CHAPTER VII

A CRITICAL ANALYSIS OF THE INDIAN JOINT VENTURES ABROAD WITH SPECIAL REFERENCE TO THE VENTURES IN SRI LANKA
It is rather premature to attempt a proper assessment of the Indian ventures in Sri Lanka as most of them are in their formative stages. We have seen that many of them are in their very initial stages and are still grappling with teething troubles. In some cases, the problems that they face are considerable though not so serious as to threaten their very existence. In order to figure out as to how the Indian joint ventures would shape in Sri Lanka, we need to understand the performance of the Indian joint ventures in other countries. Therefore, a critical study of the overall performance of the Indian joint ventures abroad, their strength and weakness, their peculiarities and characteristics, is being undertaken. While doing so, reference is made to the ventures in Sri Lanka to show that they are no exceptions to the overall pattern of the Indian joint ventures abroad. Lastly, certain special peculiarities of the Indian projects in Sri Lanka have also been enumerated and analysed.

Successful Units:

Some of the Indian joint ventures abroad have given a good account of themselves thus benefitting both India as well as the host countries. Indian entrepreneurs deserve praise, not only for the number of ventures they have set up abroad but also for the wide industrial range of such ventures. It is also remarkable particularly in the context of the severe resource constraints and government regulations.

The success of Indian joint ventures abroad could be illustrated by certain case studies of units established earlier and which are fairly settled in business, unlike the ventures in Sri Lanka which are mostly of very recent origin. The Pan-African Paper Mills in Kenya is a fairly large integrated pulp and paper plant in Africa manufacturing not only high quality paper and newsprint but is now diversified and producing caustic soda and chlorine. As a result of the success of this project the Indian collaborator has been offered yet another contract in Nigeria for integrated paper and pulp mill costing U.S. $ 250 million besides a few other projects.

Polyolefins Industries Limited in Malaysia is another success story. The H.D.P.E. pipes manufactured by this unit had improved enormously the transportation of tin mine slurry at Port Klang in Malaysia. Another factory manufacturing Carbon Black in Thailand has secured substantial orders from Indonesia, Sri Lanka, Singapore and India besides meeting the local demand. The plant is producing more than its rated capacity.

The UNITATA palm oil complex in Malaysia is the largest, most integrated and diversified palm oil unit in

the world. Kusum Products in Indonesia has shown a growth of 22 per cent in turnover and 500 per cent in profit after tax in 1980. The product range including vanaspathi, soap, detergent, glycerine, refined rapeseed and R.B.D. palm oil has been well received in the market. Even a second unit of the joint venture has been commissioned. The Precision Industries in Singapore set up by Tatas is unique in the sense that it is primarily an export oriented unit and more than 90 per cent of its products are exported.

Kirloskar Electric Company venture in Malaysia has also been a success, with its turnover having doubled in five years to reach a level of Malaysian $10 million. Far Eastern Computers promoted by Hindustan Computers in Singapore is an example of an Indian joint venture abroad having created a good image for India.

In Sri Lanka there are no Indian joint venture units that have produced spectacular results; yet the two earlier units, Usha Industries and Leather Cloth Company have carved out a market for themselves. They are a testimony to Indian contribution, though limited, to the industrialisation of Sri Lanka.

**Benefit from Indian Joint Ventures Abroad:**

Apart from these individual success the overall benefit that have accrued by the establishment of joint ventures

5. Federation of Indian Chambers of Commerce and Industry, n.2.

over the years in the form of dividends, know-how fees and additional exports generated, are given in Table 4 in the Annexure.

Earnings like fee for technical know-how, engineering services and consultancy, improved the flow of remittances. Such remittances have increased to the level of Rs.400 lakhs in 1980-81. An I.I.F.T study however points out that the amount of royalty and technical fees earned has been negligible. The study observes that this forms only about 1.6 per cent per annum of the total capital invested, which is not significant.

