CHAPTER II

INDIAN JOINT VENTURES ABROAD
In this chapter an attempt is made to study the evolution and growth of Indian joint ventures abroad and the atmosphere in which they were conceived and promoted. Such a study is essential to understand the rationale and motivation behind Indian efforts in promoting joint ventures. An analysis of the Government of India's policy also reveals the scope and the limitations of the joint venture strategy. The study brings out how New Delhi attempted to accomplish through joint ventures export promotion, building an industrial image imbued with the spirit of collective self-reliance among the Third World countries, promoting regional economic co-operation and developing the concept of transfer of intermediate technology. A critical appraisal of the Indian joint ventures abroad also enables one to understand how far India can make use of the joint venture strategy as an instrument of economic diplomacy.

The study also attempts an analysis of the Indian joint ventures abroad by examining the specific fields of collaboration, the patterns of investment, the region-wise dispersal and the size of the units. The success and failure of the joint ventures have also been focussed upon to highlight the strong points and the weaker aspects of Indian technology and managerial ability besides the effect of the policies adopted by the Government of India.

**Quest For Industrialization:**

With the underdeveloped countries waking up to the
reality that only industrialisation could pull them out of backwardness, efforts were made on a big scale to start manufacturing industries in many of these countries. This process involved import of technology and capital from the developed affluent countries. In their quest for technological know-how and expertise, so essential for accelerated development of their backward economies, the developing countries have always been looking to the developed countries. Apart from technology, the need also was felt for foreign assistance for import of equipments, components and spare parts, since the level of savings in the developing countries and their ability to mobilise resources were limited.

The Multinational Corporations:

The multinational corporations of the West with their enormous capital base, international linkages, sophisticated technology and efficient management started availing of the vast opportunities that opened up when the newly independent countries were making efforts to industrialise their economies. In fact, a substantial part of the international capital flows since the 1950s was closely linked with the


growth and expansion of large international enterprises. The multinational corporations started moving in, by directly investing through their wholly owned subsidiaries. It has been estimated that in 1970 there were 4,000 companies and nearly 50,000 affiliates which had set up subsidiaries, joint ventures and overseas plants or sub-assemblies in different parts of the world. The investment of the multinational corporations was estimated in the same year to be over U.S. $140 billion, growing at an annual rate of over 10 per cent.

Multinational investments were always looked upon with certain amount of suspicion in the developing countries. Extreme views on the harmful effects of economic penetration by multinational corporations have very often been expressed. The perception of the developing countries was inevitably coloured by their colonial past. At the same time, these countries were also in dire need of foreign assistance.

5. Ibid.
capital, expertise and technology. As a result, depending upon the political ideology of the ruling elites, each country evolved its own policy towards multinational corporations and foreign capital. The trend towards joint ventures was a consequence of the Third World response to meet the needs of development and, at the same time, to curb the evil effects of unbridled foreign enterprise.

**Joint Ventures:**

Under the changing international political and economic scenario, the foreign investors realised that their own interest would be better served by securing the participation of local capital and management. The risk of nationalisation could be obviated by resorting to joint venture approach. It also ensures a 'quiet life' for the oligopolistic investor. The local partner is in a better position to secure fair treatment from the public and government.

By making the shareholding divided between the multinational corporation and a domestic entrepreneur and, in some cases, the investing public in the host countries, the strangle hold of the multinational corporation is


diluted and the element of proverbial exploitation reduced. International sharing of technology via joint ventures would be complementary and to the mutual advantage of the participating countries. Achievement of greater specialisation and diversification of production structure would also be easier through joint venture strategy. And, in the national context, it could also lead to efficient allocation and utilisation of available factors of production.

The emergence of Third World international enterprises was also partly due to restrictions imposed on the entry of multinational corporations. Quite a few developing countries have started offering collaboration and investing capital across their national frontiers. According to a study made by the United Nations Centre for Transnational Corporations, by mid-1970 as much as U.S.$ 180 million worth investment in Argentina, Brazil, Chile, Columbia, Equador, Mexico and Venezuela originated either from each other or from the Latin American countries. In Asia too, South Korea, Taiwan, Malaysia, Thailand, Hong Kong and Singapore


13. J.C. Srivastava, "India's Joint Ventures Abroad", Paper presented in a Seminar on "India's Investment in Business" (New Delhi, 1979), p.3.
have moved across their national borders and have made investments in each other's economies.

