INDIAN FIRMS IN THE THIRD WORLD : A GEOGRAPHICAL AND POLITICAL STUDY

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CERTIFICATE

This is to certify that the dissertation entitled "Indian firms in the Third World: A Geographical and Political Study" submitted by Madhuleena Biswas in fulfilment of nine credits out of total requirements of twenty four credits for the Degree of Master of Philosophy (M.Phil) of this University is her original work according to the best of my knowledge 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.

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INTRODUCTION

Since the beginning of industrialisation in the West, private enterprises have been investing in other countries and transfering their technology. The investment by the Third World firms is a relatively recent phenomenon in the history of international economy and adds an interesting dimension to the already complex international economic relations. Asian and African countries, after centuries of political subjugation and economic stagnation, have embarked on the path of planned economic development. While recognising the role that developed countries can play in promoting Third World development, there is also an increasing recognition of the need for economic cooperation between developing countries themselves. Despite diversity in political systems, and in the economic, social and cultural conditions, these countries have certain commonness of experience and aspirations. Thus the coordination of the development programmes of these countries for accelerating their pace of development is considered to be of great importance.

The level of domestic saving in the Third World countries is too little to meet the full requirements for development. Therefore, foreign capital, technical and managerial skills are essential for the development of these countries. India, Korea, Taiwan, Brazil, Argentina and Hong Kong are the principal Third World countries that have been investing in other developing countries. These firms have brought a new dimension to the concept of multinational enterprises and their operations have profound implications for the practices and policies of the host countries towawrds foreign capital in general.The developing country firms are considered as instruments for changing the asymmetrical international order in the context of South-South cooperation and on the basis of collective self-reliance. So inspite of the limited resources at their disposal, they have contributed significantly to the expansion of production capacity, trade, technological capability as well as mobilisation of resources in co-developing countries. These firms are growing rapidly in numbers and volume of business.

In the context of Indian firms operating in the Third World, many questions come up like - which countries are hosts to Indian firms?

What type of technology is offered by these firms?

What are the objectives of India in overseas investment?

Are these objectives being fulfilled?

What are the sectors in which they are operating?
For what market is production taking place in developing countries (export, capital goods, luxury on mass consumption goods)?

Do the Indian firms differ from the multinationals of developed countries?

What are the competitive assets of these enterprises that enable them to compete with other firms in the host nations?

What is the relationship of the Indian firms, the local firms and the host country government?

What are the problems and prospects of these firms in the Third World countries?

I have attempted to find out the answers to these questions in the course of my study. This work is divided into six chapters, besides, the introduction and conclusion. In **Chapter I**, the discussion is on what induces the developing country firms, specially India, to invest in other developing countries. After four decades of planned economic development, India has experienced a steady growth of industrial production as well as diversification of her industrial base. Having embarked earlier on the process of industrialisation than other developing countries, India is now one of the most industrialised countries of the Third World capable of undertaking investments both in the developed and developing countries. India has successfully adapted foreign technology and the joint ventures provide easy access to scarce knowhow at a low cost and ensure faster transfer of technology. Moreover, such ventures help pool resources, including technical and managerial, to optimise the utilisation of available factors of production. So joint ventures with India are an important means by which the developing countries can have access to these skills and accelerate their developmental processes.

In **Chapter II**, the motives behind setting up of Indian joint ventures in the Third World and the policies that govern such investments have been discussed. The primary objective of the Government of India in setting up joint ventures and subsidiaries in the Third World has been recognised as an important medium for promotion of exports. The government has also encouraged joint ventures abroad to participate in the developmental efforts of Asian and African countries. Apart from this, a few of the other factors that motivated Indian entrepreneurs to invest overseas are, safeguarding of the export market, increase in domestic production, increasing competition from local producers in the home markets, restrictions against expansion of firms and earning of valuable foreign exchange.

India being a capital scarce country, cash remittances were not allowed in the beginning and it was stipulated that Indians would be a minority participant and their participation would be mainly through export of capital goods. The policies regarding the setting up of overseas joint ventures and subsidiaries came into existence in January 1970. Later these guidelines were revised twice (1978 and 1986) and

they became more flexible. At present majority participation is allowed by the government, if permitted by the host country where the proposed venture is to be located. Cash remittances has also been allowed in special cases. Nevertheless, with the rising tide of nationalism in many developing countries it is being increasingly ensured that foreign participation remains in minority.

Chapter III deals with the pattern, size, sector of investment, amount of equity participation and year-wise approvals of Indian ventures in the Third World. After the first venture was set up by the Birlas in Ethopia in 1959, many ventures began to be set up with countries which were geographically closer to India and with whom there are cultural and political ties. Till 31st March 1989, 137 joint ventures have been approved out of which 119 are in operation and 18 under-implementation with a total equity of Rs.9175.54 crores.

The regional distribution of Indian joint ventures show that the maximum number of these ventures are concentrated in South-East Asia (61) followed by Africa and South Asia. Malaysia, Singapore, Sri Lanka and Nigeria account for almost 50 percent of the total

ventures. The areas of collaboration in the manufacturing sector are light engineering, chemical and pharmaceuticals, textile and allied products, automobile industry, paper and pulp, glass & glass products, oil refining, sugar, diary products, dyes, etc. In the non-manufacturing sector, joint ventures have been set up in the field of trading and marketing, consultancy, engineering contracts and construction, hotels and restaurants. The services sector include banking, insurance and tourism and travel. The average size of an Indian venture is small in terms of capital invested and in a few projects non-resident Indians hold a part of the share.

Joint ventures have been set up both by the private and public sector. The ventures set up in the private sector are by Birla, Tata, Godrej, Ambani, Shriram, Mafatlal, Oberoi, Thappar, Kirloskar and J.K. Organisation. The public sector companies which have undertaken foreign investment are Indian Railway Construction Company, Hindustan Machine Tools, Engineers India Limited, Indian Road Construction Corporation, Telecommunications Consultants, Indian Drugs and Pharmaceuticals, etc.

In **Chapter IV**, the performance of Indian firms and bank branches in the developing countries have been analysed. While we cannot say that the performance of all the ventures have been an outstanding success, quite a few of them have functioned efficiently and are earning increasing profits. These ventures have contributed to the Indian economy through repatriation of dividends, given rise to additional exports which have brought the much needed foreign exchange and have helped the entrepreneurs in gaining experience. India has gained a great deal of success in the field of turnkey project exports and consultancy services. At the same time, quite a few ventures were abandoned and some remained non-implemented as they proved to be non-viable after re-appraisal along with a host of other reasons which has been mentioned in the previous chapter. The political implications arising out of their operation has also been studied.

I have been handicapped in my analysis as the total data on equity participation and the figures regarding the sales and profitability of Indian ventures in the Third World are not available. So the analysis on equity shares held by the Indian

partners is based on the limited data that has been available.

In Chapter V the advantages and disadvantages of the functioning of Indian joint ventures in comparison with the Multinational Corporations (MNCs) from developed countries have been pointed out. Indian firms help to reduce the technological gap between the North and the South. They compete on price rather than quality or uniqueness and their special skills and knowledge to a great extent arise out of and are adapted to the national economic and technical environment of the developing countries. Indian firms have worked in the interest of development of local economies and have created large employment for local labour. As a result of their own national context, they are better able to understand and to appear responsive to Third World host countries in respect to MNCs. These are a few of the advantages gained by the developing countries in their collaboration with Indian partners, thus showing the preference for having more and more ventures with India. A detailed discussion on these advantages has been covered in this chapter along with the fact that

operation of Indian firms have a positive effect on the balance-of-payments of the developing host countires.

Inspite of these benefits, certain constraints affect the performance of the Indian firms in the Third World, and they have been discussed in Chapter VI. Finance has proved to be the biggest problem for the Indian firms as a result of the government's policy regarding cash remittances from India. The Indian firms have been handicapped by their relatively unknown names and small international presence as this has affected their ability to gain access to adequate finance in overseas markets. Certain social issues provide special problems in certain regions of the world. For instance, Indian firms in East Africa receive only a cool welcome, inspite of economic advantages, as they are sometimes seen as contributing to the strength of a locally unpopular minority group. Uncompetitiveness of Indian equipment by global standards in terms of price and the technological gap between Indian companies and their competitors give rise to further problems. These problems are not so acute that they cannot be remedied. Certain measues for promoting them has been highlighted. As these problems get surmounted, the

performances of the joint ventures will be something to be proved of.

Despite the balance-of-payments problems faced by the Third World countries, and the growing discontent against foreign investment, the scope for setting up joint ventures is vast. What needs to be done is, identification of specific projects in which collaboration between enterprises of developing countries would be feasible and advantageous, and the creation of effective machinery for translating the potential areas of investment into actual investment project.

The aim of my study is primarily to analyse the performance of Indian ventures in the Third World, the benefits they have brought along with the scope for future investments in these countries. These aspects will be dealt with in the light of past experiences and future challenges. My work is very relevant in the context of today's international economic environment and the mounting external debt of the developing world. In order to avoid falling into the debt trap and at the same time continue with their developmental efforts, developing countries are rather

keen on investment by other developing nations. Therefore, the study of overseas investment by Third World firms is gaining in importance. Not only is the bargaining power of developing countries improving with regard to multinationals but also due to absence of domination and exploitation by Indian firms, they are attracting more and more investment in the Third World.

The methodology I have followed, has been, review of existing literature - books, journals, newspaper articles, government documents and reports - on Indian overseas investment. I have used datas available till the end of March 31, 1989. I have chosen to undertake this study as not much comprehensive work has been done on this topic. Discussions with a few officials who are acquainted with firms investing abroad and having direct knowledge of the problems connected with them have helped me to a great extent.

CHAPTER 1

PHENOMENON OF THIRD WORLD INVESTMENT ABROAD

One of the striking international developments of the last twenty-five years is the emergence of newly industrialised countries and the forging of cooperation among them in the industrial field, particularly through the promotion of joint ventures. Nearly a dozen developing countries have transnationalised their operations. Initially, this was conceived as an instrument of export promotion, but, in the course of time, has become a major vehicle of economic cooperation among developing countries, specially at regional and sub-regional levels.

Need For Joint Ventures

Joint commercial and industrial enterprises are defined as those in which two or more parties from two or more countries share the responsibility for operation by providing risk capital, goodwill, know-how and management, natural resources and access to national market in an agreed manner.[1]

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[1] Ram Gopal Agrawal, Joint Ventures Abroad: Indian Experience (New Delhi: Publications Division, Govt. of India, 1984), p.3.

Joint ventures are considered essential pre-requisite in bridging the gaps of the economy - deficiency in investment, the technical know-how and managerial skills organisational experience, mobilisation of financial resources, expansion of productive capacity and access to international market.[2]

Increasing attention has recently been directed to the phenomena of firms from Less Developed Countries (LDCs) seeking to set up manufacturing operations overseas. Such firms come from the more industrialised countries of South and South - East Asia and Latin America and tend to have subsidiaries that are located almost exclusively in other LDCs.[3]

The questions that arise are why firms from Third World countries invest abroad? What kinds of firms invest abroad? What enables these firms, in their overseas ventures, to withstand competition from local host country firms and multinationals from developed countries?

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[2] Indian Investment Centre (IIC), Joint Ventures Abroad: An Appraisal (New Delhi: IIC, 1983).

[3] Rajiv B. Lall, "Third World Multinationals: The Characteristics of Indian Firms Investing Abroad" Journal of Development Economics (Amsterdam), vol.2Ø, no.2 March 1986, p.381.

It is widely accepted that the Third World countries should cooperate among themselves for mutual benefit and to avoid exploitation by the western developed countries and the multinationals supported by them. Past experience shows that the Third World is invariably dumped with outmoded technologies and the developed countries do not even transfer the capital and help which is promised. The aids, grants and investments are managed in such a way so as to promote the self interest of the West instead of providing genuine support to the process of development in the Third World.[4] It is thus clear that poor nations will have to learn to live on their own and support activities of mutual benefit.

Economic and technical cooperation among developing countries (E&TCDC) has acquired importance and urgency particularly in view of the marked deterioration in the world economic situation and the weakening of North - South cooperation for development.[5] Flows of Foreign Direct Investments (FDI) and technology among the developing countries represent

[4] K.V.K. Ranganathan, "Indian Joint Ventures Abroad with special reference to Islamic Countries", Economic and Political Weekly (Bombay), May 1984, p.M69.

[5] Nagesh Kumar, "Foreign Direct Investments and Technology Transfers among Developing Countries", in V.R. Panchamukhi and others, The Third World and the World Economic System (New Delhi: Radiant, 1986), p.139.

important forms of E&TCDC. Therefore, the emergence of some of the developing countries as sources of FDI and technology in the seventies is a welcome development. Most of the developing country firms operate in industries that have mature technologies and a large proportion of these firms were earlier licences of firms from the advanced nations.

The recent trend in industrial programming of the developed countries is the concentration of highly sophisticated and automatic manufacturing. As a result, many labour intensive areas of industry are being vacated by them, partly due to rising labour costs and partly due to dependence in some cases on imported raw materials. Thus, due to this trend, the scope for joint ventures by developing countries has widened. The possibilities of pooling of capital goods from one country and technical know-how from another for setting up units in third countries have also been growing.[6]

For some developing countries that are looking for technology or management from abroad, investment from other developing countries appear to

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[6] "Indian Joint Ventures Abroad", India Backgrounder (New Delhi), vol.2, no.47, February 20, 1978, p.1042.

offer a politically and economically attractive alternative to the multinational enterprise.[7]

The internationalisation of developing country firms has been sought to be explained in terms of product cycle theory and eclectic (or ownership, locational and internalisation advantages) approach which have been used for analyses of developed country Multinational Corporations (MNCs)[8]

The product cycle theory developed by Vernon has been widely used to explain the structure of exports and Direct Foreign Investment (DFI) by firms. This theory asserts that life cycle of a product is marked by a sequence of well-defined stages which differ from one another in respect of the rate of growth and in product, technology and market characteristics; and that these differences could affect the choice between exporting the product and

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[7] Louis T. Wells (Jr.), "The Internationalization of Firms from Developing Countries", in T. Agmon and C.P. Kindleberger, ed., Multinational from Small Countries (Cambridge: MIT Press, Massachusetts, 1977), p.133.

[8] Raymond Vernon, "International Investment and International Trade in the Product Cycle", Quarterly Journal of Economics, May 1966, pp.190-207.

producing it abroad by means of DFI.[9]

The first stage in the product cycle classification - that of technological breakthrough and experimentation, is of little relevance to India. Innovations by Indian firms is more in the nature of adjustments or adaptations to discoveries made earlier in developed countries and there is no possibility of Indian firms exporting products that are absolutely new. But once these firms have acquired enough experience in adapting foreign technology to different conditions and the product has reached a stabilizing or maturing stage, then the firms are able to set up facilities for production in other Third World countries, especially, one with which India already has economic and cultural linkages.

Even at this stage, there are a few differences as compared with the "standard" version of the product cycle theory. The distinction between "threat" and "opportunity" emphasised by Vernon may not be important as Indian firms export few products of this type. In the case of Indian firms, the investment is mainly a positive step to expand market as a supplement to the domestic demand; the negative aspect

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[9] Ajit Dasgupta and Natteri Siddharthan, "IndustrialDistribution of Indian Exports and Joint VenturesAbroad", Development and Change (The Hague), vol.16, no.1, January 1985, p.162.

of the threat to the existing exports happen mainly due to the tariffs by other less developed nations. Our major items of investment are of intermediate technological level, for example, textiles, paper products, light engineering goods, etc. Here too, the product cycle theory does not explain the cases correctly since our products have no product differentiation strategy abroad nor do our firms enjoy brand name and marketing expertise. Our investments cover technology long abandoned by the developed world and those beyond the reach of developing host countries. The opportunity for investment will arise from the fact that the Indian firms after having successfully adapted the technologies will be in a position to ward off threat of potential competition. From the view point of our study the significance of the product cycle theory is that, the direct investment by Indian enterprises in the Third World should be expected to be mainly in the production of goods in the second or maturing stage of the product cycle.

The Third World investors concentrate on a strategy that is based on cost cutting so that prices can be reduced, but this is not always a viable strategy. Majority of these investors enter

foreign market through the use of joint ventures with partners of the host country.

Public-sector DFI by developing nations has been a recent phenomenon and the total volume of investment still remains small. Two kinds of political objectives often remain implicit in the foreign expansion of public - sector enterprises: undermining the dependence of developing countries on the multinationals from industrialised nations and the promotion of political ties among Third World nations.[10] Political leader in many Third World nations have been concerned about their dependence on developed countries multinationals and have been adopting various policies for improving their own bargaining power. Their strategies include increasing regulation of MNCs, emphasis on equity participation, "indigenization" of management and technical personnel, restrictions on the areas in which firms are allowed to operate and the procurement of technologies through licensing or direct purchases. The joint ventures among public-sector enterprises are often perceived as an additional weapon in the arsenal of developing nations and for initiating and strengthening political relations among themselves.

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[10] Krishna Kumar, "Multinationalization of Third World Public-Sector Enterprises", in Krishna Kumar and Maxwell G. McLeod, ed., Multinationals from Developing Countries (Lexington: Lexington Books, 1981), p.193.

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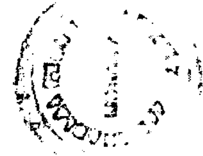

PHENOMENON OF INDIAN INVESTMENT ABROAD: A BRIEF SURVEY

India is one of the few semi-industrialised countries that serves as an important source of Foreign Direct Investment. Financial and technological collaboration between domestic and foreign capital assisted in the growth of a large industrial base. This base greatly aided Indian investors who, like their counterparts elsewhere in the Third World, began to concentrate their foreign operations in countries less industrialised than their own. The vast majority of these investments continue to be privately owned companies that enter foreign markets by setting up joint ventures with host country partners. To a lesser extent, a few public-sector, enterprises from India have established overseas joint ventures.

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In comparison to their Latin American counterparts, Indian and other Asian entrepreneurs have moved abroad in greater numbers and are more widely distributed geographically. By the late 1970s there were more investments abroad from Indian than from all Latin American countries combined. Yet Indian investors face domestic policy restrictions that

seem as stringent as those facing Latin American and certainly more stringent than those confronting most other Asians. Moreover, the Indian home market, like the domestic market in most Latin American countries, is much larger than the home market in most Asian investing countries, ostensibly providing numerous investment opportunities locally for domestic producers. These comparisons suggest that India, as a base for Third World FDI fits neither the Latin American nor the Asian model. Rather it is a hybrid case.[11]

Hard hit by a foreign exchange crunch, falling commodity prices and mounting external debt several developing countries, emerging from a period of sluggish overall growth, are now turning towards Indian investment to buttress their bruised economies. That the Third World should be looking to Indian investment to wrest them from the pincer grip of western dominance is not just a measure of our growing technological and financial sophistication, but an indication of India's role in greater South-South cooperation.[12]

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[11] Dennis J. Encarnation, "The Political Economy of Indian Joint Ventures Abroad", International Organisation (Cambridge: MIT, Mass.), vol.36, no.1, Winter 1982, p.31.

[12] Joint Ventures Abroad", PTI Economic Service (New Delhi), February 1, 1989, p.21.

As a result of the fairly high level of industrial development during the last forty-two years, India is in a position to give most sophisticated as well as intermediate and labour-intensive technologies which are considered particularly relevant and appropriate to the industrialisation programmes of many Third World Countries in Asia and Africa.[13] India, therefore, eminently qualifies to be a suitable partner in the developmental efforts of these countries and joint ventures are an important medium for fostering this cooperation.

FDI from India is not a marginal phenomenon. It is quite sizeable relative to FDI into India and private corporate investment in India. It is also quite comparable with the magnitudes of FDI of the newly industrialising countries and some small developed capitalist countries.[14] The Indian capitalist class has "come of age" and is undertaking industrial ventures abroad in its drive towards capital accumulation.

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[13] IIC, n.2, p.1.

[14] Sebastian Morris, "Trends in Foreign Direct Investment from India (1950-1982)", Economic and Political Weekly (Bombay), November 14, 1987, p.1963.

The first Indian Joint Venture abroad was the establishment of a textile mill in Ethiopia in 1959 by the Birlas. Later on ventures were set up by the Birlas and Singhanias in Kenya and Uganda in the mid sixties. Malaysia and Thailand attracted two ventures from India, and Nigeria and Ceylon one each before 1964.[15] The Birlas were instrumental in all these ventures except the one in Srilanka. There was stagnation in investment abroad between 1955 to 1961 due to "restrictions on the export of capital from India, as also increasing opportunities within the country appear to have discouraged any substantial increase in the holding of foreign shares and debentures by Indian joint-stock companies over the period (1955-1961)".[16]

Although the first Indian joint venture was sanctioned as far back as 1959, it was only from 1970 onwards that the Government of India recognised the role of Indian joint ventures abroad as part of export promotion strategy. India being a capital scarce country, a substantial transfer of capital from India has been found to be neither

[15] Morris, n.14, (November 7, 1987), p.1910.

[16] Reserve Bank of India Annual Report, 1964, (Bombay, 1964), p.4.

feasible nor desirable at this stage of the country's economic development.

The Indian government has issued certain guidelines regarding investment abroad. There was no cash participation till the end of 1980 and the Indian equity participation abroad is less than fifty percent of the investment abroad in any firm. We receive dividends, royalties, consultancy fees, etc. from our investments. Though this amount is low at present, improvements after the gestation period is well hoped for. The host countries give incentives like double tax avoidance agreement, protection against nationalisation, incentives for companies involved in production of priority product, labour utilization relief, tax holidays, etc.

In 1970, out of a total 21 joint ventures in the Third World, 9 were in production and 12 under implementation with an equity participation of Rs. 676.41 lakhs approximately. In 1982 out of a total of 184 ventures 116 were in production and 68 under implementation with an equity participation of Rs. 13367.37 lakhs approximately. Till 31st March 1989, out of a total of 137 ventures, 119 are in production and 18 under implementation with an equity participation of

Rs. 9175.537 lakhs approximately. There has been a distinct slackening in the rate of growth since 1982.

We can thus say that having embarked earlier on the process of industrialisation than most developing countries, India has acquired sufficient industrial and technological expertise to share her experience with co-developing countries. The case of India would therefore, highlight pattern, capability and scope for direct foreign investment by a developing country.

CHAPTER II

INVESTMENT RATIONALITY AND GOVERNMENTAL POLICY

There are various theories to explain international investments but they do not fully explain the motivations of Third World country firms to invest in other developing countries. A study of the actual operation of these firms, provides us with some more information regarding the specific conditions that motivate the investors. This understanding of motivations will provide a useful background to the study of the pattern of Indian investment in the Third World and the impact of such investment on the investing country. We shall first discuss the motivations of the Indian firms in investing abroad and then come to the policies of the government that promote and regulate such investments. The motivations are may and varied. The first consideration of investment abroad comes from an actual or perceived need by the firm to protect foreign markets previously developed through export activity.

