centre, processed .
- Kumar, Krishna (1980) : "The Korean Manufacturing Multinationals" (Honolulu) Culture Learning Institute, East-West Centre), processed.
- \_\_\_\_\_, (1981) : 'Multinationalization of Third World Public Sector Enterprises in K.Kumar and M.G. McLeod (eds.). Multinationals from Developing Countries, Lexington, Mass.
- Kumar, K. and M.G. McLeod : Multinationals from Developing (eds.) (1981) Countries (Lexington, Mass.)
- Khan, K.M.' (1986) (ed.) : Multinationals of the South: New Actors in the International Economy, German Overseas Institute, Hamburg
- \_\_\_\_\_, (1986) : "Multinationals from the South: emergence, patterns and issues in Khan, K.M. (ed.) op.cit.
- Kumar, N. (1986) : 'Foreign Direct Investment and Technology Transfers among Developing Countries' in U.R. Panchmukhi et al. The Third World and the Economic System.

- Lall, R. (1986) : 'Multinationals from the Third World: Indian firms investing abroad. Delhi, Oxford University Press.
- Lall, S. (1979) : 'Developing Countries as Exporters of Technology: A Preliminary Assessment' in H. Giersch (ed.) International Resource Allocation and Economic development. (Tubingen: J.C.B.Mohr, 1979)
- \_\_\_\_\_ (1982) : 'Developing Countries as Exporters of Technology: A First Look at the Indian Experience' in S.Lall (ed.) International Capital Movements, London, Macmillan.
- \_\_\_\_\_ (1982a) : 'The Emergence of Third World Multinationals: Indian Joint Ventures Overseas'. in World Development, Vol.10, No.2, Parmagon Press, Oxford.
- \_\_\_\_\_ (1982b) : 'Technological Learning in the Third World: Some implications of Technology Exports', in F. Stewart and J. James (eds.) The Economics of New Technology in Developing Countries.
- S.Lall (et al eds.)(1983) : 'The New Multinationals', Chichester and New York, John Wiley.
- \_\_\_\_\_ (1983a) : 'Technological change, employment generation and multinationals ; A case study of a foreign firm and a local multinational in India, Geneva, International Labour Office, Working Paper No.27.
- \_\_\_\_\_ (1984) : 'Exports of Technology by Newly-Industrialising Countries: An Overview, in World Development (Vol. 12No.5/6), Parmagon Press, Oxford.
- \_\_\_\_\_ (1984a) : 'Exports of Technology by Newly-Industrialising Countries: India in World Development (Vol.12, No.5/6)

- Lecraw, D.J. (1977) : 'Foreign direct investment by firms from less developed countries', Oxford Economic Paper, November.
- \_\_\_\_\_, (1979) : 'Choice of technology in low-wage countries: A non-neoclassical approach'. Quarterly Journal of Economics (November)
- \_\_\_\_\_, (1981) : 'Internationalization of Firms from LDCs: Evidence from the ASEAN Region in Multinationals from Developing Countries.
- Morris, S. (1987) : 'Trends in Foreign Direct Investment from India'. Economic and Political Weekly, November 7 and 14.
- Nayyar, D. (1976) : 'India's Exports and Export Policies in the 1960s, Cambridge.
- \_\_\_\_\_, (1978) : 'Industrial Development in India: Some reflections on Growth and stagnation, Economic and Political Weekly. Special Number.
- \_\_\_\_\_, (1982) : 'India's Balance of Payments'. Economic and Political Weekly, Annual Number.
- \_\_\_\_\_, (1987) : 'India's Export Performance, 1970-85: Underlying Factors and Constraints' Economic and Political Weekly, Annual Number. Reprinted in E.B. Lucas and G.F. Papanek (eds.) (1988). "The Indian Economy", Delhi Oxford University Press.
- O'Brien, Peter (1980) : 'Third World Industrial Exports' in Economic and Political Weekly December Special Number (41,42,43).
- Raju, M.K. (1980) : Indian Joint Ventures Abroad: Review of Management, Economic and Political Weekly, November.