Joint Ventures and India:

In its efforts to get closer to the developing countries, New Delhi also naturally wanted to play a benign role within its limited means. The Third Five Year Plan spelt out the philosophy underlying the Indian joint ventures abroad as follows:

Assistance from one country to another had a significance no less for economic progress of the less developed countries than for the building of a world community in which each country contributes to development of others according to its capacity. This is an obligation which India fully accepts and as her economy develops, within the limits of her resources she will endeavour to share her experience with other developing nations.15

The question naturally arises, did India have the capability to embark on joint venture scheme? Joint ventures abroad means internationalisation of business and this presupposes growth of manufacturing capabilities, development of technology, skills and international competitiveness.

India's Technological Capability:

Since the advent of independence in 1947 India had made substantial progress in several sectors of economy through


15. India, Planning Commission, Third Five Year Plan (New Delhi, 1962), p. 27.

a programme of planned development. The share of primary production in its gross national product had gone down considerably and industry, transport and other services accounted for a much larger share of India's national income.

Over the years there has been a stress on creating an industrial structure, from a traditional to a modern one leading to expansion in the modern fields, covering metallurgical and mechanical engineering besides chemical and allied industries. The technologies originally imported have been mastered and adapted to make the best use of lower manpower costs. India has reached a level of competence where it is in a position to share its development with other developing countries. Further, industrialisation efforts have been amply aided by facilities for technical education and research and development activities which eventually helped India to achieve the status of a technology exporting country.

New Delhi's confidence in its technical development resulted in the setting up of the Indian Technical and Economic Co-operation (I.T.E.C.) in 1964. Over the years the I.T.E.C. has become the cornerstone of India's aid programme. By the end of 1978 the I.T.E.C. has deputed 500

17. Hari Shankar Singhania, To-day and To-morrow (New Delhi), p.72.
18. Ibid.
technical experts abroad and about 1,200 foreign nationals were receiving training in Indian institutions. It may be stated that about 35 per cent of India's aid in the 1970s was for technical assistance.

**International Recognition of India's Capability:**

The Indian ability to offer technical assistance was internationally recognised in an increasing measure. At the various meetings of the United Nations Industrial Development Organisation (U.N.I.D.O.) to promote specific industrial projects in Asian and African countries, India was identified as a potential country which could offer technical and industrial collaboration. As a result of the understanding arrived at between the Government of India and U.N.I.D.O. and consequent to the International Science and Technology Transfer Conference held in 1972, India had been initiating exchange of missions with developing countries in technology familiarisation and transfer programme. At the Third Asian Meeting on promotion of joint ventures between developed and developing countries, organised by the U.N.I.D.O. at Kuala Lampur in November 1973, India was again identified as a resource giving country. India has thus received international recognition as a country capable of transferring technology to other developing countries.

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22. Ibid.
Lopsided Industrial Growth:

Apart from the technological progress, there were also other factors which prompted Indian entrepreneurs to venture abroad. While the country made steady advancement in the field of industrialisation, it must be pointed out that there were certain serious distortions in the industrial growth.

Indian planning in the late 1950s and early 1960s laid emphasis on manufacture of capital and intermediate goods. An import substitution strategy aimed at the fundamental transformation of the economy to strengthen the domestic capacity for capital goods formation was followed. As a result, heavy industry and heavy engineering industry received great emphasis and top most priority. Higher priority to heavy machinery was given because this would facilitate a much quicker rate of industrialisation after the formative years. As a result of this policy, industrial production picked up and in the course of the Second and Third Plans industrial production doubled. The value added in intermediate goods industry increased by


almost seven times and in machinery industry by ten times, as could be seen from Table 1 given in the Annexure.

**Surplus of Capital Goods and Stagnation:**

While increase in production was impressive in several fields, no proper inter-industry and inter-sectoral balance was worked out. The result had been the creation of serious imbalances in the industrial structure. Many industrial projects had been completed without complementary inputs from other industries, which were neglected or were without adequate demand for their products, which were to feed into other industries. One reflection of the imbalance in the industrial structure was the excessively large unutilised capacity in Indian industry which would seem to represent a misallocation of investment resources.