India being a capital scarce country, the government uses a very elaborate system of regulations to economies on its foreign exchange reserves. As a rule transfer of capital to foreign

reserves. As a rule transfer of capital to foreign countries is not allowed. This restriction on cash participation is mainly to divert equity participation in terms of capital equipment. So not only DFI by domestic firms are allowed but they are also encouraged by generous government incentives. The main objective of this policy is to promote export of Indian goods and services to the host country of Indian firms. India is probably the only country having export promotion as the declared primary objective of her DFI. Emphasis is given to the positive role of DFI in the economic development of host countries, but this is considered secondary to the main objective of promoting exports through DFI in the Third World.[17]

The deficiency in demand motivates foreign investment when the demand for the product is smaller, especially in the case of heavy industries in developing countries. This induces firms to find export market. Thus the need for increased exports in itself has been fostered by demand constraints related to the size of home market. The entrepreneur is then

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[17]J.P. Agarwal, "Third World multinationals and balance-of-payments effect on home countries: a case study of India", in Kushi M. Khan, ed., Multinationals of the South: New Actors in the International Economy (London: Frances Printer, 1986), p. 184.

encouraged to invest abroad even in the absence of government constraints. But when other developing countries in their initiation to industrialise, introduce tariffs, the parent firms invest to find an alternative to exports. Also, when there is doubt about sustenance of domestic demand or when there is cyclical contraction in domestic demand, investment abroad can provide a better alternative. The Engineering Export Promotion Council of India has indicated several industries which could expand exports and engage in foreign technology sales, given the low use of installed capacity and small domestic market.

Textile and engineering are both industries where there is excess capacity in India. Most of the early proposals for setting up joint ventures abroad for textile units came up during the late sixties when textile products faced worst recession.[18] When exports face hurdles through tariff barriers and there is increasing competition from local producers in India, firms are motivated to invest in other Third World countries in order to increase profit.

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[18] K. Balakrishnan, MNCs from LDCs: The case of Indian Joint Ventures Abroad, Mimeograph, (Ahmedabad, March 1980).

An important reason for foreign investment by the Third World firms is the need to overcome protection in targeted markets. In India the high domestic production costs resulting from government regulatory policy make exports incompetitive and the option of investing abroad, therefore, more attractive.[19] Many firms have set up subsidiaries abroad to escape "voluntary" export controls. Government of India's tariff policy makes the cost of imported inputs so high that it has a significantly deleterious impact on the competitiveness of India's export of manufactured goods. So the firms that are relatively more dependent on imported raw materials have greater incentive to invest overseas than other firms that are less dependent on imported raw materials.

India has experienced severe balance of payments crisis so often require that the local firms earn their own foreign exchange if they desire to import. The Foreign Exchange Regulation Act came into existence. Joint ventures abroad provide opportunities for these firms to earn the foreign exchange, either through increased exports or through repatriated earnings. In these circumstances the firm's

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[19] Lall, n.3, p.389.

decision to invest abroad is the intended consequence of the Indian Government's trade policies.[20]

A number of constraints are placed by the government on the growth of private firms at home beyond a specific size, in the form of Monopolies and Restrict Trade Practices Act (MRTP), anti-trust action and capacity licensing. These are designed to control the business activities within the nation so that concentration of economic power can be curbed. Therefore, the restrictions on the expansion of a firm beyond a specific size or their exports restricted by actual or threatened import barriers and tax policies, urge the firms to find out some alternative through which they can get extra concessions too, and the only possibility for continued growth is, through foreign investment.[21] These points are evident from the fact that nearly sixty percent of the effective joint ventures from large industrial houses that are regulated by the MRTP Act.

One of the motives for Indian firms to invest in the Third World is the bulk availability of raw materials at low cost. India is a net importer

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[20] Encarnation, n.11, p.39.

[21] Wells (Jr.), n.7, p.136.

of several minerals which she needs for her developmental programmes. For this reason, India has set up joint ventures in several developing countries in the field of minerals and commodity production. In 1970, India got concession for potash mining in Ethiopia, thus joint ventures with Nauru is providing us with phosphates.

Many firms have built manufacturing operations at home based on what appeared to be secure sources of raw materials. These sources have sometimes turned out to be less reliable than was originally anticipated. As a result, the firms have sought overseas investment where the necessary raw materials are available and thus assured of the supply of raw materials.

Another major motive for firms from developing countries to invest abroad has been the desire to reduce business risk through diversification of the market across the border, i.e. among two or more countries. The perceived risk in many cases has been a negative political development in the home country. There has been exceptions where the risk involved is related to high lax burdens and foreign exchange restrictions. Risk diversification is always accompanied by DFI. "Until the international as well as

domestic power of developing country firms is consolidated, a fair part of the international projection of these firms will continue to be related to risk questions".[22] The "boom-or-bust" environment of construction facing the firm in one country might be modified if the firms operated in several countries.

Service cost also leads to DFI The service intensive products requiring an after sales service might require a unit in the recipient country as the volume of sales increases. For example, computer industry in Singapore, hotels and some construction industries need various types of consultants.

Presence of large Indian ethnic communities abroad have induced Indian firms to undertake DFI. In many cases increasing exports to the host countries have preceded such investments. These communities possess intimate knowledge of the local market in terms of tastes and opportunities, and their access to channels of distribution have enabled Indian companies to save enormous costs involved in collecting such information, which is a fundamental requirement

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[22] Peter O'Brien, "Third World Industrial Enterprises: "Export of Technology and Investment", Economic and Political Weekly, Special Number (Bombay), October 1980, p.1838.

for any direct investment abroad.[23] In certain cases the initiative for such investments, or exports during the first stage, has come from the ethnic communities themselves as they felt secure in undertaking business ventures with investors from the country of their origin. The investors have also chosen people belonging to their own ethnic group as local partners in their business ventures. But the importance of ethnic ties as a stimulator of DFI should not be overestimated. Thus Indian minorities of 357,000 and 360,000 inhabitants in Guyana and Trinidad respectively did not lead to even a single direct investment by India in these countries. Moreover, as firms gain knowledge and experience in host countries, the role of ethnic links tend to decline over time.

Other factors which motivate DFI by Indian firms include, the dynamic desire to make a name abroad, use of joint venture country as a production base for the supply of components and raw materials to India, setting up of enterprises of a comparatively medium/small size in industries in which Transnational Corporations did not evince interest, sharing of experience and expertise in fields where adequate

[23] Kushi M. Khan, "Multinationals from the South: emergence, patterns and issues", in Khan, ed., Multinationals from the South: New Actors in the International Economy, p.4.

capabilities have been developed in the home country, participation as a means to secure larger order for exports of machinery and components and expectation of a reasonable return on investment coupled with technical know-how fees, dividends and royalties.[24]

Creating an image of India as an industrialised country in other Third World countries is of great importance in government initiation of promoting investment abroad.

MOTIVES INITIATED BY HOST COUNTRIES

The newly independent countries, in their bid to industrialise their economies under planned growth, opted for attracting foreign capital. In the beginning they invited the MNCS but later they found that the exploitation by MNCs were too high and at the same time they were given offers from LDC firms. This made them invite firms from India so as to suit their import-substitution strategy and to fully utilise the abundant raw materials available.[25]

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[24] Agrawal, n.1, p.40.

[25] Grant L. Reuber, Private Foreign Investment in Development (Oxford: Clarendon Press, 1973), p.132.

POLICY TOWARDS FOREIGN INVESTMENT

The characteristics and pattern of Indian investment abroad and the motives behind such activity can be better understood after studying the Government of India's policy towards foreign investment. Let us now analyse the policy guidelines and incentives given by the governments of India as well as those of the host countries toward DFI.

Evolution Of Policy Guidelines

The policy framework for setting up ventures abroad came to be evolved after industrialisation received a thrust during India's Second Five Year Plan (1956-61) when it was realised that we could no longer wholly rely on conventional methods of trading. Some Indian entrepreneurs began to look for opportunities abroad not only to export capital equipment but also for financial and technological participation, specially in co-developing countries. In the early sixties obtaining clearances from Government - at home and also in the host countries - were relatively easy. However, it was found that during this initial phase of enthusiasm, some Indian parties obtained sanctions without being too keen to speedily implement the proposals and some

embarked on joint ventures without studying projects in their proper perspective with disastrous results. Therefore, the need for evolving an appropriate policy for sanctioning such ventures and to oversee their progress was recognised. General guidelines governing Indian participation in joint overseas ventures were formulated and announced on January 1, 1970. These policies became more flexible as has been seen in the revised policy guidelines in 1978 and 1986.

Indian Government's Policy Regarding Joint Ventures Abroad

The Government's policy towards Indian investment abroad laid emphasis on strengthening economic links with other developing countries by taking appropriate measures for intensifying mutually advantageous economic cooperation amongst themselves in practical forms, such as developing a two-way trade on a mutually beneficial basis. The Export Policy Resolution of 1970, however, specifically made the establishment of joint ventures abroad one of the export promotion strategy.

The basic features of the policy are as follows:

i) Normally, minority participation only by Indian parties is allowed. The intention is that Indian parties should not insist on majority holdings abroad, but if the foreign party and the foreign Government are willing to accept majority Indian participation, there would be no objection. Government favours association of local parties, countries, as also local development banks, financial institutions and local Government, wherever feasible.

ii) No cash remittance will be allowed except small amounts required in connection with preliminary expenses for setting up the company abroad.

iii) Indian participation should be in the form of indigenous machinery, equipment, technical know-how, etc. required for the new venture. Value of structurals, steel items, construction materials, components, etc are not allowed to be capitalised. However, where the value of the machinery, etc. falls short to make up the necessary reasonable equity and there is need to retain Indian equity holding at a level higher than what is

obtainable through export of capital goods alone, there will be no bar to consider such cases on merits for permission to include structurals, steel items and construction materials (but not components), to the extent these are required for the particular project against Indian equity.

iv) Machinery etc. exported should be of Indian make; not second hand or reconditioned machinery would be allowed for export against Indian investment.

v) Normal import replenishments, as available to exporters under the import policy for registered exporters, will be allowed on exports against capital equity.

vi) Cash assistance, if otherwise admissible, will also be allowed on exports of machinery and equipment against Indian equity, subject, however, to a ceiling of 10 percent of f.o.b. value.

vii) Indian industrialists should, as far as practicable, propose a turnkey job, as this

will lighten the responsibilities of the foreign investor.

viii) Indian parties should as far as possible provide in their agreements with the foreign parties for training facilities in India to nationals of the country of investment.[26]

ix) Indian firms, by law, have to report the earnings of all employees earning in excess of Rs. 36,000 (about $ 3,500) per annum separately.

Approval Procedures

Foreign exchange regulations relating to the establishment of joint venture abroad were embodied in the provisions of Section 19 and 27 of the Foreign Exchange Regulation Act, 1973. Under Section 27, all investments abroad have to be authorised by the Reserve Bank of India (RBI). To guide the Reserve Bank, the Government has set up an Inter-Ministerial Committee(IMC) on joint ventures abroad under the Chairmanship of the Additional Secretary in the Ministry of Commerce. Applications for setting up

[26] Indian Investment Centre (IIC), Indian Joint Ventures Abroad: Status and Guidelines (New Delhi: IIC, April 1982), p.1-9.

joint ventures abroad have to be made to the Overseas Cell in the Ministry of Commerce. Broad clearance about the extent of inter-corporate investment in overseas joint ventures is given by the IMC. The IMS is empowered to decide on all matters over which the Ministry of Commerce has jurisdiction subject to the guidelines laid down. The IMC acts as a single window agency and its decisions are final in all respects. However, a separate application under the Companies Act, 1956, has to be made to the Department of Company Affairs for its final approval.[27]

Besides, in certain cases, where Indian parties wish to associate themselves in concerns outside India, such as, through setting up subsidiaries, applications have to be made to the Ministry of Finance, Department of Economic Affairs. In case where the Government has allowed cash remittance to the equity contribution the applicant has to apply to the Reserve Bank of India for release of required foreign exchange.[28]

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[27] ibid. pp.3-5.

[28] ibid. p.8.

Financing Of Joint Ventures

For the working capital and other requirement of finance, these are expected to be financed by the joint venture partner in the host country. Indian companies will not be permitted to raise finance abroad for meeting working capital etc. Indian firms are also not expected to give guarantees for loans raised by joint venture firms abroad for meeting its financial requirements. In order to provide some relief to Indian firms promoting joint ventures abroad, particularly, when they are not eligible for financing under the various schemes extending pre-shipment and post shipment finances, Export and Import Bank of India (Exim Bank) set up on January 1, 1982, provides credit (term loans) for financing equity contribution to the Indian firms.[29]

Tax Reliefs And Incentives

Various types of tax concessions and incentives are being provided by the Government. The Government of India has provided special tax facilities to encourage joint ventures abroad through specific statutory provisions contained in the Income-Tax Act, 1961.

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[29] ibid. p.9.

Under Section 9(1)(i), no income is deemed to accrue or arise in India to a non-resident through or from operations which are confined to the purchase of goods in India for the purchase of their export. This concession is liberal insofar as the exemption is available regardless of the nature of goods exported and also the country to which the export is made as also the terms of export.

Earlier Section 80-0 of the Income Tax Act confered total exemption from tax in respect of income by way of royalties, commission, fees, dividends or other similar payments received by an Indian firm from the Government of foreign state or foreign enterprise in consideration for the use outside India of any patent, invention, model, design, secret formula or process or similar property right or information concerning industrial, commercial or scientific knowledge, experience or skill or technical services in this regard made available by the Indian company to the foreign enterprise or Government under an agreement approved by the Central Board of Direct Taxes (CBDT) in this behalf The finance Act of 1984-85, however, reduced the exemption from 100 percent to 50 percent. This exemption is, however, subject to the condition that the income must be first received in convertible foreign exchange in India or, having been received in

convertible foreign exchange outside India, it is brought into India by or on behalf of the assessee, in accordance with the FERA, 1973. This exemption is available to Indian firms only.[30]

With a view to encouraging employment of Indian citizens outside India for rendering technical services, Section 80-RRA of the Income tax Act confers 50 percent exemption in respect of the remuneration received by the technicians from their foreign employment. For this purpose, it is immaterial whether the employer is a foreign company or the Indian concern.

In addition to the specific tax reliefs mentioned above, the various allowances, deductions, reliefs, rebates, concessions and benefits are provided under the Income - tax Law and other direct tax laws for encouraging joint ventures abroad by Indian firms. Further, relief from double taxation is provided under Section 90 and 91 of the Income tax Act. Section 90 confers relief from double taxation in cases where India has entered into double taxation relief agreement with the Government of any foreign country. Countries with which India has double taxation

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[30] ibid. pp.21-29.

avoidance agreements are Libya, Mauritius, Malaysia, Kenya, Singapore, Sri Lanka, Syria, Tanzania, Thailand, United Arab Republic and Zambia. Countries with which double taxation avoidance is limited to Aircraft Profits are Afghanistan, Ethiopia, Iran, Kuwait and Lebanon.

Unilateral relief is also allowed in those cases where the income arises to a resident in India from any source outside India in a country with which India has not entered into double taxation relief agreement. Under Section 91, the unilateral relief is allowed as a reduction in the tax liability to the extent of either the Indian rate or the foreign rate of tax, whichever is lower, provided that the tax in the foreign country has been paid on the same income which is also subject to tax in India.

The various incentives provided are import replenishment scheme and other export incentives available to registered exporters are provided to the firms that go abroad. Deferred payment facilities for non-equity exporters are also considered by IDBI in the same way as normal exports. Since the preparation of pre-investment feasibility studies is important before setting up ventures abroad, such work can be undertaken

by Indian consultancy organisation, these organisations get substantial financial assistance.

At the institutional level, the role of the Indian Investment center is to assist in the establishment of joint ventures abroad as well as technical collaboration and third - country ventures between Indian and foreign entrepreneurs. The Center collects and disseminates information about investment policies, regulations, procedures and opportunities in various countries where there is scope for setting up joint ventures. It also provides information about Indian capabilities in various fields. It also helps Indian and foreign businessmen to come together to discuss and enter into agreements for setting up of joint ventures and renders assistance to Indian parties in obtaining approvals.[31]

POLICIES AND INCENTIVES OF THE HOST COUNTRY GOVERNMENTS

Besides the incentives provided by the Government of India, the government of the host countries also give certain incentives to encourage Indian firms to set up joint ventures. They are liberal

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[31]Agrawal, n.1, p.38.

tax policies, import duty concessions, non-discrimination against foreign ownership, deductions from overseas promotion from the export incentives, accelerated depreciation allowances, minimum red-tapism, tax holidays and assurance against nationalisation of these ventures. The policy of diversification of investment sources as a means of allowing, the pool of foreign investment to grow while minimising the political effect has emerged as the focus of control in the Third World. In some of the developing countries priority products are given special incentives for development. There is no capital gains tax and no restrictions on the remittances of capital profits and dividends. The profit arising from capital transactions are assessed as normal income. In the event of liquidation, the investor has the right to repatriate the capital at the prevailing exchange rate. In the event of nationalisation compensation will be paid. Labour utilisation relief incentive is provided for tax concessions on the basis of full time paid employees in a company. Some countries give tax holiday for an initial period of two years. The maximum period of tax relief is eight years.

In Malaysia, interest on approved loans, industrial or technical royalties derived from this country by Indian residents are exempt from tax.

The Malaysian government has also introduced a locational incentive in the form of tax holiday to avoid urban regional concentration. The government of Kenya encourages setting up of Indian joint ventures, provided they are likely to save foreign exchange and are labour intensive in nature. In Indonesia, DFI is allowed generally with 51 percent being held by the local population and the foreign Investment Law 1970, protects foreign investment from nationalisation.

The Third World countries do not wish to be too dependent upon the MNCs as this leads to economic exploitation, indirectly, giving rise to imperialism. So Indian firms are readily encouraged to invest in these countries. In some of these countries joint ventures are widely encouraged and the majority foreign control is limited to forty years by which time each unit should have 60 percent local ownership. In a few developing countries there is no import duty on machinery and raw materials used in manufacturing. Tariff assistance, tariff protection and import quota restrictions are also provided to deserving industries. Capital allowance is provided for modernisation of plants and production techniques. Some of the developing countries have discouraged labour intensive manufacturing and the foreign investors are allowed to

set up wholly owned subsidiaries even without formal approval.

CHAPTER III

NATURE AND PATTERN OF INVESTMENT

In this chapter we will study the pattern of investment undertaken by the Indian companies, both private and public sector, the countries where joint ventures were set up, what type of industries were set up and the size and pattern of Indian equity participation. It is not possible to present a chronological account of the efforts made in setting up ventures abroad, for the process was initiated at the same time in many countries. Further many ventures sanctioned had a longer gestation period than others. This does not take into account either those ventures which went into production, but are no longer in existence as Indian enterprises, or those which were sanctioned but did not get implemented at all.

The first Indian venture abroad was the Indo-Ethiopian Textile Mill which was set up in 1959 near Addis Ababa, Ethiopia by the Birlas. Its cumulative earnings by way of dividends amounted to nearly Rs. 50 lakhs and technical know-how fees to Rs. 70 lakhs. Additional exports were also generated. The success of this first major industrial unit created confidence in the capacity of India to cooperate in

diverse fields of industries. The Indian enterprises were encouraged to set up other units for manufacture of woollen textiles, soap, razor blades, aluminium sheet rolling etc. But after the September 1974 revolution in Ethiopia, the pioneering Indian unit was taken over and now there are no Indian joint ventures there.

After the early beginnings in 1960, many enterprises began to be set up specially in countries which were in close geographical proximity. We will look at the country wise distribution of Indian joint ventures in the Third World.

GEOGRAPHICAL DISTRIBUTION OF INDIAN JOINT VENTURES IN THE THIRD WORLD

An explanation of the geographical patterns of Indian investment abroad would have to be primarily in terms of the policies (including political) of the host countries and economic prospects they offer, along with an understanding of the underlying internal factors that have propelled Indian investments. Mid sized developing countries not too closely aligned to any particular great power and which have also been recipients of much foreign investment in general, have attracted investments from India.

Table - I

GEOGRAPHICAL DISTRIBUTION OF INDIAN JOINT VENTURES IN THE THIRD WORLD (as on 31.3.89)

S.No.	Country	In Production	Under Implementaion	Total
1.	Bahrain	1	-	1
2.	Bangladesh	-	1	1
3.	Egypt	1	1	2
4.	Fiji	1	-	1
5.	Hong Kong	3	-	3
6.	Indonesia	11	-	11
7.	Jordan	1	-	1
8.	Kenya	8	-	8
9.	Malaysia	18	2	20
10.	Mauritius	2	1	3
11.	Nepal	8	4	12
12.	Nigeria	13	2	15
13.	Oman	2	-	2
14.	Philippines	1	-	1
15.	Saudi Arabia	4	-	4
16.	Senegal	1	-	1
17.	Seychelles	1	-	1
18.	Singapore	12	3	15
19.	Sri Lanka	15	1	16
20.	Thailand	9	2	11
21.	Tonga	1	-	1
22.	Uganda	1	-	1
23.	UAE	7	1	8
TOTAL		121	18	139

Source: Indian Investment Centre

Indian joint ventures in operation are currently spread over 23 countries of the Third World. Out of a total of 139 ventures by the end of March 1989, 121 of them are in operation and 18 are under various stages of implementation. Out of these 121 joint ventures that are in production, 101 are concentrated in 9 countries - Malaysia (18), Indonesia

(11), Singapore (12), Thailand (9), Nepal (8), Sri Lanka (15), U.A.E.(7), Kenya (8) and Nigeria (13). 83 per cent of the joint ventures are concentrated in these 9 countries. Table I shows the distribution of the joint ventures in the Third World and Table II shows the share of the Indian equity in some selected countries. Now we will discuss in greater details some of the countries where maximum Indian joint ventures are concentrated. Thus despite diversification in terms of number of countries that host Indian investment, in the 70's and 80s, there has been much concentration in the 9 countries.

Table II
INDIAN EQUITY SHARE IN SELECTED COUNTRIES
(as on 31.3.89)
(equity in Rs lakhs)

Countries	Joint Ventures in operation	Joint Ventures under implementation	Total Indian equity	Total Joint venture
1	2	3	4	5
Hong Kong	3	-	3.84	3
Indonesia	11	-	1493.86	11
Kenya	8	-	1344.54	8
Malaysia	18	2	838.53	20
Nepal	8	4	543.49	12
Nigeria	13	2	962.36	15
Singapore	12	3	486.69	15
Sri Lanka	15	1	629.56	16
Thailand	9	2	1233.48	11
U.A.E.	7	1	129.51	8

Source: Indian Investment Centre

Note: The equity figures given are approximate.

Sri Lanka

In 1962, an assembly plant for sewing machines was set up in Sri Lanka, which generated considerable additional exports from year to year. Till the end of March 1989, there were 16 approved Indian joint ventures along with a few subsidiaries in Sri Lanka. 15 of these are in production and 1 is under implementation with an Indian equity of Rs. 629.56 lakhs approximately. These ventures are in the fields of electric fans, glass and glassware, pigment emulsions, textile and garments, PVC leather cloth, food and beverages, restaurants, chemicals and pharmaceuticals, rubber products, plastics and commercial vehicles. Some of these firms are owned by people of Indian origin long settled in Sri Lanka and by Indian citizens resident there. There were phases in which problems were faced with the partner, as also due to changing political environment. But these were successfully overcome.