The position regarding additional exports of plant and machinery, spares, components and raw materials generated from India over and above exports made towards equity, present a fairly encouraging feature. Such exports which aggregated to a mere Rs.44 lakhs in 1970-71 has shown a growth which has exceeded Rs.25 crores in 1980-81. Cumulatively such additional exports have touched the mark of Rs.114 crores by July 1982.

The additional exports from India on account of Usha Industries in Sri Lanka was substantial in the earlier years when the unit was depending solely on Indian inputs. This has started diminishing with the liberalisation of imports into Sri Lanka. The other unit Leather Cloth Company could

not help to generate much additional exports from India as the inputs required were not available in India.

**Dividends and Return:**

In the sphere of dividends the result is not impressive. The quantum of remittance by way of dividends has not been commensurate with the expectations aroused. On a total investment of Rs.46.37 crores the cumulative dividend of Rs.5.82 crores earned over nearly 20 years can be considered a disastrous result.

A large number of Indian joint ventures established overseas are yet to make reasonable profits. This is reflected in two important features:

1. The rate of return on the capital invested overseas has been rather low as revealed from the figures of dividend repatriation of Rs.5.8 crores over the entire period.

2. The return in the year 1980-81 was Rs.68.8 lakhs as against an equity of Rs.46.37 crores in operating units, works out to hardly 1.5 per cent. This is definitely far lower than profitability earned at home as well as the profitability enjoyed by investing companies from other countries.9

**Reasons for Poor Remittances:**

Doubts are being raised about whether the Indian partners are fully remitting their profits by way of dividends back to India. Also in some cases the joint venture skips dividends issuing bonus shares and goes in for

---


10. There are reports of instances of profit being concealed, suppressed or diverted. The sources do not wish to be quoted.
expansion and diversification where the question of
remitting dividends would not arise. Motives are imputed
to some of the joint venture operators that they go in for
'side gains'. There could be no end to the ingenuity of
such businessmen to escape from the government's net.

Even in the case of Leather Cloth Company the
management had delayed the declaration of dividends in 1981-
82 and subsequently declared the dividend for 18 months at
one stretch. The Sri Lanka government was refusing to permit
the repatriation of dividend declared for more than 12
months and the Indian partner was unable to get the money
repatriated to India. To that extent the dividend is lost to
India. Such instances of mistakes also contribute to the
overall lower rate of return on Indian investment.

Turnover and Profitability:

The average rate of increase in sales turnover achieved
by the joint ventures is about 4.6 per cent over a four year
period. This cannot be considered adequate and may not even
prove real if the figures are deflated to account for the
prevailing rate of inflation in different countries.

Out of the 69 units in operation in 1970-80 only 46

11. Godrej and Boyce in Malaysia have not declared
dividends in the late 1970s as they were going ahead
with a second plant. In an interview with Harbans
Singh, Executive Director, Indian Investment Centre,
New Delhi in July 1982.


13. P. H. Trivedi, "Strategy for Promotion of Indian
Overseas Joint Ventures", paper presented in a Seminar,
Indian Institute of Foreign Trade, New Delhi, 1981,
p.19.
were earning profits and the balance of 23 units were incurring losses. Even among the profit making units the profit ratio cannot be said to be satisfactory. During 1975-76 the overall position reflected a net loss of 2.3 per cent of the total sales. However in 1976-77 the profit worked out to 1.4 per cent and moved upto 3.5 per cent in 1977-78. After a brief bright spell in 1978-79 (6.3 per cent) the profit sales ratio worsened to 4.5 per cent in 1979-80. With more joint ventures coming into operation the profit will come down further as new units normally tend to show losses during the initial period.

The foreign exchange earnings of Rs.16 crores (including dividends and other repatriations) on joint ventures is barely 0.26 per cent of India's total export earning. If foreign exchange earning capacity is taken as a criterion, Indian joint ventures do not present a good picture at all.

According to a study of 81 units in five countries carried out by the Indian Institute of Foreign Trade, the average return of select Indian joint ventures has been barely 2 per cent - similar British ventures recorded returns ranging from 6 per cent to 27 per cent.