Table 2 further illustrates the imbalance in the growth. As could be seen, sugar production had gone up by three times, whereas sugar mill machinery manufacturing went up by 40 times. Again in cotton textiles industry, the cloth produced increased by about 40 per cent but cotton textile machinery production went up by 300 per cent. While fertilizer production capacity had been enormously built up, production of petroleum, the primary input, had increased at a much lesser rate. The increase in the production of machine tools had been phenomenal, but metal industries

27. Ibid., p.174.
utilising these machine tools had grown at a much sluggish pace.

Thus, by the second half of 1960s, India was left with a surplus of machinery without a proper plan to absorb them into the economy. There had been a sustained stagnation of demand for industrial goods within the country's market. Even in the existing industries, capacity utilisation was poor. Textile and engineering were both industries where Indian domestic capacity to manufacture the required machines had over long period been in excess of the domestic demand.

The Approach of Expediency:

Under the circumstances emerged an approach of expediency of ensuring export of capital goods by securing industrial collaboration with the developing countries. Motivating Indian companies to start overseas joint ventures and restricting their participation by the export of plant and machinery made in India was a novel strategy adopted to tide over the crisis. This was indeed an ingenious method of securing an export outlet for Indian surplus machinery. It was an example of the government trying to turn an adversity into a virtue. A renowned expert on Indian joint ventures, M.K.Raju explains:-

The impetus given by the Government of India to the concept of Indian joint venture was clearly triggered by the capital goods recession in India. All regulations that governed the Indian joint ventures clearly reflected the desire of Government of India to

28. Ibid.
find outlets for idle capacity in the machine tool industry and to earn foreign exchange.29

Until 1976, about 50 per cent of the joint venture units abroad were in engineering and textile industries. These were the two industries in which, as seen earlier, domestic capacity seemed to be far in excess of the domestic demand. The use of international investment as a means to fill idle capacity in the capital goods industry has been historically proved and widely cited in international economics literature. The Indian experience was no exception.

Joint ventures abroad mean export of capital from the venturing country into the host country as the capital market in most of the underdeveloped countries is not well organised. It should be noted that India was in a critically capital starved condition when the government


30. The number of closed textile mills increased from 45 in 1967 to 80 in 1968 and 103 in 1973. Between 1956 and 1965, engineering industry grew at the annual rate of 22 per cent, between 1966 and 1971, the rate of growth came down to only 6 per cent. S.C. Kuchchal, Major Industries of India (Allahabad, 1974), pp.2 and 107.


started its promotional activities for encouraging joint ventures. This is all the more clear when we note that until 1964, according to the Foreign Exchange Regulations, Indian companies were not allowed even to export their capital in production form i.e., in the form of supply of machinery and equipment to exchange for the shares of the enterprises established in other countries.

The Need to Earn Foreign Exchange:

Although promotion of joint ventures abroad was an expediency devised to meet the crisis in capital goods industry yet another reason was earning of the much needed foreign exchange. During the first two plan periods, the strategy of generating exports to pay for the development could not be pursued because of several limitations. The plans themselves implicitly assumed a closed economy for a situation of stagnant export earnings through inelasticity of export demand. Further, the huge sterling balance accumulated during the war created a sense of complacency about foreign exchange position. The Korean War also created a temporary boom in export earnings from traditional goods thus adding to the sense of complacency. Then ensued the era of foreign aid which India obtained from both the cold war

34. Ibid.


situation could not be remedied. The helping agencies and aid giving countries apprehended further deterioration and suggested/pressurised India to go in for devaluation.

Joint Ventures as Export Promoters:

Although it was claimed that declining world demand for traditional export commodities was the main reason for the slow growth of India's exports, what is sought to be focussed here is the lack of incentive and thrust for exports, the inadequacy of facilities in the form of information and bank credit and a general failure of economic policy. The deteriorating situation led inevitably to the jolt of devaluation of Indian currency in 1966 and, as a result, export consciousness was sufficiently created. An explicit introduction of the "export sector", it was realised, could help to evolve a pattern of investment which would attempt an effective exploitation of the export potentialities of the various sectors and sub-sectors in the economy. The concept of establishing joint ventures was recognised as one of the strategies of export promotion in the Export Policy Resolution of 1970. It was increasingly realised that promotion of joint ventures in developing countries by India and projecting the image as a supplier of


capital goods and technology to these countries, would also yield recurring benefits in the form of foreign exchange earnings from dividends, technical know-how fees and royalties. In addition it was also realised that joint ventures could be an effective tool for retaining and expanding an already established market and also for opening new avenues for exports.