Kenya

Soon after Kenya became independent in December 1963, units were set up by Indian entrepreneurs. At present there are 8 Indo-Kenyan joint ventures in operation with an Indian equity of Rs. 1344.54 lakhs approximately. Kenya's share of Indian

equity is second only to Malaysia among all the Third World countries. The fields of collaboration of the Indian joint ventures are textile mills, pharmaceutical projects, paper and pulp, synthetic filament yarn, cast iron foundry, automobile ancillaries, pipe and sanitary fitting, machine tool complex, enamelled aluminium, distillery and bottling plant, gripe water, printing ink and allied products. Quite a few of these units made good progress although a few had to wind up their operation.

Nigeria

Nigeria attained independence in October 1960 and some Indian firms were set up after a few years. Out of the 15 joint ventures in Nigeria, 13 are in production and 2 under implementation with an Indian investment of Rs. 962.36 lakhs approximately. Nigeria accounts for the fourth largest share of Indian capital invested in the Third World countries. Most of these ventures are doing well and they are engaged in a variety of production including light engineering goods, paper, drugs and pharmaceuticals, asbestos and cement, consultancy services, glass products, cables and conductors etc.

Nepal

Nearer home in Nepal, there are currently 8 joint ventures in operation and 4 under production or in the process of being set up. The fields covered by the Indian ventures include hotel, mineral exploration, vegetable oil processing, refactories, drycell batteries, mechanical and solvent extraction etc. The total Indian investment in the form of equity in these ventures is estimated to be of the order of Rs. 543.49 lakhs approximately. Besides these, Indian investment in the project export and civil construction contracts in Nepal is estimated at about Rs. 4 crores.

Malaysia

In 1968, the first Indian plant in Malaysia was set up to manufacture steel furniture. Thereafter, in the 1970s and 80s the largest number of Indian plants came to be set up in Malaysia. There are 20 joint ventures, 18 are in production and 2 under implementation with an Indian equity of Rs. 838.53 lakhs approximately. The fields of operation covered are diesel engines, steel furniture, glass containers, cotton and blended yarn, assembly and manufacture of commercial vehicles, pharmaceutical products, palm oil refining, high density polyethylene pipes and

fittings, trading and marketing, manufacture of LT fuses etc.

Indonesia

Indonesia is another country where in the early 70s plants were set up for the manufacture of steel files and rasps, textile yarn. As a result of political stability and the absence of a significant source of political conflict between India and Indonesia, Indonesia offers quite a hospitable climate to Indian investors. Indonesia emerged as one of the most promising fields for Indian ventures and items covered include paper and pulp, viscose staple fibre, polyester blended yarn, wire rods, tor steel, rounded bars, coated art paper, security equipment, chemicals, dye stuffs and solvent extraction. There are 11 Indian joint ventures in operation and the highest amount of Indian capital is invested in these ventures i.e. Rs. 1493.86 lakhs approximately.

Thailand

In Thailand till March last year, there were 9 units in production and 2 under implementation with Indian equity and technology. In addition, in Thailand, Thapar group is participating in management in one of the ventures and Gwalior Rayon and Silk Manufacturing Co., is providing technical know-how

to yet another venture. Besides, a few more Indian joint ventures have received the approval of Thai Board of Investment. The achievements of the existing Indian joint ventures have been quite creditable and impressive. Indian companies who have set up joint ventures in Thailand have made a significant contribution to the respective industries and to the economy of that country. The total equity share in these 11 ventures is Rs. 1233.48 lakhs approximately, which is the third highest Indian capital investment in the developing countries.

Singapore

While 3 Indian joint ventures are under various stages of implementation, 12 projects are already in production with an Indian equity share of Rs. 486.69 lakhs approximately. These ventures cover items relating to manufacture of high precision tools, trading and marketing, concentrates for soft drinks and synthetic juice powder, micro and mini computer, shipping, off-shore engineering and related activities, chemicals etc.

Hong Kong

In Hong Kong there are 3 Indian joint ventures in operation and their Indian shareholding is Rs. 3.84 lakhs approximately. These

ventures are engaged in engineering, consultancy services, Cadium soldered gold jewellery and general trading.

Mauritius

In Mauritius there are 2 ventures in operation and 1 under implementation. As the industrial development potential here lies almost exclusively within the export sector, the Government normally encourages all industries which have export potential and satisfy the criteria of employment creation, foreign exchange benefits and importance of technology and know-how introduced.

Bangladesh

In Bangladesh there is only 1 venture under implementation for the manufacture of Sponge iron. Besides this venture, there is technical or other forms of co-operation covering areas including the development of railways, assembly of trucks, buses, chassis, scooters and mopeds and a variety of engineering products. India has also participated in setting up in Bangladesh textile mills on a turnkey basis, extending assistance for establishment of a sugar mill and modernising a cement plant etc. There is scope for joint ventures in areas such as electric

switch gears and accessories, aluminium extraction, tyres and tubes, nylon yarn, glass shells etc.

In the oil-rich countries, ventures including those for construction, consultancy, trading and marketing were undertaken in Bahrain, Oman, Saudi Arabia and United Arab Emirates. Indian joint ventures spread their operation to many other countries in the Third World such as Fiji, Philippines, Senegal and Uganda. In Senegal, a unique project is being implemented by the Government of India along with Indian Farmers Fertiliser Corporation (IFFCO) and Southern Petrochemical Industries Corporation Ltd., in collaboration with the Government of Senegal, with an equity to the extent of Rs. 17 crores approximately, for manufacture of phosphoric acid, di-ammonium phosphate and triple super phosphate. A part of the production will be bought by India on an assured basis.

Sanctions were received by Indian firms for setting up units in Iran for diverse fields of production, such as, manufacture of non-ferrous semis, hose pipes, electric motors, transformers, bicycles etc. but due to a variety of reasons, only a few of them went into production and now there are no joint ventures in Iran whether in operation or under implementation. A sanction was received by an Indian

firm, in the 70's, for manufacture of twist drills in Columbia, the only country in Latin America where initial efforts were made. This venture did not prove to be successful.

REGION-WISE DISTRIBUTION OF INDIAN JOINT VENTURES IN THE THIRD WORLD

Indian entrepreneurs were initially attracted towards Africa where many countries had become politically independent in the 50s and 60s, many of whom were looking to India as providing a model for their economic development. As a consequence, there was a spurt of proposals for promoting joint ventures in African countries. Subsequently, due to political uncertainties and upheavals, such as, in Ethiopia and Nigeria, the urge to invest in African countries received a slight setback. However, a perceptible orientation towards, South - East Asia was visible in the last decade and a half when a large share of the investment was directed to countries like Malaysia, Indonesia, Singapore and Thailand. The growing prosperity of these neighbouring countries attracted the attention of Indian entrepreneurs along with the various incentives these countries offered and the existence of political stability.

Region-wise the maximum number of Indian joint ventures are located in the neighbouring countries of Sout-East Asia and South Asia followed by Africa. This has resulted in South-East Asia accounting for 45.32 percent of the total joint ventures in developing countries but, of late, there has been a revival of interest in Africa, especially in Nigeria, in the wake of oil boom. Some of the oil-rich countries of West Asia including Saudi Arabia, Oman, U.A.E. and Bahrain have attracted Indian investment. The non-resident Indians in this region have also been instrumental in promoting joint ventures with Indian parties. The influx of a large number of skilled and unskilled persons from India to these and other countries have also contributed to the stimulation of interest in this area. A region-wise analysis of the distribution of joint ventures along with Indian equity participation is given below.

Table III

REGIONAL DISTRIBUTION OF INDIAN JOINT VENTURES IN THE THIRD WORLD

(as on 31.3.89)

Region	No. of Countries	JVs in production	JVs under implementation	Total No. of JVs.	Percent share of col. 5
1	2	3	4	5	6
AFRICA	7	27	4	31	22.30
SOUTH-EAST ASIA	8*	56	7	63	45.32

SOUTH ASIA	3	23	6	29	20.86
WEST ASIA	5	15	1	16	11.51
TOTAL	23	121	18	139	100.00

Source: Indian Investment Center
Note: * Tonga is included to this region

Table III shows that out of a total of 139 joint ventures in the Third World, 31 joint ventures are in Africa with an Indian equity of Rs. 4063.23 lakhs approximately. The case of Africa is interesting because the 31 ventures located in this region account for the maximum amount of capital (44.28 percent) invested in the Third World. 22.3 percent Indian ventures are in this region.

Nearly 45.32 percent of Indian joint ventures (63 in number) are located in South-East Asia. Out of a total Indian equity of Rs. 9175.54 lakhs approximately in the Third World, the share of South-East Asia is Rs. 4012.37 lakhs approximately which is 43.73 percent of the total Indian capital invested in the Third World. The share of oil exporting West Asia in terms of capital investment is considerably less. 11.51 percent of the Indian joint ventures are located in West Asian countries, but in terms of equity investment these countries accounted for Rs. 274.39 lakhs approximately i.e. 3 percent of the total Indian capital invested.

In South Asia there are 29 joint ventures with an Indian equity of Rs. 825.55 lakhs. This region therefore, accounts for 20.86 percent of the joint ventures abroad and 9 percent of the Indian shareholding in the developing countries. Thus we see that South-East Asia and Africa account for 88 percent of the total Indian capital invested. Although 45.32 percent of the Indian projects are located in South-East Asia, Africa with half the number of joint ventures (22.3 percent) gets the maximum share of the Indian equity participation in the Third World.

YEAR WISE ANALYSIS OF JOINT VENTURES

From Table IV we can see that till 1980 there were 207 joint ventures either in production or under implementation. Upto 1984, we find that there has been a rise in the number of Indian joint ventures abroad. Out of 236 joint ventures, 159 were in production and 79 under implementation. But from mid eighties, there has been a decline in the number of joint ventures abroad. Between 1985 and 1988, there has been a fall in the number of ventures which reach the lowest in 1988 (179). However, we can see that this decline has stopped as the data reveal that the joint ventures by ;teh end of 1989 have increased by 14 ventures. Though the number of ventures in production remained the same (152), the ones under implementation

increased to 41. This shows that the demand for Indian ventures is increasing and the temporary decline has been averted. More and more ventures are being implemented and scope for further increase in the Third World exists. The successful operation of Indian firms in many countries has raised the confidence of the host countries and they are now undertaking more ventures with Indian partners.

Table IV

YEAR-WISE POSITION OF INDIAN JOINT VENTURES ABROAD

Year	Total	In Production	Under Implementation
1980	207	115	92
1981	N.A.	N.A.	N.A.
1982	221	138	83
1983	235	154	81
1984	236	157	79
1985	208	156	52
1986	187	150	37
1987	182	158	24
1988	179	152	27
1989	193	152	41

Source: Ministry of Commerce Annual Reports, 1980-1981 to 1989-1990

Note: The figures in this table include the number of IJVs abroad in the developing and developed countries as it has not been possible to get the data for Third World Countries separately.

The decrease in the number of ventures have been due to abandonment and non-

implementation of some of these projects. A few of the causes are given below:

1) Lack of adequate demand or change in the demand pattern or sudden decline in the sale due to recession.
2) Inadequacy of finance due to cost overruns and tariff protection.
3) Changes in the political and economic conditions in the host country.
4) In a number of cases Indian firms have backed out after re-assessing that the risk would be great.
5) Differences between the Indian and foreign partner.[32]

In a few cases the Indian entrepreneurs have deliberately pulled out of a venture after selling the shares. In the beginning majority of the projects used to remain non-implemented or abandoned because approvals were given by the Government of India without adequate scrutiny of the proposals and insufficient homework by the entrepreneur. In some cases the policy of nationalisation and takover was reponsible for the

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[32] Agrawal, n.1, pp.53-54.

ventures being given up. Also as a result of expiry of contracts in engineering construction and consultancy projects, the total number of ventures showed a decline. However, it has to be kept in mind that due to several imponderables and uncertain situation, some cases of non-implementation are bound to arise. This is a universal phenomenon.

INDUSTRIAL DISTRIBUTION OF INDIAN VENTURES IN THE THIRD WORLD

Indian firms cover a wide range of industries both in the manufacturing and non-manufacturing fields. These range from light engineering, textile, chemical, food products, leather and rubber, glass, paper and automobile industries to maintenance of hotels, trading and marketing, provision of consultancy services, banking and turnkey projects. Nearly 16 types of industries are covered by the joint ventures.[33]

Table V shows the distribution of joint ventures according to field of collaboration and their share of the equity. These datas show that out of

[33] The field of collaboration of the Indian joint ventures abroad have been classified in accordance with the classificnation noted down in the Minstry of Commerce Annual Reports

TABLE V
INDUSTRY WISE CLASSIFICATION OF INDIAN JOINT VENTURES ABROAD

Field of collaboration	In Operation				Under Implementation				All Units			
	No. JVs	Percent to total	Actual Indian Equity	Percent to total	No. of JVs	Percent to total	Approved Indian Equity	Percent to total	No. of JVs	Percent to total	Indian Eqity	Percent to total
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Light engineering	17	14.17	657.87	9.62	-	-	-	-	17	12.5	657.87	8.13
2. Textiles & allied products	14	11.67	1671.30	24.44	-	-	-	-	14	10.29	1671.30	20.64
3. Chemicals & pharmaceuticals	23	19.17	358.82	5.25	6	37.50	785.90	62.42	29	21.32	1144.72	14.14
4. Oil seeds crushing and refining of palm oil	3	2.50	214.50	3.14	-	-	-	-	3	2.20	214.5	2.65
5. Iron and Steel products	9	7.50	927.81	13.57	1	6.25	242.52	19.26	10	7.35	1170.33	14.46
6. Paper & pulp	2	1.67	1293.70	18.92	-	-	-	-	2	1.47	1293.70	15.99
7. Glass & glass products	2	1.67	285.24	4.17	-	-	-	-	2	1.47	285.24	3.52
8. Leather & rubber products	5	4.17	71.90	1.05	1	6.25	63.15	5.02	6	4.41	135.05	1.67
9. Food prodcts	5	4.17	102.74	1.50	3	18.75	117.60	9.34	8	5.88	220.34	2.72

10. Commercial vehicals	7	5.83	206.09	3.01	-	-	-	-	7	5.15	206.09	2.55
11. Cement products	1	0.83	130.50	1.90	-	-	-	-	1	0.74	130.50	1.61
Total Manufacturing	88	72.90	5920.57	86.57	11	68.75	1209.17	96.04	99	72.78	7129.74	88.08
12. Trading & Marketing	8	6.67	26.80	0.40	1	6.25	8.20	0.65	9	6.61	35	0.43
13. Hotels & Restaurants, travel & tourism	6	5.00	520.24	7.61	4	25	41.73	3.30	10	7.35	561.97	6.94
14. Consultancy	8	6.67	32.70	0.50	-	-	-	-	8	5.88	32.70	0.40
15. Engineering Contracts & construction	6	5.00	93	1.36	-	-	-	-	6	4.41	93	1.15
16. Others (non manufacturing for eg, Banking, Insurance, Shipping)	4	3.33	243.92	3.57	-	-	-	-	4	2.94	243.92	3.01
Total Non-Manufacturing	32	26.67	916.66	13.44	5	31.25	49.93	3.95	37	27.19	966.59	11.93
Grand Total	120	100.00	6837.23	100.00	16	100.00	1259.10	100.00	136	100.00	8096.33	100.00

SOURCE: Indian Investment Centre

NOTE: The equity figures are incomplete approximate.

121 joint ventures in the Third World which are in operation, 88, i.e. 73 percent are in the manufacturing sector and 32, i.e. 27 percent are in the service sector. We can see that light engineering, textile industry, chemical and pharmaceutical industry, iron and steel products, food industry, trading and marketing hotels and consultancy account for nearly 86.8 percent (105 in number) of the total joint ventures.

In terms of numbers, the chemical and pharmaceutical industry stands first with 29 ventures out of which 23 are already in production. This is followed by light engineering, textile industry, iron products, hotels and tourism and trading and marketing having 17 (12.5%), 14 (10.3%), 10 (7.35%), 10 (7.35%) and 9 (6.6%) ventures respectively.

Regarding the equity share of these industries, the textile industry accounts for 20.64 percent of the total Indian capital invested in the Third World. The paper and pulp industry comes next with 15.99 percent i.e. Rs. 285.24 lakhs. The iron and steel products have a share of Rs. 1170.33 lakhs (i.e. 14.46%) and the chemical industry has an Indian equity share of Rs. 1144.72 lakhs approximately. This is due to the large fertilizer plant in Senegal. The

engineering, chemicals and textile industry explain a large part of the economic activity by the Indian joint ventures, accounting for nearly 43 percent share of the total Indian equity. The manufacturing units have a proportionately higher percentage of Indian equity (88.08 percent) compared to the service sector (11.93 percent).

The important processing industries are paper, vegetable oil, textile fibres, chemicals, dyes, glass, cement products etc. Major non-processing industry is in the transport and machinery sector. This sector is constituted by a motley set of industries wherein machine tools and automobile ancillaries are important.

Ventures were set up in the service sector, such as banking, consultancy, trading and marketing and travel and tourism in Singapore, Nigeria, Nepal etc. Participation, managerial or financial, in setting up of hotels has been an important area which has attracted most of the large Indian hotel groups in venturing abroad. India's hotel chains have made rapid strides in sharing technology with a number of developing countries. For example, the Oberoi Hotels have, besides setting up joint ventures in Nepal and Saudi Arabia, given technical assistance for hotel

management, operation, catering facilities and service agreements in Egypt, Indonesia, Iraq, Sri Lanka and Tanzania. The Indian Hotels, a subsidiary of the Tata Group has two hotels in Sri Lanka and one each in Yemen and Maldives.

The gem and jewellery industry is becoming an increasingly attractive area for joint venture tie-ups. Partly due to the sound infrastructure provided to the diamond and jewellery industry at Surat in Gujarat by the government, many foreign firms have evinced keen interest for tie-ups with Indian craftsman for third-country exports of cut-and-polished diamonds and crafted and studded jewellery. The contribution of this group this of industry to foreign exchange during 1988 touched Rs. 4000 crores.

SIZE OF INDIAN JOINT VENTURES

The size and scale of operations of Indian joint ventures in the Third World is generally small. In most of the operating ventures India's share holding is less than 50 percent and value of investments less than Rs. 50 lakhs. In many cases it is as low as Rs. 5 to 10 lakhs. If we were to exclude the non-manufacturing units where the equity is smaller, the position would be different. The equity base of 111

ventures is shown in TableVI. 40 ventures (36.4%) have an equity base between Rs. 1 to 10 lakhs. As many as 70 joint ventures (69.31%) out of 111 units have an equity base of Rs. 50 lakhs or less. This is inadequate to achieve the optimum level of operations. Such ventures cannot easily face competition from well-established MNCs with large resources. 12 units (10.9%) have an equity base of Rs. 50 to 100 lakhs and 13 (11.8%) have an equity base of Rs. 200 lakhs and above.

Table VI

EQUITY BASE OF INDIAN JOINT VENTURES IN THE THIRD WORLD

Equity Range (Rs. Lakhs)	No. of JVs.	Per-centage of Col 2.	Total amount of cap-ital in-vested	Percent of Col.4
1	2	3	4 (Rs. Lakhs)	5
1-10.50	40	36.03	187.91	2.31
10.50-20.50	17	15.31	242.34	2.98
20.50-30.50	9	8.11	21.40	2.70
30.50-40.50	4	3.60	128.24	1.57
40.50-50.50	4	3.60	193.19	2.37
50.50-100.50	12	10.81	799.91	9.82
100.50-150.50	7	6.31	858.21	10.54
150.50-200.50	5	4.50	804.83	9.88
200.50 & above	13	11.71	4709.37	57.83
Total	111	100.00	8143.45	100.00

Source: Indian Investment Centre.

The fertilizer plant in Senegal has the largest equity share of Rs. 17 crores. In recent

years, the size of Indian equity in projects that are under implementation and in operation is generally higher. This in part is a reflection of inflation, but it also indicates the entry of competent Indian firms, both from the private and public sectors, having embarked on economically viable projects.

PATTERN OF INVESTMENT OF INDIAN JOINT VENTURES OVERSEAS

The Indian investment by way of equity share capital has been effected mainly through export of machinery and equipment/technology or capitalisation of income due to the Indian company towards technical know-how, and or other services, with cash remittance playing only supplementary role as India is not primarily a capital exporting country.[34] Despite flexibility that has been introduced, cash remittances account for only 10.3 percent of the total equity of Indian joint ventures operating in the developing countries. In the 121 ventures that are in operation, the total quantum of Indian equity is Rs. 9175.54 lakhs approximately (including the bonus shares). The approved Indian equity of the joint ventures under implementation amounted to about Rs. 16.79 crores in 1988.

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[34] Ministry of Commerce Annual Report, 1988-1989, (New Delhi, 1989), p.85.

EXTENT OF INDIAN PARTICIPATION

Table VII shows the region-wise equity held by the Indian firms.

Table VII

EXTENT OF INDIAN EQUITY PARTICIPATION IN THE THIRD WORLD

(as on 31.12.88)

Region	No. of Count-ries	No. of JVs	Total Indian Equity (Rs. lakhs)	Percent share of Col.4
1	2	3	4	5
Africa	7	28	4063.23	44.28
South East Asia	8*	55	4012.37	43.73
South Asia	3	24	825.55	9.00
West Asia	5	15	274.39	3.00
Total	23	122	9175.54	100.00

Source: Indian Ivestment Centre

Note: The equity figures shown are approximate
* Tonga is included to this region.

In the initial stages, it was stipulated that normally minority participation only

would be allowed by Indians. However, in several host countries, it was not easy to find partners with adequate financial resources. The policy in some of the host countries also tended to encourage majority participation in view of the paucity of finance and managerial know-how. Consequently, Indian firms came to acquire majority participation in some cases in accordance with the revised guidelines of September 1978 and 1986. A few examples of majority share holding by Indian firms in the Third World are given in the table below:

TABLE VIII

ILLUSTRATIVE CASES OF MAJORITY PARTICIPATION IN VENTURES UNDER PRODUCTION AND IMPLEMENTATION

Country	Items	Extent of share holding (percentage)
Hong Kong	Engineering Consultancy Services	55.00
	Calcium Soldered gold jewellery and general trading	60.00
Indonesia	Steel furniture and security equipment	60.00
Kenya	Woollen textiles (yarn, fabrics and garments)	64.28
	Life and General Insurance Marketing the products of Kirloskar companies	51.00
Nepal	Dry batteries plant	77.40

	Paints enamels and varnishes	60.00
Nigeria	Pharmaceuticals	60.00
Singapore	Steel office equipment, steel furniture, etc. Restaurant.	51.00

Source: Indian Investment Centre.

The picture that emerges is that out of 139 ventures in abroad, in 128 ventures Indian participants held only minority interests. In 11 joint ventures, Indian parties have a majority shareholding. In 6 ventures, the Indian parties hold 50 percent of the share and in 25 ventures the Indian equity ranges between 40 and 50 percent. In some cases, a part of the shareholding in Indian ventures abroad is held by non-resident Indians.