Such unbelievably low level of disclosed return appears to be a curious aspect of Indian joint ventures.

In addition, the large number of projects that are not implemented or are abandoned after being run for some time suggests that something is seriously wrong with the implementation of the joint ventures.

In the case of the two Sri Lankan units the investments were made quite a few years ago when the project cost was low. Therefore whatever return they get today may be in favourable proportion to the investment made years ago, in view of the inflation. Even then, because of the import liberalisation in Sri Lanka these units are struggling to keep themselves afloat in the market.

Abandonment:

The rate of abandonment of the Indian Joint ventures overseas was alarming in the 1970s. By 1982 the government has sanctioned 465 joint venture projects. Out of these 220 were alive while as many as 196 projects were never taken up for implementation and 49 were abandoned after implementation. Such large scale abandoning of project proposals is reportedly due to ill-considered decisions by Indian entrepreneurs, without investment surveys, project reports or any experience in raising of finances and in marketing of products. Unfortunately no systematic study of the actual reasons for project proposals being abandoned has been carried out. Such abandoning, apart from involving financial losses, tarnishes the country's reputation abroad.

17. The Economic Scene (Bombay), May 1983, p.25.
18. Indian Investment Centre, n.9, p.2.
as a business partner.

The abandonment rate of the Indian overseas joint ventures, according to M.K. Raju, continues to be around 45 per cent. This indicates that there is nothing in the Government of India's regulations that promotes careful business evaluations other than the foreign exchange regulations. There are no penalties for abandonment. As mentioned earlier, even though the abandonment rate is so high we do not have any study which exclusively focusses attention on this phenomenon.

Reasons for Abandonment:

The Indian Investment Centre attributes several reasons for such abandonment: I. differences between collaborators, II. problem of demand resulting from changes in demand pattern, III. marketing problem due to lack of protective measures and powerful lobbying by India's competitive interest, IV. nationalisation, change of government and other extraneous factors. The abandonment rate in Malaysia alone was 34 per cent upto 1980. This has


21. Ibid.


23. The failure and abandonment of Phaltan Sugar Mills in Malaysia is attributed to the lack of cooperation from the new government of the State. The previous
serious political implications, besides tarnishing the image of India as a promoter of overseas joint ventures.

The Commerce Ministry of the Government of India prepared a note about Indian Joint ventures abroad in which the abandonment rate was also discussed. The study felt that the rate of abandonment was declining from 65 per cent in the early 1970s to 25 per cent in the late 1970s. Apart from the reasons seen above, the note mentions about the change of government in some countries resulting in the loss of influence on the part of the overseas partner to obtain the necessary government support as one other reason for failure. The note further mentions about the inability of the joint ventures to raise the required funds as another reason for failure.

23. Continued.

24. The State Government of Negeri Sembilan in Malaysia which was a partner in Phaltan Sugar Mills (since gone into liquidation) had to resign when the joint venture incurred heavy losses. Asia Week (Hong Kong), 11 January 1980, p.54. See also Far Eastern Economic Review (Hong Kong), 4 April 1980, p.104.

25. This note is not for circulation or publication. The information gathered is from interviews with officials in the Ministry of External Affairs in New Delhi.
Mentioning about the unimplemented projects, the note says that many projects which were only approved and issued letters of intent have not been efficiently pursued by the promoters. Also, change of government in the host countries and consequent revision of policies prevented the promoters from pursuing their projects. For instance, the Indian ventures proposed in Sri Lanka in 1968-69 were mostly dropped due to the change of government in 1970. These projects could not be taken as failed or abandoned. However, there is a drop in the figure of projects not coming up due to non-implementation.

There are no instances of abandonment of any Indian venture in Sri Lanka although there are cases of non-implementation. These are being separately considered later in this chapter.

M.K. Raju, a management consultant, who specialises in joint ventures abroad and had made an in-depth study of several units in Malaysia, where a large number of ventures have failed, sums up the causes of poor performance and failure of Indian joint ventures under four basic hypothesis:

I. Indian joint ventures are 'cash starved' because the Reserve Bank of India did not allow (until 1979) the Indian partners to bring cash resources and the host country partners were unwilling to invest additional funds without a matching Indian contribution.