**Joint Ventures and International Co-operation:**

The strategy to promote joint ventures must also be viewed in the backdrop of various efforts to foster economic co-operation among the developing countries. The first United Nations Conference on Trade and Development (U.N.C.T.A.D.) in 1964, in particular, emphasised the significance of co-operative economic ventures and the promotion of trade and efficient diversification of industries. Even earlier, in 1963 the India-Africa Development Association was established with the objective of promoting such co-operation. In 1966 in a tripartite meeting between India, United Arab Republic (U.A.R.) and Yugoslavia, the importance of joint ventures as a vehicle of economic co-operation was highlighted.

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44. Ibid.
Joint Ventures as Image Builders for India:

It was also felt that overseas joint ventures would further enhance the image of India as an industrially advanced country in many developing countries by projecting its capabilities as an exporter of technical know-how and capital equipment. Such co-operation would also be a welcome effort by developing countries to pool their resources and know-how to the extent possible so that they need not depend exclusively on the high cost technology of the developed countries operating through their multinationals. The government officials often maintain that the value of image building through the overseas joint ventures is to be rated high. In this context, the role of joint ventures is to be gauged not merely on the basis of dividends and other earnings, but also through their indirect result of projecting the image of a developing India, interested in sharing its expertise and experience with other developing countries.

Restrictions on Private Industrial Growth:

To the big Indian entrepreneurs, joint ventures abroad were also an escape valve from what they considered an irksome atmosphere of government controls and regulations, which curbed their expansion and also resulted in high tax burden. It is interesting to note that nearly 60 per cent of


46. J.R., "Joint Ventures Thrown Out Of Joint", Business India (Bombay), no. 72, 3-21 December 1980, p.73.
the joint ventures abroad emanate from the big industrial houses who claimed that their activities have been either regulated by the Monopolies and Restrictive Trade Practices Act (M.R.T.P.) or may eventually come under M.R.T.P. According to an expert on the subject, monopoly houses like the Birlas went abroad primarily in response to legislative measures restricting the growth of monopolies within the country. Going to a low tax area for starting an industry similar to their domestic enterprise was thought worthwhile.

Moreover, such ventures, in majority of the cases, did not constitute a cash drain for the Indian partners, as the machinery was purchased on deferred terms through loans from Industrial Development Bank of India (I.D.B.I.).

**Earlier Policy on Joint Ventures:**

It is against this background that we have to examine the Government of India's policy relating to overseas joint ventures. Joint ventures in the late fifties and early sixties, when there were no definite guidelines, were allowed on the basis of a case by case study. It was only in the late sixties the need to formulate an appropriate policy

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47. Indian Institute of Foreign Trade, *India's Joint Ventures Abroad* (New Delhi, 1977), p.75.


51. For a list of joint ventures promoted until 1967 see Table 3 in the Annexure.
was clearly felt. The general guidelines governing Indian participation in joint ventures were issued in 1968, thus marking a departure from an ad hoc state of affairs to a comprehensive policy for the export of capital and technology. These guidelines defined the extent of participation of Indians in promoting joint ventures in any country. From the very beginning only minority participation by Indian party was allowed. Association of local parties, local development banks, financial institutions and local government, wherever necessary, was also favoured for promoting joint ventures. Barring small amounts to meet the preliminary expenses for setting up a joint venture abroad, cash remittance for the promotion of such ventures abroad were not allowed. The policy also made it clear that indigenous Indian machinery, equipment and technical know-how required for promoting new ventures should represent the Indian share of equity participation. In case the value of machinery and know-how falls short to make up the necessary reasonable equity required to be maintained (at a level higher than what was obtainable through export


54. Ibid.

55. Ibid., Clause (ii), p.13.
of capital goods alone) provision was also made to consider the inclusion of structural steel items and construction materials excluding components, as part of Indian equity participation. Machinery to be exported was to be of Indian make and no export of second-hand or re-conditioned machinery against Indian investment allowed.

With a view to promoting Indian investment overseas, normal import replenishment available against the export of such machinery and equipment, to a registered exporter under the import policy in force, was also allowed on export against equity capital. The level of cash assistance was restricted to 10 per cent of the F.O.B. value of exports of machinery and equipment provided such an assistance was otherwise admissible under the policy.