PROJECT EXPORTS TO THE THIRD WORLD

Along with the setting up of joint ventures, the scope for offering consultancy, know-how and management has also acquired a new momentum. Geographical location of the project in the developing Arab countries, cost competitiveness and overall resource mobilisation capacity were responsible for our undertaking civil construction work, turnkey engineering plants, etc.

Despite fierce international competition, Indian companies made their presence felt, particularly in West Asia. Project exports are broadly classified as under:

a) Construction contracts.

b) Turnkey projects which include the supply of services, such as, designing, erecting, commissioning or supervision of a system of a facility to the client, apart from supply of goods.

c) Engineering contracts, including the supply of services alone, such as, designing, erection, commissioning or supervision including the hiring of heavy engineering equipment.

d) Consultancy services which may include the preparation of feasibility studies and project reports, preparation of designs, and advice to the project authority on the purchase of equipment.

The number of projects abroad awarded to Indian firms during 1986, 1987, 1988 were as under:

Table IX

NUMBER OF PROJECTS

Year	No. of Projects
1986	25
1987	30
1988	39

Source: Indian Investment Center Monthly Bulletin, New Delhi, October 1989: p. 407.

The names of the countries concerned, value of the projects year-wise and country-wise are given in Table X.

TABLE X

PROJECT EXPORTS TO THE THIRD WORLD

(Value in Rs. Crores)

Name of the Country	1986	1987	1988
Algeria	116.00	2.00	8.00
Y.A.R.	-	1.00	4.00
Kuwait	4.00	1.00	-
U.A.E.	-	1.00	1.00
Sudan	-	2.00	24.00
Oman	7.00	0.25	0.20
Saudi Arabia	2.00	143.00	1.00
Qartar	-	0.20	-
Iraq	213.00	197.00	35.00
Syria	-	2.00	3.00
Malaysia	26.00	22.00	121.00
Nepal	12.00	4.00	-
Ethiopia	-	3.00	-
Iran	6.00	-	-

Mozambique	-	-	1.00
Uganda	4.00	-	-
Zambia	-	-	9.00
Sri Lanka	1.00	-	1.00
Kenya	-	-	2.00
Bangladesh	3.00	-	36.00
Bahrain	-	-	19.00
Jordan	132.00	-	-
Libya	-	-	8.00
Maldives	-	-	19.00
Turkey	-	-	35.00
Malawi	-	-	18.00
Thailand	-	-	1.00
P.D.R. Yemen	-	-	2.00
Taiwan	-	-	2.00
TOTAL	526.00	378.45	350.20

Source: EXIM Bank

Expertise offered by the Indian firms in Civil Construction for projects that have been executed and under implementation and consultancy services cover fields such as:

- town planning;
- designing and construction of all types of buildings including high rise buildings, residential and office complexes, school buildings, university campuses, hospitals, market centers and military barracks;
- public health engineering works including water and waste water treatment plants;
- water supply and sewerage schemes;
- dams and multipurpose irrigation works;
- roads and highways, bridges and flyovers;
- excavation and tunnelling;

- radio and T.V. centers;
- sports stadia;
- vocational plants;
- silos and warehouses;
- airport terminals, runways and pavements;
- pipe laying and installation work;
- laying and maintenance of railway tracks;
- thermal and hydel power houses;
- bulk storage structures for fertilizer, grain and coal;
- ports and harbours;
- dewatering system for foundation;
- power generation, transmission and distribution networks;
- consultancy for forest based industries;
- consultancy for paper and pulp plants, mining and allied industries, aluminium, electronics, engineering and chemical industries;
- ferrous and non-ferrous metallurgical industries;
- consultancy for agro-based industries, petrochemicals and irrigation.[35]

The import of complete turnkey key projects ready for operation is popular among the developing countries of Asia and Africa. More than 70 turnkey jobs have been executed. These included supply

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[35] Indian Investment Centre (IIC), Partners in Progress 1960-1985, Silver Jublee Brochure (New Delhi: IIC, 1986).

of power equipment, boilers and generators, fabrication and laying of pipeline for hydro-power projects etc. Indian firms have also undertaken turnkey jobs relating to supply of sugar mill machinery, water treatment plant, supply of machinery and equipment for viscose staple fibre plant.

Earnings from consultancy exports have risen considerably from a moderate beginning of $2 million ten years before to $150 million in 1988 and is likely to touch $250 million in 1990-91. At present there are over 20,000 professionals working in more than 200 consultancy organisations abroad. In some cases, the consultancy component has been given either as a package deal or only as the consultancy component has been given the consultancy part. Apart from technical consultancy services, we are also now equipped to render economic, management and financial consultancy services to other Third World countries.

Indian Consultancy service contracts have been secured from Bangladesh, Thailand, Iraq, Libya, Kuwait and Sri Lanka. Some of our consultants have also been successful in winning consultancy assignments financed by ABD or World Bank.

INDIAN SUBSIDIARIES IN THE THIRD WORLD

The term "wholly owned subsidiaries" denotes a concern registered outside India which is owned wholly by one or more Indian bodies corporate by way of holding shares.[36] The main reason for granting approval for setting up subsidiaries abroad is that they can earn foreign exchange directly, through bidding for contracts, consultancy, other service exports and indirectly by helping their parent or Indian firms in general to export/secure orders. Investments constitute an important activity of the subsidiaries abroad. One of the important motivation of setting up subsidiaries abroad has been to get out of the exchange restrictions. It is easy to shift funds from the parent company in India to the subsidiaries abroad through commissions on exports or imports.[37]

Most of the subsidiaries are in marketing, trading and consultancy, technical services and investments in and holding other companies and only a few of them are in the manufacturing field. Geographically, subsidiaries are more prevalent in the

36 Ministry of Commerce Annual Report, n.34, p.86.

37 Morris, n.16, p.1965.

advanced capitalist countries. Within the developing countries there is relatively greater concentration in Hong Kong and Singapore.

At present there are 46 wholly owned subsidiaries in the developed and developing countries. In the Third World 9 are in operation and a few under implementation. The subsidiaries which are in operation are located in Hong Kong (2), Singapore (2) and one each in U.A.E., Zambia, Sri Lanka, Indonesia and Malaysia. The total equity participation in these subsidiaries amount to about Rs. 26.Ø6 crores approximately at current exchange rate, of which Rs. 21.18 crores are in subsidiaries which are in operation and remaining Rs. 4.38 crores are in subsidiaries which are at various stages of implementation.

INDIAN INDUSTRIAL HOUSES, PUBLIC-SECTOR AND JOINT VENTURES

The industrial house and the public sector have set up ventures abroad both in the manufacturing and non-manufacturing sector. In the private sector, venutres have been set up by Birla, Thapar, Godrej, Oberoi group, J.K. Organisation, Mafatlal, Tata, Ambani, Shriram and a few small

enterprises. These firms have moved abroad as a part of their strategy of profit maximization.

Joint ventures have been set up by the Birlas in the manufacture of products in which they have succesful enterprises in India. In Kenya they have set up the Orient Paper Mills Ltd., in which their equity share of Rs. 618.07 lakhs, is largest in terms of Indian equity held abroad in a single unit by a single firm. In Nigeria two units have been set up by the Birlas, one produces light engineering goods and the othere provides consultancy services. Besides, this they have set up ventures in Malaysia, Indonesia Thailand and Uganda for the production of palm oil, synthetic fibre, cotton yarn and jute goods. In the two palm oil plants in Malaysia the equity held by Birlas is Rs. 95.70 lakhs. Two ventures in the service sector have been set up - one in Saudi Arabia for operation and maintenance service and another in Singapore in the field of technological management, marketing and Consultancy services - Rs. 7.49 lakhs, 40 percent. They have one venture under implementation in Bangladesh for the manufacture of Sponge Iron. A notable feature here is that in all these units the Birlas are a minority participant.

The Godrej group has three ventures for the manufacture of steel furniture and related items - one each in - Indonesia, Malaysia and Singapore. Their equity participation in these three ventures are Rs. 57.45 lakhs, Rs. 130.98 lakhs and Rs. 9.39 lakhs. They hold the majority share in the unit in Singapore - 52.3 percent. Godrej Soaps Ltd., has set up a plant in Nepal for the manufacture of soap and another in Malaysia for Palm oil refining.

The Kirloskar have set up ventures in light engineering sector for the manufacture of diesel engines, electric motors and pumps in Malaysia with an equity of Rs. 35.89 lakhs and for diesel engines in Philippines. In the field of trading and marketing they ahve two operational ventures, one each in Kenya and Malaysia. In the unit in Kenya, the Kirloskars are majority shareholders - 51 percent (Rs. 12.60 lakhs) but in Malaysia they are a minority participant with an Indian equity of Rs. 1.49 lakhs.

Jay Engineering Works Ltd. (a unit of Shriram Group) has set up the first venture in Sri Lanka. They hold an equity of Rs. 2.2 lakhs i.e. 49 percent and the unit has generated additional exports from year to year. They have another operational venture in Thailand for manufacture of steel wire and

have invested Rs. 162 lakhs in it. The Mafatlals have a venture in operation in Thailand for the production of dyes with an equity of Rs. 46.26 lakhs. Bombay Dyeing, a private sector firm under Nusli Wadia, has set up a textile mill in Indoanesia in which the company holds 40 percent of the shares (an equity of Rs. 159.45 lakhs).

Tata Engineering and Locomotive Co. (TELCO), a firm in the Tata Group, has set up one plant for assembling and manufacturing commercial vehicle in Malaysia and one in Singapore for manufacture of high precision tools. The equity share in the venture in Malaysia is Rs. 156.95 lakhs, i.e. 29 percent and in Singapore s Rs. 218 lakhs (36 percent). Sarabhai Chemicals have set up one pharmaceuticals plant in Malaysia with an equity participation of Rs. 29.17 lakhs and another in Nigeria having an equity of Rs. 12 lakhs i.e. 40 percent.

In Kenya, the J.K. Group has set up a venture for the manufacture of woolen textiles and one in Indonesia for manufacture of Engineer's steel files and rasps. The equity held in these two ventures are Rs. 428.40 lakhs and Rs. 59.26 lakhs. In the unit in Kenya, they have majority shareholding and their

investment in this unit is the second largest single investment by a single Indian firm.

Thapar Group of Industries have a plant in Nigeria for the manufacture of waste yarn cotton blankets (equity is Rs. 23.38 lakhs i.e. 7.5 percent) and are constructing a hotel in Seychelles. Consultancy firm has been set up by Development Consultants (P) Ltd., in a private sector enterprise in Hong Kong with a majority shareholding of 55 percent (Rs. 2.54 lakhs). Mohan Meakins has two ventures, a distillery and bottling plant in Kenya (Rs. 18.55 lakhs, 8.32 percent) and for manufacture and bottling of beer in Nepal (Rs. 11.28 lakhs, 20 percent).

In some cases the MNCs are also involved in setting up joint ventures originating from India. A few of the joint ventures set up by India, are close business associates of MNCs as they have close business links with the large industrial houses of India. Best and Crompton India Ltd., has set up a turnkey project in Malaysia (Rs. 12.25 lakhs, 49 percent) and another plant for execution of contracts for transmission lines in Nigeria (Rs. 26 lakhs, 40 percent). Ashok Leyland has a venture in Sri Lanka with an equity of Rs. 31.13 lakhs. I.T.C. has set up a venture for manufacture of cigarettes in Nepal (Rs.

50.69 lakhs, 49 percent). In the plant set up in Nepal by Union Carbide India Ltd., dry batteries are produced. The firm holds majority share (77.4 percent), its equity being Rs. 67 lakhs. Asian Paints have set up three ventures, one each in Fiji, Nepal nad Tonga. Jenson and Nicholsons India Ltd., have an operational venture in Nepal for manufacture of enamels paints.and synthetic resins (Rs. 3.72 lakhs, 50 percent).

Ispat Alloys Ltd., a private sector firm, has joined hand with Indonesia's PT Ispat Indo to set up Indonesia's first major ferro alloys complex for the manufacture of wire rods for steel round bars. The Indian company and its associates hold 35 percent of the $7 million equity while the Indonesian company and its associate together account for 55 percent equity holding. The advantage of setting up this project in Indonesia is the easy access to heavy chrome ore and fine cola deposits here.

Hotels have been set up by the Oberoi Group in Egypt, Nepal, Saudi Arabia and Singapore. In Sri Lanka one hotel has been set up by the Taj Group of hotels and another is under construction in Nepal. Large Indian business houses are entering Jordan in a big way. The Ambanis and Raunaq Enterprises have already agreed to set up two

joint ventures in Jordan at a total cost of $1.1 billion. The Reliance Group has entered into an agreement with the potash company in Jordan in setting up of 600,000 tonne of phosphoric acid plant with a total investment of $600 million.

The public sector enterprises have ventured abroad at a much later period compared to the private firms in India. The Hindustan Machine Tools(HMT) made pioneering efforts for setting up machine tool complex in Nigeria with an investment of Rs.113.88 lakhs thus, contributing 15 percent of the equity. Later ventures and turnkey project have been undertaken by the public sector in different fields such as construction of roads and railways, consultancy, banking, shipping, insurance, fertilizers, electronics equipment, steel, cement, pharmaceuticals, construction of schools and the like.

Construction contracts and consultancy services have been undertaken by the National Building Construction Corporation(NBCC), Indian Railway Construction Corporation(IRCON), Indian Road Construction Corporation(IRCC), Telecommunication Consultants India Ltd.(TCIL), Water and Power Consultancy Organisation(WAPCO), International Airport Authority of India(IAAI), Engineering Projects(India)

Ltd.(EPI), Indian Drugs and Pharmaceuticals, Bridge and Roof, National Research Development Corporation(NRDC), Matallurgical and Engineeing Consultants(India) Ltd.(MECON) etc.

These enterprises have made considerable strides in promoting and executing foreign contracts of increasing magnitude. The public- sector firms, Life Insurance Corporation and General Insurance Corporation have set up a venture in Kenya with an equity share of Rs.235.94 lakhs, thus, contributing 55 percent of the equity. IRCON has constructed the Rs.133 crores Al- Muthanna Railway Project. Consultancy services are being provided in Nigeria by MECON India Ltd. and TCIL. MECON holds an equity of Rs.7.60 lakhs, i.e. 50 percent and TCIL's share is Rs.3.75 lakhs, i.e. 37 percent. In Malaysia, HMT has entered into a contract of Rs.16.2 crores for setting up an Advanced Training Centre(ATC). This turnkey project to be executed by its subsidiary HMT(International), involves complete civil and allied works, supply of machinery and equipment as well as technical services.

DISTRIBUTION OF INDIAN BANK BRANCHES IN THE THIRD WORLD

After nationalisation of banks in 1969, a major beginning was made by the Indian banks to open branches in countries where Indians had settled in large numbers. These banks entered the area of international banking in a big way during the 1970s. Till the end of June 1990, 6 Indian banks have 107 branches, 7 representative offices and about 60 associate offices in the Third World.

Bank of Baroda(BOB), has entered the international banking scene in 1953. It has the largest network of overseas branches among all Indian banks - 55 percent, spread in 11 countries. Out of these 55 branches, 37 are in the developing countries of Asia, Africa and Latin America. The bank has opened branches at Bahamas(1), Fiji Islands(8), Guyana(3), Kenya(7), Mauritius(6), Oman(3), Seychelles(1) and U.A.E.(8). Next comes the State Bank of India(SBI) with 39 branches, 8 representative offices, 1 subsidiary and 1 associate office. These 39 branches are spread in 20 countries, with the Third World accounting for 21 branch offices. These are in Bahamas(1), Bahrain(2), Bangladesh(1), Bhutan(1), Cayman Islands(1), Hong Kong(2), Kuwait(2), Maldives(1), Nigeria(1), Oman(1), Panama(1), Singapore(1), Sri Lanka(2) and U.A.E.(4).

Bank of India(BOI) has 27 branches, 2 subsidiaries and 60 associate offices abroad. The other banks which have overseas branches are Indian overseas Bank(IOB) - 11 branches, United Commercial Bank(UCO) with 9 branches and the Indian Bank(IB) has 2 branches and 1 representative office.

Table - XI

REGION-WISE DISTRIBUTION OF INDIAN BANK BRANCHES ABROAD

(as on 30.6.90)

Names of Banks	Total No of Branches	Africa	South East Asia	West Asia	South Asia	Latin America
Bank of Baroda	37	14	8	11	-	4
State Bank of India	21	1	3	9	5	3
Indian Overseas Bank	11	-	8	-	3	-
United Commercial Bank	5	-	5	-	-	-
Indian Bank	2	-	1	-	1	-
Total	76	15	25	20	9	7

Source: Address Books (1990) of Bank of Baroda, State Bank of India, Indian Overseas Bank, United Commercial Bank and Indian Bank.

Note: Bank of India has a total of 27 overseas branches but has not been included in this data as no separate data was available on the Third World Countries.

South - East Asia has the largest number of overseas branches of Indian banks - 25 branches. This is followed by West Asia with 20 branches and African countries account for 15 branches. Within South-East Asia, Bank of Baroda and Indian Overseas Bank have the maximum branches(8 each). The State Bank of India has 3 branches in this region. The IOB and UCO Bank have 8 and 5 branches respectively in South-East Asia. In Latin America only 2 Indian banks have overseas branches - BOB has 4 branches and SBI has three branches. In African countries, for example, Kenya, the first Indian branch was opened by BOB. BOB has also established a network of branch offices in the Middle East to mobilise a part of deposits held by oil - rich individuals and companies. Country-wise U.A.E. has the maximum number of overseas branches of Indian banks(12).

The maximum number of overseas branches of the Bank of Baroda is in Africa(14), closely followed by West Asia(11 branches). The largest overseas branches of the State Bank of India are in West Asia(9). The bank has 5 branches in South Asia, 3 each in South-East Asia and Latin America and 1 in Africa. Thus, Bank of Baroda, along with the State Bank of India account for the majority of branches overseas. Though the BOB has maximum number of overseas branches,

the branches of SBI are more evenly distributed over a large number of developing countries.

Apart from regular offices, there are tie-ups with local bank by way of joint ventures in countries like Nigeria and Zambia. The Indo-Zambian Bank, a joint venture between Indian and Zambian banks, has one branch in operation in Ndola and has decided to set up two more branches in Lusaka and Kitwe. Management contracts have been entered into by Indian banks with exchange house functioning in Kuwait, Dubai etc. Singapore and Hong Kong very important centres for the foreign operation of Indian banks. Offshore joint venture banks in these centres lend largely to Indian business.

THIRD COUNTRY COLLABORATIONS

Apart from setting up joint ventures and subsidiaries in developing countries, Indian firms have collaborated with developed countries to énter into contracts for setting up projects in the third-country. Such collaborations lowers the comparative costs of projects by offering a package in which the advanced technology of the developed country is blended with the intermediate technology of India. The developing countries find such collaborations useful. Indian firms provide project management at site, services of experienced technical personnel as

well as supply of skilled as well as unskilled labour. The developed countries on the other hand provide the technology and the well-known brand name. India's emergence as an industrial power provides increased opportunities for entering into partnerships with developed countries in the Third World. The availability of qualified personnel at relatively lower cost is attractive to the foreign companies seeking Indian collaboration. American firms have joined with Indian firms for construction projects in the Middle East.

CHAPTER IV
EVALUATION OF PERFORMANCES

In this chapter, attempt has been made to analyse the performance of the Indian joint ventures in terms of their success, failures as well as in the light of balance-of-payments effects of DFI on India. So along with the achievements, capabilities and potentialities of Indian firms in the Third World, we must devote attention to the weaknesses, causes and the extent of the failure of some of these ventures in an attempt to find suggestions for the avoidance of mistakes and for further improvement. The capital exports in terms of equity, consultancy service exports, additional exports generated, technical and managerial fees on services, royalties and dividends etc. have been taken into account while evaluating the balance-of-payments effect.

In analysing the effects of investment abroad, we have to look at the initial and continuing impact of such investment on the national economy, such as, gains through knowledge sharing and building of international relations. The political consequences, both in India and in the developing host countries, arising out of the functioning of joint ventures need to be examined. The datas on the region-

wise break-up of returns from D.F.I. and on sales and profitability of Indian ventures are not available.

Indian joint ventures in the Third World are currently dispersed over 23 countries. About 57 percent of the ventures in operation are concentrated in 5 countries: Malaysia (20), Sri Lanka (16), Singapore and Nigeria (15 each) and Indonesia (11). Region-wise the largest number of ventures are located in the neighbouring countries of South-East Asia (61), followed by Africa (31) and South Asia. Total Indian equity in the units in operation is Rs. 96.78 crores and the approved Indian equity of the joint ventures under implementation amounts to about Rs. 16.79 crores.

The success of joint ventures in South-East Asia can be explained both in terms of a conducive climate in this region for investment and the relatively greater acceptability of Indian technology. Indian firms also receive greater incentives from the countries of this region compared to other regions. Though Malaysia has the maximum number of Indian ventures in operation (18), Indonesia has overtaken it in terms of total investment by the Indian firms. While the total equity in the joint ventures in operation (11) in Indonesia is Rs. 14.94 crores, Malaysia's share

is Rs. 8.39 crores. In Africa, Nigeria and Kenya are the two countries where India has most number of joint ventures, 15 and 8 respectively. In this case also, Kenya, though has less number of joint ventures, accounts for larger Indian equity share (Rs. 13.45 crores) as compared to Nigeria's share of Rs. 9.62 crores. The explanation for relatively few projects (17) in the rich Middle East lies largely in the latter's preference for import of highly sophisticated technology irrespective of the cost involved.

Taking advantage of new opportunities created after crude oil price increase, Indian entrepreneurs have initiated a number of joint venture projects in the Middle East. The goodwill generated by India's positive policy towards West Asia has also resulted in a number of business ties between India and the Arab world. Indian ventures have achieved comparative success in countries like United Arab Emirates, Oman and Saudi Arabia. Indian firms which are getting preferential treatment in many Arab countries, are competing in a big way in the project markets here. For example, North Yemen has sought India's expertise and technical know-how in the field of agriculture, irrigation, road construction and telecommunications. Indian firms have been under contract for projects in

these fields worth Rs. 100 crores, most of which are nearing completion.[38]

Though the flow of orders has dried up in some countries of West Asia due to political instability, several companies with a sound track record are still determined to maintain their presence in the region with support from Exim Bank. The end of Iran-Iraq war has brightened prospects for new projects. The biggest Indian contracts at present are the Hilla and Mosul water supply schemes. Other big projects involving Indian enterprises include maintenance of the Al-Qain Ashat railway line by IRCON.

Looking at the product lines we find that most of the joint ventures are in areas where India has comparative cost advantage in terms of supply of equipment and services. Products with limited need for initial investment, based on mature technologies, having a high labour content and possessing economics of large scale have been ideal cases for Indian entrepreneurs. These firms have succeeded irrespective of the target country wherever the climate was right and marketing problems were overcome. A majority of these ventures are operational in the manufacturing

[38] Patriot (New Delhi), "North Yemen seeks expertise, know-how", April 5, 1988.

sector which in turn is dominated by light engineering and textile companies followed by chemicals and pharmaceuticals , palm-oil refining, iron and steel, paper and glass. Not all countries are restricting their search for Indian tie - ups purely in intermediate technology areas of production. In the non-manufacturing sector, the largest number of joint ventures are in the trading and marketing sector followed by hotels and restaurants, consultancy and engineering and construction contracts.