- \_\_\_\_\_ , : 'The Emerging Multinational: Indian Enterprise in the ASEAN Region'. Madras, M.K. Raju Consultants.
- Patnaik, P. (1986) : 'New Turn in Economic Policy: Context and Prospects, Economic and Political Weekly, June 7.
- Pillai, P. Mohanan (1979) : 'Technology Transfer, Adaptation and Assimilation, Economic and Political Weekly, Review of Management, November.
- Ranganathan, K.V.K.(1988) : 'Indian Joint Ventures Abroad. Corporate Studies Group: Working Paper, IIPA.
- Singer, H.W. (1950) : 'The Distribution of Gains Between the Investing and Borrowing Countries' in American Economic Review.
- Singh, D.P. (1977) : 'Capital Budgeting and Indian Investment in Foreign Countries': Management International Review 17,1
- Soi fei, R.J. (1984) : 'Exports of Technology by Newly-Industrialising Countries': Argentina, World Development, Vol.12, No.5-6
- Taylor, M. and N.Thrift Eds. (1986) : 'Multinationals and the Restructuring of the World Economy'. Greemhelm Ltd. Dover New Hampshire.
- Teitei, S. and F.C.Serceovich: (1984) 'Exports of Technology by Newly-Industrialising countries': Latin America. World Development, Vol.12 No.5/6.
- Thee, K.W. (1981) : 'Indonesia as a Host, Country to Indian Joint Ventures', in Kumar and McLeod (eds.) Multinationals from Developing countries. Lexington, Mass.
- UNCTC (1983) : 'Transnational Corporations and World Development: Third Survey'. New York, E.83II A.14.
- Vernon (1966) : 'International Investment and International Trade', in Quarterly Journal of Economics.

- \_\_\_\_\_ (1979): 'The Product, Cycle Hypothesis in New International Environment,' Oxford Bulletin of Economics and Statistics.
- Villola, A. (1983) : 'Multinationals from Brazil,' in Lall (et al) (eds.) The New Multinationals.
- Wells, L.T. Jr. (1981) : 'Foreign Investors from the Third World' in K. Kumar and M.G. McLeod (eds.) Multinationals from Developing Countries, Lexington, Mass.
- \_\_\_\_\_, (1983) : 'Third World Multinationals,' Cambridge, Mass.
- \_\_\_\_\_, (1986) : 'New and Old Multinationals: competitors or partners'. in Khan (ed.)
- Westphal, L.E. et al (1984) : 'Exports of Technology by Newly-Industrialising Countries': Republic of Korea World Development Vol.12, No.5/6.
- 'Who Owns Whom' (1981 Edition)
- World Bank : 'Various World Development Reports, Annual Publication, Oxford, OUP.
- Wohlmuth, K (1986) : 'Practices and Policies of host countries towards Third World Multinationals: a competitive edge against old multinationals? in Khan (ed.) Multinationals of the South.

government and other Sources

- 'Federation of Indian Chambers of Commerce and Industry' New Delhi (1982). : 'Workshop on Indian Joint Ventures Abroad and Project Experts: Background Paper.

India Investment Centre

: Indian Joint Ventures Abroad:  
An Appraisal, New Delhi.

\_\_\_\_\_, (1981a)

: India's Joint Ventures Abroad-  
Status and Guidelines, New  
Delhi.

\_\_\_\_\_, (1982)

: Indian Joint Ventures Abroad -  
Status and Guidelines, New Delhi.

\_\_\_\_\_, (1981)

: India Offers Technology - Directory  
of Indian Firms interested in  
setting up joint ventures abroad,  
New Delhi.

\_\_\_\_\_, (1983)

: Indian Joint Ventures Abroad, An  
appraisal, New Delhi.