As far as possible, stress was laid on promoting turnkey jobs with a view to lightening the responsibility of the Indian investors. The guidelines also defined that to the extent possible a provision in the joint venture

56. Ibid., Clause (iii), p.13.
57. Import Replenishment means entitlement to import licence. It is a kind of incentive to promote exports, intended to help the exporters obtain the inputs easily by direct imports.
58. Cash assistance is an incentive given to exporters, to promote exports by enabling them to quote low in the international market.
60. Ibid., Clause (vii) p.14.
agreement should be made for the training facilities of foreign nationals in India.

Modifications in the Policy:

In September 1978, the government modified the guidelines governing Indian joint ventures abroad and issued a fresh set of guidelines to make them more comprehensive. While a few of the provisions as contained in the old guidelines were retained in the new policy, some new guidelines were incorporated. The salient features of these new guidelines were as follows:

For speedy clearance of the joint venture proposals a focal point was created in the form of an inter-ministerial committee with comprehensive monitoring and evaluation facilities.

Indian equity participation was permitted in exceptional cases in one or more forms like export of know-how, capitalisation of service fees, royalties and other payments and by raising of foreign exchange loans abroad.

Cash remittances were also permitted in hard and deserving cases.


Schemes for commercial, trading or service ventures were also permitted under the new guidelines.

**Investment Incentives and Tax Concessions**

To make overseas joint ventures commercially attractive for the Indian entrepreneurs, the Government of India arranged for concessional credit through the mechanism of refinance facilities of the I.D.B.I. The interest rate charged was 11 per cent per annum. To protect the investment, an overseas investment insurance was also introduced.

Besides this, the Indian government provided other incentives to Indian entrepreneurs investing abroad. Several tax concessions under the Income Tax Act were extended. These included deduction from income, profits and gain from projects outside India and deduction in respect of dividends, royalties from certain enterprises and in respect of remuneration received for services rendered outside India. The government also extended the avoidance of double taxation agreements with more than 25 countries.

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63. Ibid.
66. Ibid., Section 80-N.
67. Ibid., Section 80-O.
Exports against equity participation in joint ventures are entitled for facilities of import replenishment at par with normal exports under the import policy.

Thus, we find that as a result of the policy modification the regulations governing the joint ventures were fairly relaxed. Allowing cash remittances in selected cases is an important change. The decision to set up a single point clearing authority is intended to speed up approval procedures. Also the decision to allow trading, commercial and service activities is a major departure from the earlier pattern of investments.

Growth of Indian Joint Ventures Abroad:

It is nearly two decades since India started making concerted promotional activities and succeeded in generating a large number of joint ventures. In the early 1970s, thanks to the intensive export promotion activities, Indian exports picked up in a big way. With it there had been substantial growth in other activities such as project contracts, consultancy service and technical co-operation, which brought about better scope for interacting with other countries. The result had been an impressively perceivable spurt in joint venture activity in 1975, when in a single year 23 units were commissioned for commercial operation.

Till the end of July 1978 more than 300 proposals for joint ventures were approved. By then nearly 100 were under

68. Indian Investment Centre, n.64.
69. Balakrishnan, n.31, p.48
various stages of implementation. The year 1979 witnessed a virtual explosion of foreign investment activity as a result of the policy changes mentioned earlier. By early 1980 the total equity invested overseas came to Rs.800 million in 195 projects, some of them in production and the rest under construction. Since then there has been a steady growth in the number of registration for joint ventures. The factual position as on 1 July 1982 is given in Table 4 in the Annexure.

**Fields of Collaboration:**

An analysis of Indian joint ventures according to the field of collaboration is given in Table 5 in the Annexure. It may be seen from the Table that Indian joint ventures have been segregated into those which undertake manufacturing activities and others. Out of the total of 134 joint ventures in operation, 87 or 65 per cent were engaged in manufacturing activities but they accounted for 94 per cent of the total Indian investment by way of equity share capital. Among the joint ventures that have so far become operational in the manufacturing sector, the maximum number is in the field of light engineering (30) followed by textiles (19), the traditional fields in which Indian

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72. Indian Investment Centre, n.11, p.10.
entrepreneurs have acquired a certain degree of capability. Other industries in which Indian joint ventures have been set up include chemicals and pharmaceuticals (12), palm oil refining (9), iron and steel products (5), paper (3) and glass (3). In terms of investment in share capital, textiles held the predominant position with about 30 per cent of the total Indian equity followed by palm oil refining (18 per cent), paper (17 per cent), light engineering (15.3 per cent) and chemicals and pharmaceuticals (4.3 per cent). In the non-manufacturing sector, the largest number was in trading and marketing (17), followed by hotels and restaurants (14) and engineering contracts and construction (7).