Till now most of the Indian joint ventures abroad have been in the hands of large business houses such as Birla, Tata, Mafatlal, Ambani, Godrej, Thapar, Modi and J.K. Group. Compared to the private sector, the public sector has ventured abroad much later and the total number of joint ventures and volume of investments are relatively less. The pressure for overseas investments by the large industrial houses has increased over the years. This may be due to the fact that continued slow growth of the Indian economy stimulates the more dynamic firms to diversify overseas. In terms of equity share, the largest Indian equity is held by the Orient Paper Mills Limited (Rs. 618.07 lakhs) in the joint venture set up in Kenya.

If we look at the performance of Indian public sector, we can see that some of the competitive advantages of these enterprises lie in the innovations they have introduced in manufacturing technologies and the direct and indirect subsidies which they receive from the government. But foreign investment by public-sector firms cannot be regarded as unmixed blessing. Such investment has both costs and benefits, and these should be taken into consideration by both home and host countries. These firms might not always be able to provide a continual stream of up-to-date technologies to host countries the way the private sector firms from developed countries do. Their undue reliance on the Government of India can result in the survival of inefficient production techniques and processes both at home and host countries. These firms may also contribute to the diffusion of those management patterns by styles which put more importance on political rather than economic goals.

Many countries, like Indonesia, are now looking to small and medium units with a working capital of around US$ 1 million each, particularly in labour intensive areas like hand tools, food and food processing, agricultural implements, oil and edible oils, consumer goods and automobile parts.

A majority of these joint ventures are in the English-speaking countries. Apart from language, there is similarity of laws, rules and procedures. In French-speaking countries the number of ventures are comparatively few. The existence of ethnic groups have helped to promote ventures. Geographical proximity and historical ties also explain the preponderance of ventures in some of the countries of Asia and Africa. However, despite geographical proximity in our immediate and contiguous neighbouring countries like Afghanistan and Pakistan, no venture has been set up due to political reasons. Even in Bangladesh there is only one joint venture which is still under implementation. No venture has also been set-up in Latin America. This is the result of relatively weak trade links, language barrier, long distance and absence of direct shipping line.

If we view the distribution of joint ventures from the angle of religion, we find that out of a total of 139 Indian ventures in the Third World, Islamic countries accounted for 47.48 percent, i.e. 66 joint ventures.

India has the third largest reservoir of scientific and technical manpower in the world. India is also the third newly industrialised

country, capable of undertaking consultancy assignments overseas of the most sophisticated nature in a variety of disciplines. However, so far adequate attention has not been paid to the export of consultancy services, i.e. high value-added items having multiplier effect on the export of plant, machinery and components. India's total acquisition of consultancy contracts abroad is a small percentage of the available international consultancy business. Over the last four decades, Indian consultants, because of their interaction with diverse technologies of the world, have acquired a wealth of knowledge, expertise and experience in respect of diverse processes, products and projects. It is not only the cost factor which is favorable, but what really is important is the suitability of the Indian consultancy services to the environment of the developing world.

As far as export of India's consultancy services is concerned, there has been a 25 percent growth in the Seventh Plan period - from Rs. 57 crores in 1984-85 to Rs. 200 crores in 1988-89. Further, with consultancy export of Rs. 200 crores, its overall benefit to the Indian economy is estimated to be about ten times or Rs. 2000 crores.[39]

[39] Naresh Kumar, "Consultancy Exports - I: India carves out its niche", Business Standard (Calcutta), May 4, 1990, p.5.

In many areas, Indian consultants have evolved appropriate product designs and production technologies through the ongoing research and development programmes. As such, Indian expertise has been found eminently suitable to countries of West Asia, South Asia, South-East Asia and Africa. By virtue of excellent work performed Indian consultancy companies enjoy high reputation and goodwill in Abu Dhabi, Bahrain, Algeria, Sri Lanka, Iran, Iraq, Malaysia, Kuwait and Qatar.[40] The areas of work extend from small-scale industries to giant hydrocarbon projects.

Export of consultancy service, in addition to earning foreign exchange, also enhances the industrial and technological status of a country, and, in this respect, India is a front-runner among the newly industrialised Third World. The prime consultancy firms like Engineers India Limited (EIL) in the public sector and Tata Consultancy in the private sector can offer comprehensive services over a wide spectrum of disciplines. Telecommunications Consultants India Limited (TCIL), a public sector undertaking, has emerged as a major organisation in executing

[40] ibid. p.5.

consultancy and turnkey contracts abroad, deploying advanced technologies. In Saudi Arabia, TCIL has executed five large-sized turnkey projects for expansion, operation and maintenance of plant networks costing over $100 million. TCIL has also obtained additional contracts in Yemen Arab Republic, Kuwait, Oman, Singapore and Zimbabwe. These consultancy firms possess capabilities needed for detailed engineering and project management of almost any type of industrial project in a developing country.

Indian consultants are at present handicapped by several factors including timely and accurate information on overseas projects as well as the availability of international funds. Greater interaction is necessary with the international funding agencies like the World Bank, Asian Development Bank (ADB), United Nations Development Programme (UNDP), United Nations Industrial Development Organisation (UNIDO), to identify specific areas where Indian technical services can be utilised. Indian government machinery and our commercial representatives abroad, responsible for spotting and seizing opportunities for export of consultancy services, work in a bureaucratic manner. They lack initiative, dynamism and a result-oriented approach. Therefore, there is need for structural reforms in the way of working of foreign and

commercial representatives. There is also need to develop consultancy culture in India both by the private and public sectors and the best way to gain access to markets in the field of consultancy services is to encase the reputation already established in different countries of the Third World.

With a view to promote export of projects and consultancy services, the Government has taken the following measures:

i) Grant of project assistance of 10 percent of net foreign exchange earnings from the services portion of the contracts.

ii) Market Development Assistance for reimbursement of 50 percent of cost of preparation and submission bids.

iii) Market Development Assistance for opening and operating overseas offices by consultancy firms.

iv) EXIM Bank, in addition to supplier's credit and buyer's credit has also been extending lines of credit to various developing countries with a view to encourage export of projects.[41]

[41] Indian Investment Centre Monthly Bulletin (New Delhi), "Project Exports", October, 1989. p.407.

Indian drug companies are also going abroad to tap a growing market in the Asian and African countries by setting up joint ventures and subsidiaries. The Indian drug companies have acquired the ability to produce bulk drugs very cheaply and greatly expanded the exports of drugs like ibuprofen, methyldopa and ampicillin. They have focussed on Asian and African markets where entry is easy and in many cases have beaten American and European competitors. These firms are Lyka, Ranbaxy, Sarabhai, Lupin, Unique and Unichem. Ranbaxy has four successful joint ventures, two in Nigeria and one each in Malaysia and Thailand. Ranbaxy is now establishing formulation units in Sri Lanka and Cameroon. Most Indian business houses shy away from equity participation in distant politically volatile countries. Unlike most enterprises, Ranbaxy from the beginning has been keen on strong equity participation in its foreign operations. [42]

On the other hand, Lyka Labs and its associate, Gujarat Lyka, planning to set up joint ventures in Sri Lanka, Nigeria and Malaysia, favour the management contract route. In these cases, the

[42] Financial Express (New Delhi), "Indian drug companies go multinational", September 15, 1988.

ownership of the formulation unit is in the hands of a local person, but the know-how, management and the bulk drugs needed will be supplied by Lyka. In this way they can get their money in the form of royalties and management fees rather than dividends and thus escape the political risks that go with the equity.[43] In India, the industry's price as well as profit are controlled by the State, so the firms are investing abroad in order to earn attractive profits. These firms have also gone abroad to benefit from the broadening of perspectives that comes along with international exposure.

Looking at the performance of the overseas branches of Indian banks we find that these branches have helped in the mobilisation of foreign funds and their deployment in increasing India's foreign trade, in the remittance of profits back home thereby earning valuable foreign exchange. The overseas branches act as a liaison office between local and foreign manufacturers, channelise the funds of non-resident Indians (NRIs) to India and assist in the Asian and African countries by setting up joint ventures. The initiative taken up by these bank branches has been of considerable help in promoting

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[43] ibid.

joint ventures. Concentrated efforts have been made by our banks abroad to disseminate information to foreigners about India's financial and economic policies under various NRI schemes have helped India to secure substantial foreign exchange remittances and portfolio investments. [44]

In the project exports sector they have rendered assistance both in funded and non-funded ways. It has been said that the entire net profit of banks who had branches abroad was the result of overseas operations. The State Bank of India has carved a niche for itself in the International Banking World. The Fortune International has recently published a list of top 100 non-US banks in the world in which the only Indian bank named is the State Bank of India.

Third country collaboration with Indian firms have been beneficial for developed countries in view of the fact that the equipment suppliers and contractors from the countries of Europe and America face shortage of technical manpower in Asia and Africa so fall back on the skilled technicians from India who are more suitable to the infrastructure in

[44] R.B. Mathur, "Indian Banking Abroad: In search of profitable ventures", Business Standard, February 9, 1989.

these countries. Also extreme climatic conditions make it difficult for deployment of project personnel from development countries. As a result of this, cooperation with India, apart from being beneficial, provides opportunity to effectively, blend Indian capability, skilled manpower, technology and services with American and European know-how, resources and management inputs.

Certain hindrances have affected the performances of these branches and they have to be taken into account. A critical analysis of the operational failures would be worthwhile and time has come to decide whether radical steps have to be taken or it would suffice to merely plug the loopholes. Political upheavals in African countries and the oil crisis in West Asia affected the deposits of Indian banks. Fluctuations in exchange rates, increased bad debts in certain areas and ill-equipped organisation placed the overseas branches in a difficult situation and at times tarnished their image.

The expansion of banks during the 70s and early 80s was the result of a liberal licensing policy of the Reserve Bank of India (RBI). In certain cases the issue of licenses was not based on economic considerations entirely, but on account of the pressure and political influence exerted. Even the selection of

staff for executive posts for these foreign branches was also not always based on merits. These factors in many cases resulted in losses and bad advances. Besides, obtaining licences in foreign centers was a tough job and expatriate staff had to obtain work permits in foreign centers, which was a time consuming process.

No new branches have been opened recently and some of the branches which proved to be unremunerative were either closed down or merged with the branches of more profitable banks. The level of computerisation of these branches is nothing compared to the sophisticated levels in international banks. This has a direct effect on customer service and efficient functioning of the offices.[45]

Indian banks have been doing "insulated banking" for a long time, the clientele being ethnic groups. The resources of these branches are very small compared to other international banks. The foreign exchange dealing by the Indian banks abroad is confined to the sale of rupees and dealing in a few other currencies. With a view to strengthen their resource base, the overseas branches have been

45 V.R. Pandit, "Overseas operations of Indian banks", *Financial Express*, August 1, 1988.

resorting to long-term funding in convertible currencies by issuing Floating Rate Notes (FRN) and Compulsory Deposit Schemes (CDS). The pressing need for overseas branches is not only raising their capital base at an acceptable level but also to build a strong customer base which can help mobilise more deposits.

In order to make the overseas branches a more profitable venture, these branches have to be mechanised for better efficiency and cost reduction and their business need be diversified from "retail" to "whole-sale" banking. This will help them to enhance their resources, increase profits and reduce their dependence on ethnic population. These banks abroad should increasingly participate in Merchant Banking business, management of capital issues and act as advisors to new companies. By buying and selling good scrips of blue chip companies, Indian banks can increase their commission earnings. Banks managing the share issues of big companies, will not only gain sizeable amounts of commission as a service charge, but they will also be the trustees of huge proceeds of shares and debentures for a long period.

As the overseas branches are operating in far flung countries, the question of supervising and controlling their operations assumes

tremendous importance specially in view of the global risks to which the banks are exposed. Some banks have established regional controls with concurrent audit and devised control returns.

The RBI has now decided to follow a strict procedure in issuing licenses and more care is now being taken in selection of staff who are experts in foreign exchange dealings. There should be more liaison and cooperation within the branches of two different banks and within the branches of the same bank in getting information to assess business risks for particular areas and to continuously explore areas of profitable business.

An assessment of the joint ventures indicate that these ventures have shown skill in marketing and management in a fiercely competitive environment and adapted their operations, even when cash remittance from India was not allowed, by seeking the cooperation of non-resident Indians in taking a part of equity so as to enable the Indian company to have control over management and finance. These ventures have displayed considerable efficiency, innovation and improvisation. The setting up of joint ventures has given a new dimension to our development

strategy as well as for sharing India's experience and skill with the Third World nations.

Indian joint ventures in Asia and Africa were initiated with great hope and promise. However, despite a promising beginning, the performance of some of these ventures has been erratic. The total number of joint ventures in production and under implementation during the 1980s was highest at the end of December 1984 (236) with an Indian equity of Rs. 120.51 crores. It slid since then to touch a low of 179 by the end of 1988 with a total Indian investment of Rs. 96.78 crores. From the beginning of 1989, this decline was slightly reversed and the total number of joint ventures increased to 193. This increase in the ventures under implementation and in operation is due to a decline in the number of abandonment or non-implementation of units.

The commitment of the Indian parent firm towards the success of joint venture has been only partial. These ventures have been regarded as part of our development diplomacy, but in this task there has been only limited success inasmuch as despite assiduous efforts, ventures in the neighbouring are few and far between except in Sri Lanka. Peculiar difficulties were experienced in setting up major ventures in Nepal

despite considerable support promised by the Indian government.

As many as 141 projects have been abandoned in the Gulf and African countries till December 31, 1987. The fall in the number of joint ventures abroad between December 31, 1985 and end of 1988 was highest in West Asia (25%), largely attributable to contracting oil prices and the Iran-Iraq war. South-East Asia came next (18%), followed by Africa (13.9%) and South Asia (9.7%), compared to an average mortality rate of 11 percent for all joint ventures. Between 1987 and 1988 the fall in the number of joint ventures was highest in South Asia (9.7%) as a result of abandonment of ventures due to civil unrest in Sri Lanka. Total number of ventures remained the same in West Asia but in the case of Africa and South-East Asia the fall during this period was 3.1 percent and 1.5 percent respectively.

Projects have failed in small countries like Malaysia, Indonesia, Singapore and Thailand because the market in these countries are too small with very high degree of competitiveness on account of liberalised import policy followed by these countries and dumping of goods that take place by

Japan, Taiwan, etc.[46] The fall in the number of joint ventures in South-East Asia can also be seen as a reflection of the spectacular growth rates in this region. According to OECD estimates, Malaysia, our largest joint venture partner, grew at nearly 8 percent, Singapore at over 10 percent, Indonesia at 5 percent and Thailand at almost 10 percent. Existence of MNCs and their counter dominance in the economics of this region also create some problems for the Indian ventures. Even today there are a number of sick units in Malaysia, Singapore and Thailand with the result that the projects have not been in a position to develop into profitable ventures. Thus one should thoroughly examine the size and nature of the market, marketing policies followed by other competing countries in a particular region and the overall impact of all these factors on the ultimate marketability of the product.

Market expectations were also belied to some extent in countries like Mauritius and Philippines. Indian firms have also lost market in Libya and Morocco. Working in Libya has become difficult and a payment squeeze has delayed projects.

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[46] Industrial Researcher Special Supplement (Bombay), "Trade and Market Promotion through Joint Ventures by Small and Medium Enterprises", April 1989. p.4.

The 312 Km road being built from Dabia to Tobruk by the Indian Road Construction Corporation (IRCC) was scheduled for completion in 1986, but it is now not likely to be completed before the end of this year. Trouble in Libya has pushed one Indian firm to bankruptcy. The Hindustan Steel Work Construction has stopped work on a Rs. 1 billion contract for 71 schools. National Building Construction Corporation and the International Airport Authority of India (IAAI) have tried to resolve outstanding payment problems by taking crude oil instead of cash. They have lifted about $7 million worth of oil in 1987, which they sold at a loss to Singapore.[47] A part of the payment from Iraq is also made in the form of crude oil.

We must now try to find the causes of the poor performance of some of the joint ventures. Various reasons were put forward to explain the failure of such ventures, some of which are given below:

i) The joint ventures were cash starved due to the inability of the Indian partners to bring in cash resources for a matching contribution by the host country partners. Excessive borrowing

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47 Financial Express, "Indian companies being preferred for projects in Gulf", August 30, 1988.

made the interest burden so heavy that the joint ventures were crippled by it.

ii) The tariff protection sought by Indian entrepreneurs, in order to make their projects viable, was very high and this turned out to be the root of the financial problems. Even at the stage of project conception, viability was questionable without high tariff protection. With no tariff protection the project is not viable and even with a marginal reduction in tariff, the return on sales and investment and cast flow are negative.

iii) Many of the projects had no price cushion, with the result that any changes in over-run, interest burden, product-mix, volume, cost, make it vulnerable.

iv) In an environment where demand exceeds supply, it is possible to make upward price adjustments to compensate for lower volume. On the other hand, in a fiercely competitive market, the lower levels of utilization will make the project uneconomical because of its inability to make upward price

adjustments. For example, in one project, at a level of 60 to 70 percent utilisation, it is simply not viable. A similar plant in India could have survived at 60 percent utilisation by upward adjustment of prices.

v) The strategy of import substitution in a domestic market, as in India, tempted India entrepreneurs to choose low volume and high-unit-cost technologies which make them non-competitive with high volume, low-unit-cost technologies. This makes it impossible for the ventures to compete with Korean, Taiwanese and Japanese firms.[48]

While these arguments are the most repeated reasons for the failure of Indian joint ventures, and many may accurately account for failure in specific areas, the analysis of a large number of joint ventures reveals that the problem is more complex and multidimensional.

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[48] M.K. Raju, "Strategic Weakness Key to Poor Performance of Joint Ventures", Economic and Political Weekly, vol.15, no.48, November 1980. pp.M147, M149.

The thrust of the Government of India for joint ventures was characterised by "expediency", to promote export of Indian machine tools and earn foreign exchange. The Indian entrepreneur's move on the other hand, was characterised by opportunism. As a result of this short-term orientation inadequate attention was paid to strategic and material considerations. India's strategy regarding DFI does not have any operationally relevant component other than earning of foreign exchange.

The Government of India controls imports of raw materials and technology and in most industries production capacity of individual firms are monitored and controlled, therefore, the Indian joint ventures are not aware of the extent of competitive activity - both current and potential. The Indian firms compete in the developing countries on the basis of cost-advantage. Since very little capital is invested in a distribution system, developing a brand loyalty, investing in new product development, increasing the market share and productivity, the consequence is that even those units which have been in operation for more than five years do not have a defensible position. Most of the Indian firms fail the cost-advantage test.

The performance of some of the existing ventures abroad has created a feeling that Indian firms have not given any careful thought while promoting joint ventures abroad, resulting in difficulties faced by these units in terms of marketing and management. In this context, it is necessary to undertake more vigorous planning and increased professionalism in management could help in the successful establishment of joint ventures in developing countries. The Indian industrialists, before venturing out should carefully look at the national industrialisation strategy of the host country, the potential for Indian firms to develop a regional(rather than individual host country) perspective and the choice of scale and technology to match the two.

India follows the "import substitution self-sufficiency" model of development. Given the alternative models, the Third World countries may not follow the policy of "import-substitution" nor the rationale of "self-sufficiency" like India. For example, Singapore and Hong Kong follow an "export-oriented" model of development. It is therefore important to understand the policy of the host governments as well as anticipate changes in the postures of key industrial sectors like textiles, chemicals, consumer products etc.

Sensitivity to the strategy of industrialisation in the host country and the region is crucial to an evaluation of the applicability and adequacy of Indian technology and know-how. Once this evaluation is made, the Indian firms must develop pragmatic approaches for acquiring technology and management expertise appropriate for the economic growth of Asia and Africa. Industrialists must not take it for granted that the developmental strategy followed by India will be followed by other Third World countries.[49]

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The slackening of interest in Indian ventures in some countries in recent years has been partly due to the non-implementation or abandonment of projects. Many of the joint ventures abandoned were sold to the local partners. Only a few of these were affected by nationalisation schemes of the host countries and in some cases ventures were given up in fear of a likely expropriation. 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

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[49] ibid. p.M150

rate of withdrawal of Indian ivestors from their host countries.

Regarding the subsidiarione subsidiaries, the Government and the RBI have little control over the subsidiaries once they are set up. Thus a common coimplaint against "subsidiaries" is that they do not repatriate anywhere near the initially projected dividends, either because they show fictitious book losses, or because the dividend payout ratio is low. The subsidiaries also retain very large portion of their profits within.[50]

Despite the failure and weaknesses of some of the Indian joint ventures, most of them are doing exceedingly well and earning huge profits. Some examples are, paper project in Kenya, synthetic fibre plant and carbon black in Thailand, steel tube project in Singapore, light engineering complex in Nigeria, steel project in Indonesia, etc. The Government of India is keen that good proposals should be sponsored by Indian firms in developing nations. These firms have contributed to the Indian economy through investment in the Third World. Their effect on the balance-of-payments has been favorable as they have brought

[50] Morris, n.16, p.1965.

benefits through dividends, additional exports and other repatriations.

BENEFITS FROM JOINT VENTURES IN THE THIRD WORLD

The performance of Indian joint ventures and the dividends and other repatriations flowing therefrom has to be judged in the light of several costraints under which they operate. The benefits from such ventures listed by the Federation of Indian Chambers of Commerce and Industry are as follows :

"i) These are an important instrument of export promotion;

ii) they provide a market for capital goods and ensure export of such items which might otherwise not have been exported against cash sales;

iii) they ensure recurring export of raw materials, semi-processed manufacturers, spare parts, components, etc;

iv) They lead to growth of trade tariff and quota restrictions on import of items in the countries concerned."[51]

The total amount of dividend rapatriated to India at the end of December 1988 was Rs.17.60 crores approximately and repatriation on account of technical know-how fees, royalty etc. amounted to Rs.48.28 crores. The joint ventures have generated additional exports from India to the tune of Rs. 220.69 crores.[52] The receipt of bonus shares has enlarged Indian investment by about 17 percent and also enhanced the capacity of these units to remit larger amounts by way of dividends in future.[53] The benefits that have accrued to India from the establishment of joint ventures by way of inward remittances and additional exports generated are shown in the Table.

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51 Agrawal, n.1, p.19.

52 Ministry of Commerce Annual Report, n.34, p.86.

53 Economic and Commercial News (New Delhi), "Growing Acceptance of Indian Joint Ventures Abroad", vol.16, no.34, August 23, 1986, p.4.

Table XII

BENEFITS FROM INDIAN JOINT VENTURES IN THE THIRD WORLD

Year	No. of JVs	Dividends	Other Repatriations	Additional Exports
			(Value in Rs. lakhs)	
1980		148	373	3115
1981		35	349	2773
1982		5	53	1068
1983		N.A.	N.A.	N.A.
			(Value in Rs. crores)	
1984		7.74	25.37	137.98
1985		9.31	29.64	147.91
1986		11.57	34.79	161.63
1987		18.72	32.54	198.55
1988		17.60	48.28	220.69

Source: Ministry of Commerce Annual Reports, 1980-1981 to 1988-1989

Notes:

a) Other repatriations include fee for technical know-how, engineering service, management and consultancy, royalty, etc.

b) Additional exports include exports of plant and machinery, spares, components and raw materials effected over and above exports towards equity.

c) The figures in the table also include the amount received from joint ventures in developed countries as no separate data is available for developing countries only.

The benefits cannot be reckoned only in terms of returns, in as much as there are a number of spin-off effects to the enterprises in generating additional exports as well as the opportunities for employment provided to a number of skilled technicians and managerial personnel from India. In fact, by operating ventures abroad, one also imbibes ideas vis-a-vis management and technology for application in India. Due to lack of healthy competition in our country the cost of production is high and the quality of our products poor. Therefore, the challenge of operating in foreign countries under the pressure of keen competition has helped in toning up the efficiency of our industries both in the fields of marketing and production. The image of India as an exporter of industrial products and technology through establishment of these joint ventures constitute a positive national gain and improves our own negotiating

capability in entering into foreign collaborations and technology transfer to enterprises in India.

EFFECT ON THE BALANCE OF PAYMENTS

Indian investors have not only been able to pay off the original DFI in terms of foreign exchange but also bring an increase to the foreign exchange receipts of the country. Assuming that the joint ventures had no serious export replacement effect, this clearly demonstrates the success of the Indian policy of promoting exports through DFI. The importance of this contribution of Indian foreign investors to the improvement of balance-of-payments becomes more obvious when one considers that Indian industrialisation is of relatively recent origin and international competitiveness of capital goods produced in India is quite limited. The restrictive foreign exchange regulations in India may have encouraged Indian partners, in the interest of international mobility of their capital, to keep some of their foreign earnings abroad and thus reduce their contribution to India's balance-of-payments.

The future capability of joint ventures abroad to make a positive contribution to foreign trade and balance-of-payments on the whole should be considered more on the basis of results for

operating joint ventures, than for those which are under implementation or have already been abandoned. It is only the operating units that are able to create sufficient regular demand for inputs of Indian origin and earn profits to be repatriated to parent firms in India.

Export creation by the operating joint ventures was more than three times the value of Indian equity in such ventures. As compared to this, the ratio of exports to capital in joint ventures under implementation was only 0.6 and in abandoned ventures 2.2. More or less the same applies to other repatriations (dividends, fees, etc.) of these three kinds of joint ventures.[54] Thus on the whole the contribution of operating joint ventures to foreign exchange receipts of India was higher than that of all other joint ventures. It amounted to more than twice the original value of total investments in them. When the joint ventures under implementation also start their production, the contribution of these firms to India's exports and balance-of-payments is going to increase considerably provided international competitiveness of Indian goods demanded by the joint ventures does not deteriorate.

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[54] Aggarwal, n.17, p.187.

It is interesting to note that 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 period of operation were nearly as high as those of the operating joint ventures, 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. Even the joint ventures operational at sectoral and regional levels did not show any negative effects on the balance-of-payments.

The positive contribution the joint ventures to balance-of-payments was highest in the automobile industry. They alone contributed a little more than half of the total surplus in balance-of-payments on account of DFI. An additional two industries (textiles and paper) added one-third of this surplus so that four out of eleven manufacturing branches with Indian DFI had a share of 84 percent in the total balance-of-payments effect of DFI. This is a reflection of a high sector concentration of Indian joint ventures.

At the regional level four host countries (Malaysia, Singapore, Indonesia & Nigeria) together accounted for about seven-tenths of exports of capital goods and raw materials as well as balance-of-payments surplus caused by Indian DFI. This too is a direct consequence of a very high concentration of Indian investments (52 percent) in these countries. Balance-of-payments surplus per unit of DFI was highest in Sri Lanka and Saudi Arabia. Both of these, however, have attracted relatively small amounts (less than Rs. 1 million), of Indian DFI.

Balance-of-payments effect is largely determined by additional exports of capital goods and raw materials to the host countries. Equity exports of goods and repatriations of dividends, etc. have also so far covered the amount of capital outflow from India. The larger the number of older joint ventures in a host country or industry, the greater is its contribution to India's balance-of-payments.

The import substitution impact of joint ventures has an impact on the balance-of-payments of India. If the joint venture is engaged in the production of goods previously exported from India to these markets, the export of such products may be adversely affected by the joint venture. The impact of

these firms in promoting exports in the form of machinery, capital equipments, spares, components, etc. has to be set against its export restricting impact. However, we must keep in mind while assessing the impact of joint ventures on export earnings, the fact that if India has not collaborated in setting up a particular joint venture, some other country would have done so. In that case India would have ultimately lost these export markets for her finished products.

It can be concluded that the contribution of Indian firms to Indian exports and balance-of-payments through their joint ventures abroad has been positive. One unit of DFI led to more than two units of foreign exchange earnings in the case of operating Indian ventures. In order to find out what type of joint venture firm is best from the point of view of balance-of-payments, it is necessary to consider both the foreign exchange expenditure and foreign exchange earning capacity of a joint venture. For this a project by project approach alone can bring in the desired results to the country.

POLITICAL IMPLICATIONS OF INDIAN JOINT VENTURES ABROAD

The economic motivations underlying Third World DFI cannot be dissociated easily from

domestic and international political considerations.[55] The economic change associated with the establishment of joint ventures abroad precipitate and are precipitated by a multitude of political changes that affect relations among foreign capital, domestic capital, India and the host countries in the Third World. This web of exchanges and institutions defines the domestic and international political economy of Indian ventures in the developing countries.

Political Consequences In India

As DFI grew, and with them foreign trade, relations between the Indian government and the private enterprises became more symbiotic and mutually supportive. With the evolution of various policies - tax credits, loans, loan guarantees, insurance, import credits the state has emerged as a major source of investment finance. And since most firms that invested successfully abroad were controlled by large industrial houses, the state became, according to certain critics, a biased investor.[56] These trends merely reflected the government's domestic financial policies, where government equity and financial participation in

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[55] Encarnation, n.11, p.53.

[56] ibid. p.54.

several of the firms and business houses that eventually invested abroad was quite large.

The confluence of interests between the government and some of the firms in the private sector took organizational form in 1972 as India faced yet another foreign exchange crisis and a domestic industrial recession. In 1977 the Minister for industries proposed to extend the government's regulation over the expansion of large corporations by banning the participation of MRTP companies in joint ventures abroad. Fearing reductions in foreign trade and foreign exchange earnings, the Commerce Minister instead proposed that the government's ban on cash equity participation should be lifted. Finally the liberal policies endorsed by the Commerce ministry prevailed, and were eventually endorsed by the Cabinet.

By 1972, Indian capital was fully aware of the impact that "a good investment climate" had on its operation abroad. The shift in interest from Africa to South-East Asia in the early 1970s can be attributed in part to the political uncertainties and rapid change in African governments. Projects had to be abandoned or left unimplemented as a result of political instability or nationalisation and indigenisation policies in Ethiopia, Ghana, Tanzania,

Nigeria, Uganda and Zambmia. For example, all nine projects in Ethiopia have been abandoned, including Birla'a textile plant, the original Indian joint venture. Only Kenya and Mauritius offered stable political regimes and suitable "investment climates"; both conditions translated into policies that indiscriminatly promoted the interests of foreign and domestic private capital. Indian private capital sought the same political and economic conditions in Asia and Africa sought by foreign private capital operating in India and elsewhere.[57]

Political Consequences Outside India

The complex, symbiotic relations that have emerged involving the Indian state, Indian private and public capital ad foreign private capital - have had important ramifications for India's bilateral and multilateral relations. The promotion of DFI from India has never been separated from Indian foreign policy. The realisation that Indian foreign policy and Indian business operations abroad were complexly interwined has occassionally provoked sharp, negative reactions to Indian direct investment by certain host-country governments. This is more apparent in South Asia where fears of Indian domination and regional imperialism run high.

[57] ibid. p.56.

Even though South Asia has been an important market for Indian manufactures, and therefore, a likely target for direct investment, except Sri Lanka none of the countries in this region is a host to important Indian joint ventures despite investment opportunities. Countries of South Asia have errected policies that expressly discriminate against Indian direct investment, and thereby, sour bilateral relations. While Nepal recognises that financial and technological collaboration with Indian firms is essential for industrialisation, fearing Indian domination has adopted policies that tend to discourage investments by Indian business houses. Likewise, Bangladesh has been reluctant to let Indian industrialists operate joint ventures in that country despite repeated inquiries by Indian firms and bilateral talks with Indian government. Only Sri Lanka has been comparatively receptive to Indian investments; still, its more aggressive foreign investment policies such as the "free industrial zones" programmes, are directed primarily at non-regional powers.

CHAPTER – V

COMPARATIVE ADVANTAGES OF THE INDIAN FIRMS

After having analysed the performances of the Indian joint ventures, we will now discuss the relative advantages these ventures have over the Multinational Corporations (MNCs) in their operation in Third World countries. Joint ventures between developing countries have certain special advantages. As social, political and economic conditions of developed countries are different from those prevailing in the developing countries, the technology from developed countries are likely to be unrealistic in the context of the requirements of the Third World countries. On the other hand, the firms of a developing economy know the teething troubles of industrialisation and are in a better position to provide solutions and work within the framework of the conditions prevailing in an environment of development. Thus the Indian firms in several respects, are more suitable to undertake direct investment in other developing countries than most of the industrialised nations of the West.

The popular image of Indian firms suggest that they are able to carve out a competitive

niche for themselves by offering a technological package that is more appreopriate for developing country conditions. By and large R and D effort of individual Indian firms is not geared towards advancing any technological frontiers but rather towards technological adaptation of various kinds that require making minor changes to machines, process or product design to make them suitable for local conditions, i.e. towards "embodied technological adaptation". The adaptive effort need not be embodied in machine or process design but could be reflected in a changed plant layout or differnent orientation in management.[58] The "appropriate" technology thus offered by the Indian enterprises give them a competive edge over the multinationals.

The unique advantage of the appropriate technology Indian joint ventures can provide can be understood only in the context of the structure of competition in that country, as well as in the context of the strategy of its government with respect to that country. We can identify five sources of competition: local firms, joint ventures from other developiong countries like Korea, Taiwan and HongKong; joint ventures with MNCs from developed countries like,

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[58] Lall, n.3, p.386.

US, UK, Japan and Germany; MNC, subsidiaries; and imports. It is in the context of this structure that the comparative advantage of the Indian joint ventures ought to be evaluated.

The Indian firms after successfully adapting and absorbing the imported technology and product design with a view to meet the social needs in the context of limited markets are in a better position to meet the needs of other developing countries at similar levels of development. A two step diffusion of technology takes place involving either product or process adaptation. Indian firms provide small-scale labour-intensive technology. According to Vinod Busjeet (1980), developing country firms are more labour-intensive not only in local market oriented projects but also in the case of export oriented projects. Not only is the technology of the parent. Indian firm indigenised but they are further scaled down to adjust to the market size and conditions in the Third World. 42 of the 52 Indian firms that undertook foreign investments had obtained their initial technology from developed countries, 47 of them had indigenised it before investing abroad.[59]

[59] Louis T. Well (Jr.), Third World Multinationals: The Rise of Foreign Investment from Developing Countries (Cambridge: MIT Press, Mass., 1983), p.20.

The use of more labour-intensive technology by the Indian firms result from the fact that they invest in sectors, for example, textile, shoe industry, which have easily accessible technologies and an insignificant level of product differentiation. Intensive use of labour has favourable employment effects and a lower need for highly qualified manpower, a resource which is scarce in most developing countries. The multinationals on the other hand use large-scale capital-intensive technology. This sophisticated technology requires skilled labour and so they use less host country labour than the Indian firms. This, therefore, has unfavourable effects on employment of the developing host country labour. From this we can see that Indian joint ventures are more responsive to host economy gains.

The technological know-how acquired from Indian ventures are more flexible, controllable and gets absorbed and diffused faster than the ones from advanced countries because it does not require much refined infrastructure. Therefore, the direct cost of technology transfer from India is less. These technologies can better be integrated into the economic process of the host country because of almost similar level of development. Because of this it is easier and

less costly for the Indian firms to train local labour than the MNCs. The operation of Indian joint ventures help in the development of domestic technological capability in the developing countries which is an important part of economic development.[60] M N Cs on the other hand, are not interested in the development sectors in which the developing countries are interested, thereby, hampering the development of these economies. The export-oriented industries in processing zones established by the MNCs have exploited the resources of the developing countries without adding to the resource generation in these countries.

The machinery brought from India gives these joint ventures a cost advantage. It is simpler, requiring fewer specialised repair personnel and using more standard parts that can be obtained "of the shelf".[61] This adaptability to the needs of the host country provides a part of the competitive edge to the Indian joint ventures. The machinery brought by the

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[60] Karl Wohlmuth, "Practices and policies of host countries towards Third World Multinationals: a competitive edge against old multinationals?", in K.M. Khan, ed., Multinaitonals of the South, p.220.

[61] Wells (Jr.) n.7, p.147.
Also see
Wells (Jr.), "Economic Man and Engineering Man", Public Policy (Cambridge), Summer 1973, pp. 319-42.

MNCs is not necessarily "appropriate" to the factor cost of the recipient country. The MNCs do not make the most latest technology available to the Third World countries so in that sense they keep these countries technologically backward.

The use of small scale technologies help the Indian joint ventures to operate at high levels of capacity utilisation leading to better utilisation of host country's investible resources and generates more employment per unit of capital invested. As a result of this, these plants are less likely to suffer from idle capacity than plants based on sophisticated technology used by the MNCs. These assets make the Indian firms suitable partners in a new development strategy.

There are differences in the characteristics and functioning of MNCs and Indian firms and it is out of some of these differences that the Indian firms are able to enjoy an advantage over the MNCs. Important differneces exist in the management styles between these companies, prime among these is the nature of relation between the subsidiaries and its parent.

The MNCs maintain a close relationship with their subsidiaries. The subsidiary may provide raw materials or parts for manufacture or processing elsewhere or it may provide a market for components manufactured by the MNC in other countries. Its prices and the quality of image it creates can affect the prices or image of paroducts sold by the firm elsewhere. In addition, the subsidiary may serve to reduce the risk of other parts of the operation by providing a threat to international competitors.[62] In such a suitation the parent firm feels compelled to keep a tight boundary around the subsidiary's freedom of action. The subsidiary in turn is dependent on the parent firm for a continual input of technology or marketing know-how to retain its hold in the developing countries.

In contrast, the Indian joint venture abroad is often "on its own" after a brief period of assistance from the parent at the outset. In fact, the links between the parent and subsidiary may wither away with time and after a few years, the subsidiary of the Indian firm can hardly be distinguished from a local enterprise. Only a few

[62] See,
Fred T. Kinckerbocker, Oligopolistic Reaction and Multinational Enterprise (Boston: Harvard Business School, 1973).

Indian parent firms may keep a regular flow of newly adapted technology. Since the Indian projects are less dependent on continuing foreign ties, the local control that develops is politically attractive to most developing country governments. These joint ventures, therefore enjoy a greater degree of autonomy in decision - making.

The preference for collaboration with Indian companies is also due to the fact that Indian investors are conditioned by the political sensitivities they know in India and the problems that arise out of them. They pay increasing attention to host policies and reduce the danger of host state interventions with them. These firms have little fear of having their strategy disrupted with disputes over marketing policies with a local partner, since sophisticated marketing, strategy do not play a role in the firms success. According to Louis T. Wells(Jr.), the Indian entrepreneurs understand and respond to host country concerns more clearly and more diplomatically than the MNCs.

The multinationals have wholly owned subsidiaries operating in the Third World and only a few joint ventures. On the other hand, joint ventures are the major form of participation of the

Indian firms in which the Indian partners are a minority shareholder. 90 percent of manufacturing subsidiaries of Indian enterprises are joint ventures compared to only 40 percent of the subsidiaries of the American multinationals. Aware of the feelings raised by wholly owned foreign subsidiaries in India, Indian entrepreneurs are more sensitive to this issue and they are more willing to share the control and ownership with their local partners. These ventures hire local mangers to slowly replace the Indian managers. As a result of both smaller scale and less effective potential, the Indian ventures are less dominant bargaining parties vis-a-vis Third World country's business partners.[63]

Thus a crucial factor in the operation of Indian enterprises is the absence of economic domination which in turn results in political domination. The political interference by some of the multinationals prevents the host governments from pursuing policies in consistent with their national interest. The minority participation by the Indians in their joint ventures do not raise fears of foreign domination among the locals of the developing

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63 Reginald Herbold Green, "Operational relevance of Third World Multinationals to collective self-reliance: some problems, provocations and possibilities", in K.M. Khan, ed., n.60. p.65.

countries. They are also free of exploitation under Indian enterprises to which they are subjected to by the MNCs. For example, in Indonesia there is public concern about the "over presence" of Japanese investment, so Indian projects are viewed as a possible counterweight to the former.

Indian joint ventures import fewer equipments, use more local labour and raw materials compared to the developed country firms. Multinationals require skilled personnel and this being scarce locally, they have to be brought from the developed countries and this in turn has an adverse effect on the cost of production as the prices have to be raised. The MNCs do not welcome participation of host nationals in the management of their subsidiaries as they fear diffusion of their technology. They wish to keep their technical know-how to themselves since they have discovered new techniques and therefore, enjoy the monopoly profit that comes with a patent. They are thus reluctant to share their knowledge with the developing countries and in no way help in the economic development of these countries. Access to superior technology gives them a monopolistic control over the production processes in the Third World.

Technological tranfers by the MNCs are neither easy nor do they cost less. This is because the receiving countries may not have the skilled workers, engineers and managers capable of absorbing new technology. So even if the MNCs wish to transfer their know-how they may not be able to do so because of the "team" character of production and the complexity of technology involved. Secondly, because of high rate of technological obsolescence, and the frequent inappropriateness of that technology in relation to existing factor endowments, scale requirements and institutions, the recipients of the technology may not want to learn the technology even if they could. Thirdly, in view of the small size of the domestic market in developing countries and the high start-up costs and delays required in making it possible to take advantage of learning by-doing through active participation in choosing, installing and even operating the technology, direct participation and learning - by-doing are likely to be eschewed in favour of continuing dependence on foreign consultants, engineers and managers who can get the job done more quickly and reliably.[64]

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[64] Jeffrey B. Nugent, "Arab Multinationals: problems, potential and policies", in K.M. Khan, ed., n.60. p.169.

So we find that dependence on multinationals continue to remain and, as a result, many of the developing countries prefer to act as hosts to Indian firms. If the developed coutnry firms wish to offer a technological package to the Third World similar to that of the Indian joint ventures, they have to re-learn the long forgotten skills.

Indian companies prefr price competition as the main mode of rivalry while the MNCs relay more upon non price cmpetition. This price competition results in cheaper prices of products and lower profit margins on sales leading to greater welfare gain for the host society. This is beneficial for consumers in the developing countries and for market structures in the long run. So though the quality of Indian products is inferior to that of the MNCs the relative and overall cost of technology import from Indian is lower than in the case of imports from the advanced countries.

The ability to manufacture efficiently at small-scale appears not to be the only cost advantage of Indian joint ventures. Some of these ventures have an edge over potential competitors from the advanced countries through their ability to reduce the cost of management and engineering personnel. The

salary paid to the managers of their overseas subsidiaries by the MNCs is very high while the salary of an Indian manager abroad is only a small fraction comparatively. The manager of the Indian venture in many cases is a relative of the owner-manager of the parent firm. The low salary paid to the Indian managers and technical personnel play a role in the cost competitiveness of the firm and enhances the advantages of the Indian ventures over the multinaindustrialisationnals in market segments where price competition is a viable strategy. It has been suggested that Indian firms pay less wages to the local workers. The Indian joint ventures also derive advantage from the fact that they operate almost exclusively in the developing countries.[65]

The necessity of having to operate in difficult environments forces the Indian managers to devise ways and means of tackling these problems. As a result of their experience at home, these manages have acquired the capability to adapt to difficult economic and market situations, thus strengthening their capacity to operate successfully in a similar economic environment in the Third World. Indian overseas

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[65] Sunitra Chishti, "Third World Multinationals and trade expansion among the countries of the South", in K.M. Khan, ed., n.60. pp.100-101.

ventures are also psycholegically more appropriate to the social phychological conditions of the developing countries. Having a greater understanding of the needs and demands of a traditional society, Indian managers are likely to display a greater tolerance and understanding towards their employees than would be the case with Western multinationals. Indian managers, therefore, being more capable of tackling labour problems, possibilities of conflict between management and employees also might be minimised in this way. [66]

If we look at the functioning of Indian construction companies in the Third World, we find that these firms have the ability to maintain good industrial relations with unskilled labour in temporary jobs under difficult conditions. Construction companies from India have often demonstrated an ability to manage problems of insecure supply, difficult administrative procedues and complicated market situations. The transfer of such management techniques is highly beneficial to the host developing countries with regard to adjustment problems. The local host country firms do not have access to entrepreneurial or technical skills to exploit a similar advantage. So the Indian

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66 Kian-Wie-Thee, "Indonesia as a Host Country to Indian Joint Ventures", in Kumar and McLeod, ed., <u>Multinationals from Developing Countries</u>, p.134.

participation in joint ventures is welcomed by developing countries.

The multinationals produce goods for international markets, so they are of stable and uniform quality and not suited to the specific conditions prevailing in the Third World. Products of the Indian joint ventures are, on the other hand, more suitable or appropriate to the specific conditions that prevail in the Asian and African countries. For example, Sun-fast dyes produced by Indian firms are more suitable for the humid and tropical markets of Africa than the ones produced by the developed countries. Indian enterprises produce goods for mass consumption so produce only those goods necessary for local needs. The MNCs have concentrated in the extractive sector whose investment flows are vertically integrated with the home economies and their produces are more in the area of luxury goods. A higher portion of Indian investment has gone into strengthening the manufacturing base of the host countries.

Since the Indian firms operate on a small-scale along with low administrative cost, there is a low degree of risk, which in turn is beneficial for the host economy. Risk diversification is a major factor for Indian firms while this carries no weight

for the MNCs. The competitive edge of the Indian joint ventures may also be explained by the cultural and language ties in the Third World and on this basis, economic factors may have increasing importance.

Because of lack of data, it is not possible to distinguish the shares of mass and luxury consumption goods in the production of Indian and multinational enterprises; also because of methodological problems this would be a difficult task. Additionally it is not possible to determine the share of the capital goods production which is oriented towards agriculture. However, we can say that Indian frims are involved in the production of mas consumer goods as India wants to be a partner in the developmental process of the Third World.

Linkages generated from the operation of a project are an important externality for the host economy. Since new inputs are required by the MNC subsidiary to maintain a competitive edge, the subsidiary remains vertically integrated into the trade system of the multinational enterprise. This integration requires careful control of quality and delivery dates by the parent firm. Thus the nature of ties required affects the overall organisational structure of the multinational company. The magnitude

of linkages generated from operation of MNC affiliates will be inversely related to the extent of their integration with their associates in other countries and also on the global strategy they have in view. The Indian firms operate in a few countries and so do not have a global strategy and their affiliates are horizontally integrated to the parent firm.