Non-manufacturing investments do not contribute to the value of equity but their numbers have been rising dramatically with the shift in policy to establish sales agencies, consultancies, civil construction and the like. The Middle East has attracted a number of such investments since the promotion of various turnkey projects and consultancies. Indian hoteliers have been notably successful overseas, the Oberoi group, operating mainly under management contracts, has set up a chain of luxury hotels, from Australia, via Southeast Asia, Sri Lanka, Egypt and

73. Ibid.
74. Ibid.
75. Ibid.
Spain to the U.S. The Taj group, part of the Tata conglomerate, is now venturing abroad with a Sri Lanka Rs.500 million hotel in Sri Lanka.

India's main interest, however, lies in manufacturing. Here the aggregate figure shows that despite their late entry, Indian firms have spread abroad in diverse range of activities. While a number of simple, relatively low technology and labour intensive ventures (textiles, sugar, simple metal products) are there, roughly half of the foreign equity is accounted for by ventures in more complex capital intensive (steel mills, paper and pulp, chemicals) or skill and technology intensive (pharmaceuticals, machinery, transport equipments) activities.

Region-wise Dispersal of Indian Joint Ventures:

Indian joint ventures currently in operation are dispersed over 26 countries. Almost half of them are concentrated in four countries, Malaysia (28), Singapore (14), Indonesia (12) and Kenya (10). Regionwise, the largest number of Indian joint ventures are located in the neighbouring countries of Southeast Asia (73), followed by Africa (23). Indian entrepreneurs were initially attracted towards Africa, in which continent many countries became politically independent in the 1950s and 1960s and many of whom were looking to India as providing a model for their economic development. As a consequence, there was a spurt

76. Sanjaya Lall, n.16, p.135.
77. Ibid.
78. Indian Investment Centre, n.11, p.7.
of proposals for promoting joint ventures in African countries. However, a perceptible orientation towards Southeast Asia was visible in the last decade when a large share of the investment was directed to countries like Malaysia, Indonesia, Singapore and Thailand, because of various incentives these countries offered and the existence of stable political conditions. This attraction towards ASEAN area resulted in Southeast Asia accounting for 61 per cent of the total Indian Investment in joint ventures abroad. Of late, however, there has been a revival of interest in Africa especially in Nigeria. The summarised statement given in Table 6 in the Annexure shows the regionwise distribution of effective joint ventures along with Indian investment in share capital. Even among the Southeast Asian countries, Malaysia, which has been the single largest recipient of Indian capital is being overtaken by Indonesia which accounts for the largest stock of Indian equity.

**South Asian Region:**

A very noticeable missing link in India's joint venture effort, till recently at least, was the absence of

79. Ibid.

80. As on 31.3.1982 the approved (under implementation) Indian equity in Indonesia was over Rs. 4.75 crores as against Rs.0.39 crores in Malaysia. Equity investment in respect of units already in operation are, Malaysia Rs.12.5 crores and Indonesia Rs.10.93 crores with Malaysia leading marginally. Indian Investment Centre, n.11, p.29.
successful penetration in the immediate and contiguous neighbouring countries of Pakistan, Nepal, Bangladesh, Bhutan, Sri Lanka and the Maldives. Hardly any project had fructified in Nepal even though 11 proposals had been approved so far for locating joint ventures in that country. Even among the projects reported to be under implementation 81 the progress seems to be tardy.

It could be stated that so far as the South Asian neighbours are concerned, India has not succeeded in promoting a sizeable number of joint ventures although there has been a spurt since 1977-78.

The principal reason for this is that on the political plane India's relations with most of its neighbours have not been cordial. "We seem to be suffering from political hang up in collaborating with contiguous countries in South Asia", observes an Indian analyst.