Regarding the locational choices, the Indian ventures are concentrated in the urban areas. This is to ensure security of supplies and the organisation of production and sales are best guaranteed in urban areas. The supply of cheap mass consumption goods to the urban centres are welcomed by the host governments in order to counter the inflationary processes in those areas. The Indian ventures also contribute to more balanced regional growth in the developing countries. For example, unlike the Japanese firms, the Indian ventures are located throughout Java rather than being concentrated in Jakarta. Thus the Indian joint ventures seem to generate more linkages for the host economy through their more balanced regional distribution, and their dependence more on local sources of raw materials and capital goods.[67]

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[67] Kumar, n.5, p.153.

Even in the field of pharamacueticals we see a marked preference for Indian firms in some of the developing countries. Probably the most severe competition between multinationals of the advanced countries and the Indian firms occurs at the tail end of the product cycle. As the product lines of the advanced country multinational matures, the firm is likely to face increasingly severe competition from the Indian firms.

The appropriateness of Indian firms investing in developing countries can be further understood in the words of an Ugandian diplomat - "As a primarily agro-based economy we are naturally interested in Indian expertise in agriculture and related industries. But we are also keen to attract joint ventures from Indian in transport and communication, infrastructure and electricity structure".[68]

Third World firms create alternatives to North-South links and in that sense the Indian joint ventures increase the room for manoeuvre and relative bargaining power of the developing nations

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[68] PTI, Economic Service, n.12, p.23.

by providing alternatives to MNCs. They provide insurance to the weak industrial countries of the South to recover against the growing protectionism of the developed countries which prevent rapid development of Southern economies. Such investments promote South - South trade of capital goods and other intermediate products and collective self-reliance of Third World countries. It initiates a process of greater economic cooperation among developing countries. The preference of the developing countries for setting up joint ventures in products that lead to import substitution and export promotion make investment from India more beneficial than the MNCS.

The joint ventures set up by the public sector can serve not only as countervailing forces to the MNCs but they can also provide functional alternatives to them. By creating a network of economic cooperation among developing countries, they can contribute towards the evolution of a more symetrical international economic and political system. However, in view of the relatively small volume of the overseas investments by public enterprises, their contribution in this regard is at present more symbolic than substantial.[69]

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[69] Kumar, n.10, p.199.

EFFECTS ON THE BALANCE-OF-PAYMENTS ON THE HOST COUNTRIES BY THE OPERATION OF INDIAN JOINT VENTURES

Operations of foreign enterprises in developing countries have implications for the host country's implications for the host country's balance-of-payment (BOP). Let us now see whether the Indian firms help in the BOP of the developing host countries. According to J.P. Agarwal, "it is possible that the net contribution of Indian joint ventures as a group to the BOP of their host countries is likely to be positive".[70]

The effect on BOP can be measured in two ways - direct effect and total effect. Indian firms depend less on imported raw materials and capital goods than the MNCs. The outflow of foreign exchange from host countries with regard to service charges, in the form of remittances, royalty, dividends and technical fees etc., are proportionately less in the case of Indian firms than in the case of developed

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[70] J.P. Agarwal, The Pros and Cons of Indian Multinationals Abroad (Tubingen: J.C.B. Mohr, 1985), pp.101-102.

country firms. The low royalties and technical fees remitted to Indian firms may be due, in part, to the lower profit margins and in part to the tendency to retain a higher proportion of profits on the part of these firms for re-investment. Therefore, the foreign exchange outflow from the host countries on these counts is lower in the case of Indian companies.

Regarding the inflow of foreign exchange to the host countries, the Indian firms again have an advantageous position. A joint venture project has regular earning of foreign exchange through export of its products. So on the export front, the Indian firms do not have any export restrictive clauses in their agreements with foreign partners. On the other hand a notable feature of the agreements signed between multinationals and their partners in developing coutries is the restrictive clauses on the exports of their affiliates. Sanjaya Lall, after a sampling of 17 Indian firms operating abroad, noted that the affiliates of all but one firm had export activity, in some cases quite impressive, from the host country.[71]

The Indian entrepreneurs, according to J.P. Agarwal, allow the joint ventures to export as it increases their access to funds in convertible

[71] See Sanjay Lall, The Multinationals : The Spread of Third World Enterprises (New York : John Wiley and Sons, 1983), pp.76-79.

currencies. Thus the Third World countries profit in the field of inflow of precious foreign exchange by setting up joint ventures with Indian parties. So the overall BOP effect comprising of direct flows as well as savings of foreign exchange through import substitution, is likely to be positive in both cases. MNCs cause serious balance-of-payments difficulties in the host developing countries.

The Japanese multinationals are more in head-to-head competition with Third World firms. Firstly, Japanese firms are particularly strong in the geographical areas where Third World firms are most developed, i.e. in South-East Asia. The Japanese firms have investments in developing countries for products that are at the tail end of the product cycle. In poorer countries, they have invested in industries such as, textiles, kitchen utensils and simple metal fabricating. These are exactly the kinds of industries in which Third World enterprises have gained increasing strength.

Despite the benefits of Indian investment in the developing countries, there are a few disadvantages faced by these firms in their competition with the multinationals. Indian firms are less likely to provide a continuing stream of technology so are at

a disadvantage in projects where a continual flow of new technology seems particularly important. The special technology offered by the Indian firms is likely to give them an edge in foreign markets only if price competition is a vaible strategy for the particular markets.

The Indian firms have less ready access to a significant export market, while the MNCs are better placed to export because of their already established marketing networks of their associate companies in developed countries. Another disadvantage is that only certain Indian firms respond to the pressure of international competition - both from MNCs and local firms and are able to survive in foreign markets while for the MNCs, there is no such pressure for survival.

On the basis of available data and evidence on the subject, attemp has been made to bring out the competitive advantage of Indian ivestment in comparison with the MNCs. No evidence is yet available on the degree of vertical integration, technology absorption and diffusion and financing behaviour of these firms. Since transfer of technology from India prove to be more equitable and beneficial for the developing host countries, the imperative for

international economic cooperation is that the constraints be removed so that a greater collective self-reliance of the South may emerge. The Third World, despite certain disadvantages, favour Indian investments and so the opportunities are increasing. In the next chapter, the problems faced by these joint ventures along with the prospects for further investment by these firms will be studied.

CHAPTER VI
PROBLEMS AND PROSPECTS

In the previous chapter we have seen the performance of Indian firms in the and what their advantages are in comparison to the Multinationals. Now let us have a look at the problems faced by these firms and what are the scopes for setting up more Indian ventures in the developing nations. First we will deal the problems.

At present cash remittances (except for certain cases) for setting up joint ventures abroad are not permitted. The government has stipulated that Indian equity investment should primarily be in the form of export of capital goods. This prevents a higher growth of DFI and Indian investor's lack of liquid capital often causes distrust on the part of local partners in host countries.

Severe liquidity constraints prevent Indian firms from investing in projects requiring heavier initial capital investment. Therefore, firms having technologies that require heavier average fixed cost investments find it difficult to invest abroad than firms with technologies requiring lower average fixed cost investments.[72]

[72] Lall, n.3, p.387.

As the capital markets in most of the under developed countries are not well developed, local partners experience difficulty in raising working capital for projects. Thus the Indian investors have difficulty in getting a suitable partner in the host country. Exchange controls also make it difficult for the Indian investors to gain a large portion of the shares in an overseas project. In some cases, after the ventures get started, they are abandoned due to problems arising out of lack of capital. Investors from developed countries offer working capital in addition to resources necessary for the purchase of machinery and capital equipment. In some developing countries, for example, Malaysia, even the dealers want credit. Hence the policy of ready cash followed by Indian entrepreneurs is a disadvantage.

Financial constraints pose a problem for Indian construction and civil engineering companies in bagging overseas contracts, right from the stage of bidding to execution. The government's restrictions on borrowing to 15 percent of the contract value from overseas is a discouraging factor. Also in case a bid does not come through only 75 percent of the guarantee commission paid to the ECGC, Exim Bank, etc. is reimbursable and this also discourages initiatives.

Indian collaborators are required to contribute their share in the form of machinery, equipment, technical know-how etc. It is generally contented that the prices of Indian products are higher than that of the competitors. A suitable scheme for enhancing the price competitiveness of Indian capital equipments has to be devised on the line of the export incentive scheme now being operated for the new items of our exports. Such a scheme will go a long way in making Indian offer more attractive to foreign collaborating partners. At present the scheme for permitting drawback of import duties on exports from India does not cover machinery and capital equipments exported for equity participation in joint ventures. In order to bring the prices of Indian machinery and capital equipments exported as equity shares in joint ventures on par with the prices of foreign capital goods, the drawback scheme should be enlarged to include export of capital goods for equity participation in joint ventures abroad. [73]

The delay in dealing with the proposals for joint collaboration abroad also causes hardships. For ensuring speedy disposal of proposals

[73] Indian Institute of Foreign Trade (IIFT), Joint Industrial Ventures (New Delhi): IIFT, 1969), p.33.

for joint collaboration there is need for coordinating the activities of different Ministries and Departments so that the process of decision making is centralised at one place. The procedure for dealing with proposals for joint ventures must also be streamlined so that decisions can be made expediously. The national laws related to taxation, control, incentives and repatriations need to be properly harmonised.

Unhealthy competition among Indian industrialists sometimes affect the terms and conditions of the collaboration agreements. It is necessary to set up a consultative body consisting of industrialists and representatives of the government for evolving healthy practices in the operation of joint ventures. Consortium approach to joint collaboration should be encouraged when complete plant and equipments are exported.

There is lack of a pragmatic policy on the approval and support to Indian joint ventures in the developing countries. Many Indian investors do not have proven track records and proffer low technology and are therefore, unable to compete with others. They are bogged down by long gestation periods and a quagmire of rules and regulations controlling aspects like levels of investment, expansion, equity stake,

repatriation of profits and even directorships of joint ventures abroad. Unless these lacunae are remedied, India may lose an opportunity to fulfil its legitimate role as a major Third World economic power.[74]

The winding up of some plants has, at times, created a backlash. In some cases, there have been difficulties in meeting working capital requirements or absorbing local personnel in key positions as demanded by the partner in the host country. Lately, problems regarding quota of immigrants including those working in joint venture firms have come to the fore. Under-estimation has been made by some entrepreneurs of likely problems, such as, selection of suitable partners, raising of finance abroad, marketing of products and management arrangements in setting up of ventures abroad. This has resulted in high rate of abandonment of ventures abroad, though the number of abandoned units have declined.

The Indian firms have been handicapped in their overseas operations, by their relatively unknown names and small international presence - this has affected the ability to gain access

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[74] PTI Economic Service, n.12, p.24.

to adequate finances in overseas markets. There is little progress forwards establishing image, brand name and royalty in the market for Indian products. Another major field of lacuna is marketing. No research has been made to understand the market shares of various competitors.

In the case of management, confronted with financial scarcity, fierce competition and superior quality imports, Indian managers changed their product mix, prices, costs, volumes and technology in an ad hoc manner without proper planning. Thus with total neglect of long term strategy, the capacity utilisation is as poor as 20 per cent. The management lacks professionalism and there is inadequacy in the organisational support from the parent firm. No timely help is available in solving marketing, financial and technical problems and there is considerable delay due to congestion in ports.

The absence of Indian industrial image in the Third World also gives rise to certain problems. Indian entrepreneurs do not project their product through fairs and exhibitions. These entrepreneurs lack experience in presenting their projects as being viable and lack perception regarding

identification of areas of investment of non-commercial risks in developing countries.

Apart from these, there are other problems faced by the Indian firms in the developing countries. The restrictions put by the government on the release of foreign exchange cause problems to the smooth running of the operational units. The Reserve Bank of India's policy of insisting on companies to reimburse the foreign exchange received earlier, through remittance from overseas ventures, puts the firms to greater hardship. A few of the problems faced by the Indian firms is also the result of their late entry into the international market. They lack access to a lot of markets and resources in the developing countries as they have already been cornered by the firms from developed countries.

Also, in getting finance from Industrial Development Bank of India (IDBI), guarantee from commercial banks is required; but since Indian banks cannot give guarantee against export of equity participation, IDBI facility remains unutilised.

Certain problems are faced by the overseas branches of Indian banks. According to a study conducted by the Department of Economic Analysis and

Policy of the RBI, one of the operational constraints of overseas branches of Indian banks is the erosion of their established customer base. The establishment of more offices in some of the centres, particularly in areas of Indian expatriates, has led to competition among themselves.

Another serious problem which Indian bank branches are beset with is the inadequacy of capital, which also affects their inability to absorb financial shocks. This, in fact, precluded their entry in some of the important countries which stipulated heavy capital requirements while offering profitable business potential.[75] The RBI should make long-term loans available to the Indian ventures abroad through the overseas branches of Indian banks and see to it that these ventures are able to get funds from international financial institutions like the International Financial Corporation (IFC).

The problems mentioned are not too grave, they can be corrected or remedied. In order to face competition from the MNCs, a large expenditure on advertisement and improvising market strategy is very important. At present, Indian companies spend the least

75 "Bank branches abroad: Insufficient capital lack of innovation threaten existence", Financial Express, June 4, 1988.

on advertisement and popularising their products and their quality and packing is very low when compared to with other competitive firms.

It is essential to study the economic condition of the host country, political stability and the infrastructural facilities available before setting up joint ventures in these countries. The pre-project study and planning should be taken up more seriously and the local partner selected should be viable in terms of business. The tendency on the part of Indian investors to look for overseas Indians as partners results in lack of support from the local traders and distributors, therefore, careful selection of partners is necessary.

At the institutional level, the Indian Investment Centre, Indian Missions abroad and UNIDO play an important role by providing information to the Indian parties wishing to invest in the Third World. Advice from the local banks is also of great help and efforts have to be made at the national, bilateral and regional levels on how to overcome the further problems that might arise. The existing tarrif policies in some of the Third World countries are more liberal to Indian ventures so profitability should be worked out on the basis of existing tariffs.

PROSPECTS

Despite problems faced by the Indian firms in setting up ventures in the Third World, the prospects for setting up of these ventures are bright specially in the field of consultancy services and project exports.

Though there is not a single Indian venture in Latin America, promising prospects exist regarding investment here. A Caribbean diplomat has pointed out "Indian investors are only interested in countries with a large local market and therefore, the obsession with South - East Asia". This may be true but smaller nations are making it a point to bring home the fact that they could provide footholds to markets otherwise rapidly closing to Indian products as a result of quota restrictions, high tariffs and protectionist barriers. For example, both Trinidad and Tobago and Guyana offer very convenient spring boards to North and South American markets through programmes like the U.S.A's Caribbean Basin Initiative, under which goods receive preferential access to North American markets. Similarly, Malta is seeking to

attract Indian companies that are finding it difficult to sell their goods to Europe.[76]

Indian participation is being sought in Trinidad & Tobago specially in the following projects:

a) The establishment of a production facility for the manufacture of domestic pots, pans and pressure cookers from aluminium and stainless steel for the local and export markets.

b) The establishment of an integrated plant facility utilizing the husk, shell and kernel of the coconut on several projects to manufacture a high range of industrial products such as milk, coconut cream, dessicated coconut, alcohol and acids derived from coconut oil, rubberized coir, activated carbon, handicraft items etc.

c) A machine tools project to manufacture metal cutting and wood machine tools at an integrated establishment comprising machining, heat treatment and assembly facilities.

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[76] PTI Economic Service, n.12, p.24.

d) The construction of a Methyl Tertiary Butyl Ether Plant.

e) The establishment of a production facility for the manufacture of 12,000 metric tons of Vinyl Acetate Monomer per annum for both local and export markets.

f) The establishment of a mini-scale plant to produce Nitric Acid and Ammonium Nitrate.[77]

In Brazil, promising prospects exist for combining Indian and Brazilian technologies, skills, experiences and resources for undertaking projects in third countries. Brazil has been invited to participate in the development programmes of Argentina, as also those of ANDEAN group of countries (Bolivia, Peru, Venezuela and Equador). If efforts are made, India can become a useful partner. It is felt that cooperation and collaboration in third countries would help bring down the project cost considerably and enable both the countries to derive the benefit of mutual cooperation.[78]

Indian collaboration in Colombia would be welcomed for two reasons. First, there is a

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77 Indian Investment Centre (IIC), Monthly Newsletter (New Delhi: IIC), May 25, 1989, p.59.

78 Indian Investment Centre (IIC), Foreign Investment Policies: Select Country Profiles (New Delhi: IIC, 1982), vol.1, pp.12-13.

desire and deliberate move in Colombia to reduce its dependence on the MNCs who have been dominating the economy a great deal. Secondly, the less sophisticated labour - intensive technology that India has developed would be relevant to the socio - economic conditions prevailing there. Considerable scope, therefore, is visualised for joint ventures in fields such as creation and expansion of railway and road network, electric power generation, development of non-traditional source of energy including hydro-electric projects, exploitation and improvement of its mining and agricultural sectors, sugar, cement and textile industries, iron and steel plants, scooters, motor cycles and three wheelers, and forgings and castings.[79]

It is felt that once the 51 sub-Saharan African countries pass through the critical period of structural adjustment, with the continent facing severe financial constraints and heavy dependence on aid, it would auger well for Indian entrepreneurs, who are best placed to provide these countries with the appropriate technology. Mr M.C. Bhat, former economics Secretary, in a recent study, found 100 Indian companies in both the private and public sectors, who would be in a position to supply

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[79] ibid. p.21.

the required technology to at least 12 African countries.

In Ghana, the Indian firms have recently made a dent in the field of joint collaborations. The scope exists for the manufacture of motors, pumps, small tractors, agricultural implements, automobile components, wood and rubber based products, fruit and vegetable canning, small scale oil and sugar mills, poultry feeds, hosiery, coir and leather ware, handmade paper, sports goods etc.

Many countries in Africa, particularly Madgascar, Zimbabwe and Zaire provide a big opportunity for the export of Indian consultancy services, according to Mr. Jeremy J. Wells, senior marketing adviser of the International Trade Centre of UNCTAD and GATT at Geneva. He said that India should offer projects in the nature of "packages" including consultancy, operation, maintenance and training, if possible, with funds to these countries.[80]

Mr Ike Nwachukwu, Nigerian foreign minister, has invited Indian businessmen to invest more in joint projects in Nigeria which could also be for

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[80] "Scope for consultancy in African nations", Hindustan Times (New Delhi), October 12, 1988.

exporting to third countries. This would provide India access not only to African market but also to Latin America. Cooperation between India, Africa and Latin America would facilitate better utilization of resources on a mutually beneficial basis and give a boost to the process of South - South cooperation as a means of dealing with challenges arising out of the emergence of new economic groupings.[81]

In Nigeria the scope for joint ventures exist in the manufacture of plastic ware for domestic use, small rubber parts, electro plastics like complete range of bulbs, plugs and switches, other domestic electrical goods, bicycle and bicycle parts like hubs, spokes etc., agro-based industries, food processing and confectionery items on small-scale basis, mild steel rolling mill products, sugar, textile, cement, processing of cassava, rice mills, fish preservation, fruit processing, diesel engines and entertainment electronics.[82]

India and Kenya have recently signed an agreement on technical and economic cooperation which envisages setting up of plants in

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[81] "Nigeria wants India to step up investments", Business Standard, August 23, 1989.

[82] IIC. n.78, p.85.

Kenya in the field of sugar, cement, machine tools, pesticides, PVC resins, oxygen, pharmaceuticals, animal feed and rubber reclamation.

India and Cyprus have agreed to cooperate in the setting up of joint ventures, including joint production and export of goods to third country markets.[83] Tanzania has sought India's technical and managerial assistance for setting up a timber and wood processing plant and for setting up a chain of mini sugar plants.[84]

There is renewed interest in the posibility of joint ventures within the SAARC countries wherein India, would like to take the lead. Although the number of ventures in these countries is not expected to show any dramatic increases, there is scope for setting up more Indian joint ventures.

Considering the requirements of Nepal and India's capability to assist, vast scope exists for Indian investment in Nepal in their infra-structural development, in higher and technical

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[83] Joint Ventures with Cyprus soon", Financial Express, April 14, 1989.

[84] "Tanzania seeks India's help to set up sugar mills", Business Standard, June 12, 1989.

education and research, in setting up industries based on local raw-materials. The greatest scope for economic cooperation lies in the two countries joining hands to exploit water resources of Nepal for irrigation, flood control and generation of hydro-electric power on a sharing basis.

In Sri Lanka apart from export industries some of the fields which offer scope for setting up joint ventures are agricultural development, dairy development, fisheries development, industries based on coconut products, sugar-cane development, spices and essential oils, perfumes and flavours, rubber moulded and dipped products, tea processing and instant tea, electrical and electronic industries, graphite and graphite based industries, soft drinks, products based on salt, leather and leather products, basic industrial chemicals, drugs and pharmaceuticals, road rollers, motor vehicle assembly and manufacture of marine engines, thermoplastics, toy crafts, metal crafts, printed and plain propylene, synthetic and blended fabrics etc. Some of the other areas which offer investment opportunities are quarrying and mining, housing and other construction works, service industries and consultancy and infrastructural development.

In South - East Asia, India has the largest number of joint ventures and still there are opportunities for more Indian investment. The Government of Thailand lays special emphasis on rural development. Chemicals necessary for increasing the productivity of agricultural crops are, at present, being imported in large quantities and these fields could be tapped by India in a big way. There is vast scope for production of moong dal and other pulses which are in short supply in India with a firm buy - back arrangement for a specified period. Yet another area where India could think in terms of having tie-ups with the local talent is in the field of consultancy which would help in the implementation of projects financed by the international institutions like the World Bank and Asian Development Bank, etc. There are opportunities for investment in the agro-business sector and the mining industry, which offers attractive investment opportunities.[85]

West Asia is evoking renewed interest among Indian business houses which since the end of oil boom days had been keeping away from this region. By and large, however, through a combination of civil works contracts, industrial joint ventures and

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85 IIC. n.78, p.101.

more recently operation and maintenance contracts, India has an excellent reputation in Iraq. This goodwill generated among Iraqi decision makers can be exploited for bigger Arab Cooperation Council (ACC) oriented projects.[86]

The Iraqi government has awarded a $7 million contract to the Indian Railway Construction Company to execute civil engineering works for the expansion of a fertilizer project. The Birla company, Cimmco, has signed an agreement to put up a $ 40 million textile project in Jordan.

Apart from the manufacturing sector, the services sector is also a growing field of interest for the Indian entrepreneurs. Malta, Trinidad and Tobago, Nepal and Maldives are looking for joint ventures in the booming hotel and tourism industry - an area in which India has acquired a high degree of sophistication.