With Pakistan and later Bangladesh having been ruled out for reasons of strained relations, the other neighbours left out are the small states of Nepal and Bhutan in the north and the islands of Sri Lanka and the Maldives in the

81. Ibid., p.10.
82. Until 1978 there were only 4 operating Indian joint ventures in the South Asian countries. The break-up is as follows:

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<th>Country</th>
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<tr>
<td>Bangladesh</td>
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<td>Nepal</td>
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<td>Sri Lanka</td>
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Federation of Indian Chambers of Commerce and Industry, Workshop on Indian Joint Ventures Abroad and Project Exports - Report (New Delhi, 1982), pp.75-7 and 96-7.
83. Balakrishnan, n.31, p.43.
south. The economic potential for investment in Nepal and Bhutan is very limited and there is no surprise in the conspicuous absence of Indian investment there. The Maldives is an infant economy with neither resources nor local entrepreneurial talent to think of joint ventures. The only other neighbour is Sri Lanka which remained a closed economy until 1977. With the liberalisation of the economy a good number of Indian joint ventures were sought to be put up in Sri Lanka.

The picture that emerged in 1982 with regard to Sri Lanka was more promising than had been the case earlier. Apart from the two old units which were in operation from the 1960s, four more commenced operation in the early 1980s. Besides these, there are 11 proposals under implementation, among which three are for the construction of five-star hotels.

India and the neighbouring countries like Sri Lanka have a common socio-economic backdrop with a number of common problems like poverty, unemployment, rising population and inflation. The consumption pattern and the life styles are nearly similar in all these countries. India has relatively large industrial growth and has built up its capability to export its technology. The geographical proximity and the mutually assimilable state of

84. Indian Investment Centre, n.11, p.10.

technologies of the countries make it appear that on the face of it, all the neighbours could economically interact with each other. But still the paradox is that Indian joint ventures have limited acceptability in all these countries.

Minority Participation by Indians:

Earlier, minority participation by the Indian promoters was specifically insisted upon, but the present guidelines are resilient enough to accommodate majority participation if permitted by the host country where the joint ventures are to be located. Nevertheless, with the rising trend of assertion of economic independence in many developing countries, insistence is increasingly being made that the foreign participation in industries that are being established in their countries should be minority in character.

From an analysis of the joint ventures already established abroad, it can be observed that in a vast majority of the units (i.e., 113 out of 134 accounting for 84 per cent of the total) Indian participants held only minority interests which is in consonance with the aspirations of the developing countries. There were 21 joint ventures in which the Indian participants had majority share holding. It is also noteworthy that apart from these 21

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87. Indian Investment Centre, n.11, p.4.
units with majority Indian shareholding, there were 69 units accounting for 51.5 per cent of the total number, in which Indian share ranged from 31 to 50 per cent.

Size of Indian Joint Ventures:

Another significant feature of Indian joint ventures that has had a vital bearing on their performance and operating results, is the small size and scale of operation of the majority of the units. The average size of an Indian joint venture in terms of equity capital employed works out to about Rs.107 lakhs, but an analysis of the frequency distribution of joint ventures according to the size of the equity base is Rs.10 lakhs or less. If the non-manufacturing units, whose equity is comparatively much smaller than manufacturing units, are segregated, the position would be somewhat better. Table 7 in the Annexure gives the frequency distribution of joint ventures (manufacturing units) by the magnitude of their share capital.

However, this trend of establishment of sub-optimal units (at least in the manufacturing sector) is gradually being reversed in the case of units which have been coming on stream during the last two or three years and also in the case of units which are in the process of being implemented.

Table 8 in the Annexure shows the profitability position of the Indian joint ventures abroad. The overall

88. Ibid.
89. Ibid.
sales turnover and the profit earned between the years 1975-76 and 1979-80 are shown in this Table. The profitability and the rate of return may not be considered quite successful, as those of other countries. It is argued that allowing for the normal teething troubles, requisite gestation period and initial losses, the level of remittances could not be regarded as insignificant. The efficacy of the Indian joint ventures abroad have to be evaluated taking into account the impact they have created on promoting additional exports, contributing bigger remittances and creating better image for the country. These aspects are more critically analysed in a subsequent chapter after going into a detailed study of the working of the Indian joint ventures abroad.

90. Indian Institute of Foreign Trade, n.47, p.87.