The emerging areas of consultancy assignments are operation and maintenance of existing industries. For example, in South-East Asian countries

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86 F.J. Khergamvala, "West Asia offers new avenues for Indian Joint Ventures", The Hindu (Madras), July 13, 1989, p.28.

there is need to train local people in maintenance and operation of the newly set up projects. These countries also offer vast scope for export of consultancy services by way of joint ventures. There are prospects for undertaking turnkey projects in many developing countries. Sub-contracting is another important area. For example, if a company from USA or UK wants to set up a turnkey power plant in Malaysia, the company can buy the major components from India and get these assembled out site in Malaysia on most competitive basis.[87]

Considering the enormous potential in this area Larsen and Tourbo (L&T) has decided to undertake turnkey projects in oil, gas, petrochemicals, fertilisers, power and other strategic sectors as the new thrust area for its activities. The company is exploring possibilities in South-East Asia and Latin America. The Indian firms can also pool their resources with firms from other developing countries and bid for global tenders. The prospects of Indian banks' operations abroad and their expansion are conditioned largely by the extent of growth in India's project exports which is likely to be in the vicinity of Rs.15,900 crores by the end of this year.

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[87] Kumar, n.39, p.5.

CONCLUSION

India, after independence has followed the policy of important substitution based on inflow of foreign investment from advanced countries. In the last four decades, India has achieved considerable success in implementing programmes of industrialisation and diversification of economy through planned industrial growth. The availability of high level skills and an increased R and D effort over the years has helped India to generate technology reflecting its own socio-economic conditions. Thus the Indian firms have acquired flexibility in production, technology and management for meeting the needs of markets of various sizes and has a lot to give to other developing countries.

Like other Asian and Latin American countries, Indian firms have moved abroad in ever increasing number to set up manufacturing units in economically less developed countries. Indian investment in the Third World is governed by long-term opportunities and the availability of raw materials. Both home and host market considerations have influenced the firms to venture overseas. The official policy is sensitive to the feelings of the host country and therefore has avoided irritants and frictions by

encouraging minority participation and increasing association of local development banks and institutions. As the Indian government and the investor sought to defend an export market perceived as threatened, foreign investment began to follow foreign trade.

The decision to invest abroad was also the unintended consequence of certain domestic regulatory policies, especially the MRTP Act which put constraints on growth at home. Thus the ventures abroad have served as an outlet for Indian enterprises to internationalise and in the process was subjected to exposure to the latest technological development and management practices. The Indian Government has actively encouraged and promoted DFI from India during the seventies and eighties. Various host market considerations - tariffs, demand for selected goods - have lured the Indian entrepreneur to the developing countries.

Over-optimistic planning has resulted in excess capacity in certain sectors in India. A look at the modern sector shows that many products have been manufactured with imported technologies, catering to the needs of only a small minority in India, where income and wealth are

concentrated. Therefore, inorder to utilise this excess capacity the firms, in this sector, have invested in other countries. But, unlike the developed countries, Indian overseas investment is not a result of international wage competition as wages in India are lower than in most of the important host countries of Indian joint ventures.

The fields in which ventures have been set up have got widened in depth and range. The products in the manufacturing sector range from heavy and basic industries like petroleum, steel, cement to intermediate and consumer goods. Textile, sugar, food and simple metallic products conform to the product cycle theory of DFI. There is growing scope in several areas, such as, development of agriculture and agro-based industries, mining and mineral development and infrastructural facilities.

Successful efforts in one area have thrown up opportunities in other sectors. These can be taken advantage of only by the speed with which response can be made in undertaking feasibility studies and deputing personnel to negotiate. If the firms first complete feasibility study, obtain host country's sanction along with finalising the local partner and then request for governmental clearance for the

project, it would facilitate quick and healthy entry by Indian business houses in setting up overseas joint ventures.

The ventures have provided job opportunities to engineers, technicians, management experts, chartered accountants, etc. This has helped in migitating unemployment of skilled personnel in India and offered opportunities which are not available at home. They have also provided a challenge to Indian entrepreneurs and skilled personnel and successful working of these ventures have provided an example of the capabilities of the Indian corporate sector.

It is sometimes said that being a capital - scarce country, dependent upon foreign aid, setting up of joint ventures in the Third World is draining the capital from India. This criticism is not based on sound premise as the participation by the Indians has been in the form of supply of capital goods, machinery, equipment, managerial services and technical know-how. Cash remittances are now being allowed to make India offer competitive terms inorder to enable entrepreneurs to overcome problems related to finance, including working capital, and to meet situations arising out of cost escalations. The size of such remittances are small. Cash transfers will

also enable the Indian investors to broaden their fields of activities and invest as well in areas in which they cannot draw on a supply of technology from India. Also, since investments abroad have earned more foreign exchange than they spent, there is no sound reason for not permitting them to be financed through more liberal transfer of cash. South-East Asian countries, in their search for technology and management skills, can provide growing opportunities in relatively open economies if cash remittances were more freely allowed.

So a major dilema confronting the policy makers is to ensure that enough cash can be remitted so as to enable our ventures to compete on equal terms with other competitors and at the same time see to it that the size of cash remittance is not too large so as to constitute a drain on our foreign exchange resources.

In the third-country collaboration, important beginnings have been made by Indian investors in joint ventures abroad. This has been done through collaboration on a triangular basis with some developed countries which are specially interested in acquiring a part of Indian equipment and skills on a competitive basis to reduce the overall costs of their operations.

This has opened up new possibilities so despite certain constraints of infrastructure and supply bottlenecks, in respect of some items needed for industrial projects, India is well poised to become a reliable partner in third-country projects.

Facilities in terms of raw materials funds, foreign exchange, technology import etc. will have to be extended to enable Indian firms seeking joint ventures in the Third World, to manufacture equipment and components for supplying to joint venture firms in third countries. The blending of financial resources of OPEC countries and Indian expertise may also materialise.

Majority of these units are owned and successfully controlled by the monopoly houses of India. Although the public-sector has invested abroad, the volume of investment is still small compared to the private sector. These firms have embarked upon well conceived, carefully planned and economically viable projects capable of yielding not only higher return but also in projecting a better image of Indian enterprises abroad.

Apart from the establishment of joint ventures, India's capabilities have included

supply and installation of turnkey projects, sharing of technical know-how and technical service. Project identification, formulation and appraisal have also been undertaken for taking judicious investment decisions. In the field of consultancy services, Indians have collaborated in a wide range of activities covering plan formulation, feasibility studies and detailed project report. India has also shared its expertise in agriculture, health, education, science and technology, trade promotion, communications and research and development in various fields of industrial production.

On the basis of expertise gained and new opportunities emerging in the international arena, an average growth of consultancy services in the developing countries during the Eighth Five Year Plan has been estimated at 30 percent per year, from Rs.250 crores in 1990-91 to Rs.840 crores in 1994-95. International agencies like the World Bank, Asian Development Bank(ADB), UNDP, UNCTAD and UNIDO have time and again pointed to the vast potential of export of consultancy services from newly industrialised nations like India, provided the goal is pursued systematically. The new Import and Export Policy 1990-93, laying emphasis on rapid and sustained growth in the export of consultancy services, is a step in the

right direction. The implementation of the policy can provide avenues for globalisation of the Indian economy.

In the area of technology export, India has forged ahead. Management contracts have been entered into by a number of Indian firms in the field of paper, textiles, dye stuffs, cement, trucks, scooters, soft drinks, power cables etc. Cost of technology transfer from India has been minimum and the Indian experts have adapted themselves to the environment in different countries satisfactorily.

Technology transfer and process know-how from India have become a crucial element in the industrial and economic growth of developing countries. Cheaper and relevant technology is increasingly being sold to Burma, Iraq, Malaysia, Nepal, Muscat, Philippines, Saudi Arabia, Singapore, Syria, Sri Lanka, Brazil, Egypt, Nigeria, Uganda and U.A.E. For example, the Atlas Cycle Industries Ltd. has given technology for manufacture of bicycle and bicycle parts to Bangladesh, Iran, Tanzania and Zambia. Even machinery for use in agro-based industries like sugar, cotton textiles, oil crushing etc. can best be provided by India as these have already been tested and successfully adopted in the country. Another

significant input that India has provided is training of personnel including in-plant training.

Though the tangible benefits are important, the role of the joint ventures has to be judged not merely in terms of these benefits, in the form of dividends and other repatriations, but also on their demonstrative effect to project the quality of Indian equipment as well as our ability to transfer appropriate technology. From the strategic point of view, most of the Indian ventures did not possess any unique skills or strive for comparative advantage that would provide them with a unit cost advantage or market power. Some of the firms have been very innovative when it came to meeting the special demands of the developing country markets.

The chief advantage of the Indian firms has been adaptability to local conditions as is evident in their extensive use of local materials and labour and the flexible use of plants to cover a wide range of products, than those for which they were designed, including non-standard, lower quality and low-cost products suitable for the local markets. Since operating in a foreign country requires different techniques than doing business in India, special management techniques have been adopted to overcome

crisis. These have been found to be more appropriate to the needs and socio-economic environment of the host countries. Therefore, collaborations with Indian enterprises proved to be worthwhile in the small-scale labour-intensive process and products, effectively demonstrating a competitive edge over the multinationals. Since the Indian ventures contribute to the economic development of the host countries, the resultant political goodwill inherent in such cooperation cannot be overlooked.

The better performance of Indian firms is also due to a more competitive environment which has encouraged Indian entrepreneurs to direct their ingenuity towards production management rather than rent seeking. India's experience in initiating developments and in applying modern techniques of production under the limiting conditions of a backward economy is invaluable to other developing countries. Therefore, the scope for Indian participation in joint ventures in other Third World countries, particularly those in the early stages of development, is great.

Third World firms represent a mutually beneficial mode of Economic and Technical Cooperation among themselves providing the exporting countries with avenues for export of surplus

technological capabilities. The receiving countries get the required technology at cheaper terms than the MNCs. Joint ventures have, thus, become an effective vehicle of economic collaboration and the successful Indian ventures have evoked favourable reaction in the host countries towards Indian equity participation.

A few of these firms are now moving towards a wide range of extractive and service industries. Although they account for only a small fraction of the markets in developing countries, they provide competition for the MNCs. Some developing country firms are also creating trade names which enable them to compete with MNCs. The idea of setting up processing industries on a multilateral basis catering to a number of geographically contiguous markets is gaining grounds in recent years.

Regarding the performance of Indian overseas banking, we can say that our overseas branches have done well inspite of operating under various constraints. These branches have to cope with new technological innovations. They will do even better if proper guidance and incentives are given by their head offices, if their capital base is increased and if they enter new lucrative areas. Opportunities are increasing in financing of joint ventures and in future the

overseas branches are expected to contribute more to export and related business.

The future expansion of Indian banks overseas will depend on the acceptance of the recommendations of the Basle Committee on Banking regulations and supervisory practices concerning capital requirements of bank.[88] The capital base of overseas branches of Indian banks is so far less than 2 percent of the deposits, which is now being raised.

Investment by Indian firms has profound economic and political consequences that reverberate in India and in other Third World countries. So along with the positive effects of investment, we should also consider the negative social impact of such investment. Firstly, since a few large industrial houses dominate the field of overseas investment, this gives opportunities for greater concentration of wealth in their hands leading to concentration of economic power, ultimately resulting in growing influence in the political field. Secondly, these firms often have priviledged access to low cost and rationed credit and also benefit more from the

[88] Under the new recommendations of the Basle Committee, it is expected that banks will have to maintain a capital ratio of atleast 8 percent of deposits by the end of 1992, starting with a minimum of 7.25 percent from th end of 1990.

credit market. Since their activities encompass several economic sectors, they are also able to take advantage of concessionary credit allocated to any particular sector and shift this fund internally to other uses or sectors.

In evaluating the performances of joint ventures, we have to keep in mind that they carry more risks and uncertainties than encountered in the domestic market. Sheltered too long in a protective internal market, some of the Indian firms do not find it too easy to operate in a more or less open market economy with inadequate protection. Therefore, while studying market feasibility for a particular venture, it needs to be taken into consideration that firms will have to operate in open market conditions. This, coupled with certain other conditions imposed by the host countries, with regard to employment of skilled personnel, has resulted in failure of some firms.

Since these ventures face severe international competition, they need access to high quality machinery and equipment at competitive prices. Indian entrepreneurs, therefore, should be allowed to select plant and machinery which are best suited to the projects set up.

The range of activities and the issues to be tackled has increased manifold, so it is necessary to set up a committee to make a comprehensive review of Indian joint ventures and subsidiaries with a view to making an appropriate evaluation of the factors responsible for their failures and successes. Such a review would lead to devising appropriate support measures both at home and abroad. This would also lead to greater commitment on the part of Indian firms.

Specific thrust areas for joint ventures abroad need to be identified. Once such area for different industries in identified, the Government of India should make active effort for the development of these areas rather than merely issuing regulatory procedures. It is very important to evolve guidelines related to specific industries.

The Indian government, RBI, financial institutions and Indian banks should provide support to the Indian firms by making funds available both in rupees and foreign currencies on terms which compare favourably with the best in the world in order to enable Indian entrepreneurs to be successful in joint ventures abroad. The government must also provide fiscal benefits for companies venturing outside the country.

Indian banks and financial institutions should be allowed to participate in offering guarantees to the international financial institutions without restrictions and also help the Indian firms to successfully negotiate for funds from the international finance agencies. As the Indian financial institutions have intimate knowledge of the working of Indian firms, they could motivate and persuade Indian entrepreneurs to consider investing abroad. This will provide mutual confidence both to the aspiring entrepreneurs as well as to financial institutions concerned since they would be good judges of the economic viability of the specific project involved and also with regard to assessing the entrepreneurs' economic track record within the country.

Foreign exchange should be made available, even for exploring possibilities for joint ventures. In order to cover commercial and political risks, adequate protection and guarantee should be provided by the Export Credit Guarantee Commission (ECGC) and also protection against fluctuations of foreign exchange rate. The entrepreneur should be allowed to travel abroad without much restrictions during the period of establishment and operation of the

joint venture projects through easing of travel and visa requirements, liberalising foreign exchange provisions and inter-project transfers. Liberalisation of foreign exchange rules would also encourage the Indian investors to transfer their foreign earnings to India to a greater extent and this will increase inflow of foreign exchange into India, resulting in a favourable balance-of-payments.

The attractiveness of Indian investments is not without adequate reason. The external debt of the developing countries is expected to rise over US $1.2 trillion. Thus, according to Mr R.C. Mehta, former President of Federation of Indian Chambers of Commerce and Industry (FICCI), "The debt servicing ratio of almost all developing countries is growing considerably and in some cases, the entire export earnings are utilised for debt servicing alone, thereby restricting growth". Hence most countries hoping to woo Indian firms are offering attractive incentives like tax holidays, guaranteed project clearance within a stipulated time - frame and easier repatriation of profits. For eg. in Algeria, Indian companies are given the option of matching the lowest bid to bag projects.

More than three-fourth of the production by Indian ventures is for the local markets. In the case of production of some products, there is a buy back scheme by India. For instance, edible oils produced by the Indian ventures in the Third World are exported to India to meet the deficit in local supply. These are channelled in India through selected agencies and not through the parent firms. Such collaborative effort should be regarded as an important link in the programme of technical cooperation and of cooperative exchange of skills among developing countries.

Indian companies can gain enough financial strength and technical competence to match foreign competitors if they pool their resources and expertise and overcome rivalry among themselves. If both the public and private sectors jointly participate in management and engineering designs of projects then India's bargaining power will be enhanced and will also satisfy the prequalifying requirement laid down by foreign project authorities. Indian industrialists should not assume that models of development used by other countries will mirror India's approach to self-sufficiency. Sensitivity to strategy of industralisation in the host country and in that region is crucial to an evaluation of the applicability and adequacy of Indian technology and know-how.

Continuous efforts would be required to ensure that cases of failures are reduced to the minimum and appropriate support is provided.

However, the success achieved, so far has yet to be commensurated with India's capabilities and the vast opportunities that exist in the developing countries. In this context, more rigorous planning and careful selection of projects and partners along with increased professionalism in management would contribute significantly to profitable set-up of joint ventures by the Indian entrepreneur. The scope for utilising idle capacity in the capital goods industries is an important factor which should be kept in mind while selecting projects for joint collaborations.

A look at the volume of DFI by India shows that the total volume of Indian direct investment is very small compared to DFI from developed countries. Even in the important host countries India is a minor source despite the large concentration of DFI in a few host countries. Barring a few exceptions, the country which has attracted investment from India have also been important recipient of DFI in general. In the case of Malaysia, Indonesia, Thailand, Singapore and Nigeria DFI from India during no period was more

than 2 percent of the total DFI into these countries. In the case of Kenya, in the 1970s DFI was about 5 percent.

The dependence of developing countries on the rich industrialised countries of the North for their progress gives rise to tensions. Though investments by developing countries are not enough to do away with these tensions, nevertheless, they help to reduce these tensions as well as to a certain extent reduce the dependence of these countries, for technology, on the MNCs. It is, therefore, imperative to promote investment by Indian firms on a larger scale than they so far have been.

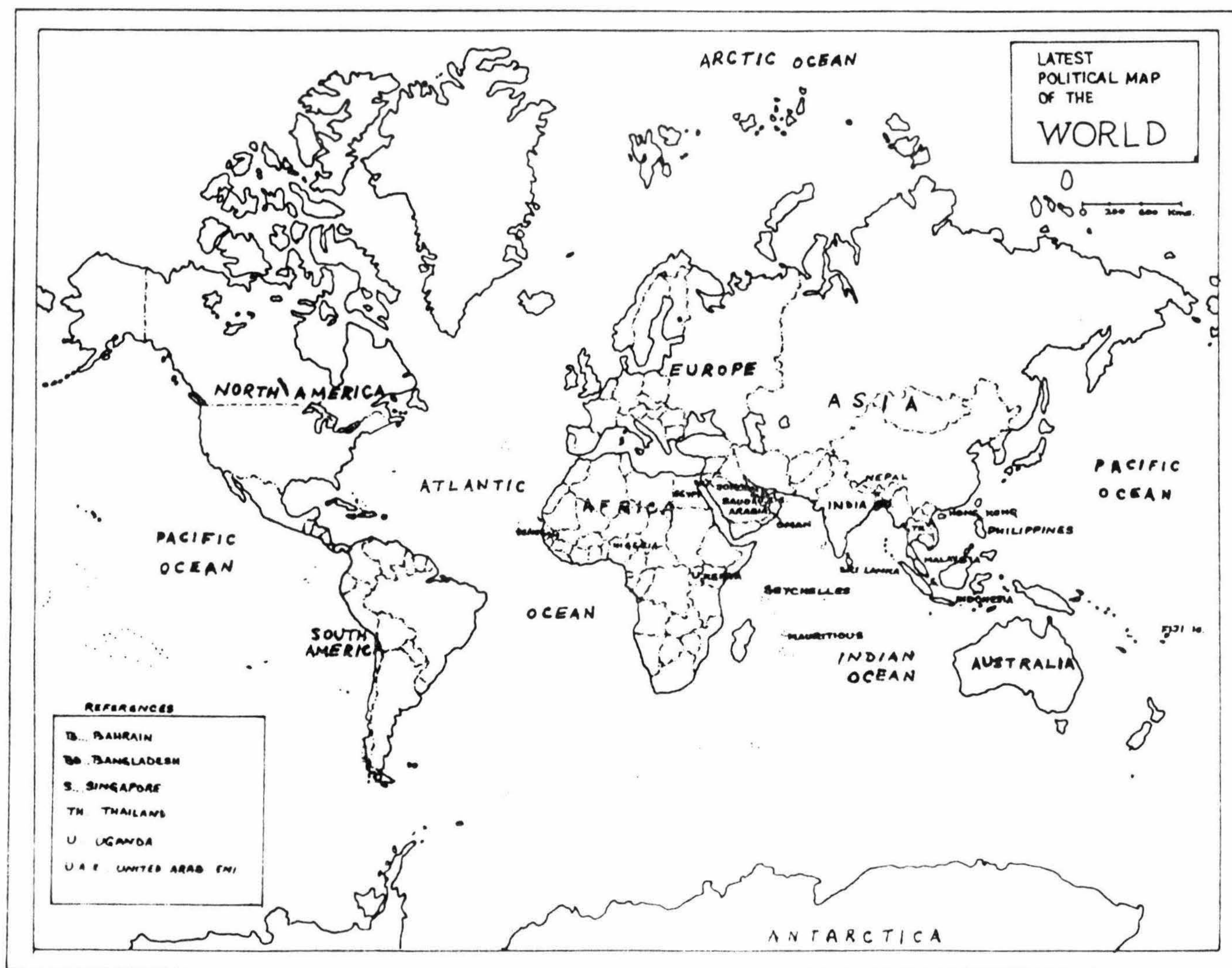
In conclusion we can say that despite disadvantages faced by the firms, most of them have performed creditably and have been able to satisfactorily attain the objectives of creating opportunities for export of capital goods, technology and know-how from India and extending cooperation to the developing countries in their developmental efforts. The number of joint ventures, being set up, are increasing. Between March 31, 1989 and December 31, 1989, four new ventures have been approved. So at the end of 1989 out of a total of 143 ventures in the developing countries, 121 are in production and 22

under implementation. In the period from 1988 to the end of 1989, the total number of joint ventures have increased by 14. This increase shows a healthy trend in the functioning of Indian firms as well as the desire of the developing countries for collaboration with India. The Indian missions abroad have been playing an increasingly important role in promoting joint ventures and providing regular feed back on market conditions and opportunities.

Recognising the importance of South-South cooperation, the RBI has already announced that it would consider providing bank guarantees against additional borrowing requirements of Indian joint ventures abroad on a selective basis. The revised guidelines will allow the Indian promotors of joint ventures abroad to go ahead with new investment plans without waiting for approval from the Indian Government. The companies, will however, have to seek "post facto" approval. Regarding approval, the sub-committee set up by the inter-ministerial panel headed by the Additional Secretary, Ministry of Commerce, has accepted the suggestion that applications submitted would be cleared within one month. In case the approval is not given, the promotors may be asked to disinvest in the venture. The inter-ministerial committee will have the power to modify or alter any of the conditions

laid down in the guidelines based on merit in individual cases. This is to give the senior officials the freedom to modify the guidelines to suit the conditions and specific needs of companies.

INDIAN JOINT VENTURES AT A GLANCE (AS ON 31.3.1989)



1	BAHRAIN	[1]	( )
2	BANGLADESH	[ ]	(1)
3	EGYPT	[1]	(1)
4	FIJI	[1]	( )
5	HONG KONG	[3]	( )
6	INDONESIA	[11]	( )
7	JORDAN	[1]	( )
8	KENYA	[8]	( )
9	MALAYSIA	[18]	(2)
10	MAURITIUS	[2]	(1)
11	NEPAL	[8]	(4)
12	NIGERIA	[13]	(2)
13	OMAN	[2]	( )
14	PHILIPPINES	[1]	( )
15	SAUDI ARABIA	[4]	( )
16	SENEGAL	[1]	( )
17	SEYCHELLES	[1]	( )
18	SINGAPORE	[12]	( )
19	SRI LANKA	[15]	(1)
20	THAILAND	[9]	(2)
21	UGANDA	[1]	( )
22	U.A.E.	[7]	(1)

INDEX

[ ] No. of ventures in operation.
( ) No. of ventures under implementation.

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