II. The marketing channels are controlled by vested interests who do not like to sell products made by the
Indian joint ventures. This is "invisible non tariff barrier to entry" argument.

III. Most of the Indian joint ventures were set up on the assumption that they would obtain protection from the host government by way of tariff and import restriction. Without this support joint ventures become vulnerable through price competition.

IV. Commitment of the Indian partner is at best marginal. More often the support received by the joint ventures - technical, managerial, financial - was inadequate or too late in coming.

Cash Starvation:

As the Indian government policy forbids transfer of cash except in extraordinary cases, most of the joint venture units are heavy on debt. About 44 per cent have negative equity and by the very nature of the capital structure are extremely vulnerable to competitive pressures. The cost over-run in some cases is as high as 60 per cent. This means that even before an enterprise is in production, it is disabled.

About 75 per cent of the equity comprise of machinery supplied from India; technical know-how fees and expenses cover nearly 24 per cent and cash as low as 0.44 per cent.


27. The Hindu, 7 January 1981.
This situation is further aggravated by the fact that Indian partners tend to withdraw cash due to them as royalties and knowhow fees.

As a result the unit leans more heavily on the host country banks for capital and the consequent cumulative interest burden carried by the company becomes so high as to constitute a reason for failure.

We have seen in the case of International Cosmetics that the company is struggling because of working capital shortage. In addition, since Sri Lanka government is refusing to permit import of raw materials on deferred payment terms, the joint venture is put to considerable strain. All imports have to be paid for immediately and this demands larger cash resources. The unit needs cash and the Indian collaborator has the resources but because of the restriction they are unable to help. Similarly, Asia Limited which was started quite recently also suffers from want of adequate working capital. In this instance the company had to spend unexpected amounts on purchase of fresh technology and as a result ran into liquidity problem. Inspite of the Birla group of India being the partners in this case they are unable to obtain cash remittances for helping the operations of the joint venture.

Complaints about Restriction on Cash Remittance:

All the study tours, workshops and seminars have repeated the same complaints about the restrictions on cash

remittance. The representatives of industry and trade repeatedly asking for permission for more cash remittances do not appear to realise India's foreign exchange problems and the idea behind India's efforts to expand joint ventures. The Chairman of the Inter-Ministerial Committee for joint ventures, C. Venkataraman pointed out in a F.I.C.C.I. workshop in July 1982 that cash remittances would never be liberalised and there could be no policy revision in this regard. This is a clear index finger to the future of joint ventures abroad.

Marketing:

Marketing is the biggest problem that the overseas Indian joint ventures are experiencing. The joint venture products are exposed to unfair external competition. This is ascribed to the prejudice of vested interest groups. In some instances, well entrenched trading companies are even resorting to unfair means to discredit the quality of the products manufactured by the Indian joint venture. Besides these, while assessing project viability Indian entrepreneurs have come to expect tariff protection instinctively. And they interpreted this to mean "sufficiently high to protect their venture" even if it is inefficient, as well as "for all time". These two assumptions turned out to be at the root of all problems for


several joint ventures.

The two early units, Usha Industries and Leather Cloth Company are suffering the impact of liberalisation and competition in Sri Lanka. So long as there was heavy protection through high tariffs, these units were doing well. Once they are exposed to severe competition from Japanese and Western products their sales started slumping and they are unable to retain the market that they have developed over the years.

Indian Partners' Commitment:

The commitment of the Indian partners to the success of the joint venture is said to be marginal. In some cases the support received by the joint ventures in the technical field is marginal and in financial area quite inadequate. Many of the executives sent to manage joint ventures had no operating experience. In some cases even the parent company with high managerial reputation was unwilling to deputise competent technicians. Despite the fact that the joint ventures might be having serious technical problem, there was very little flow of technical data or exchange of technical people or training. The kind of technical support given to the joint ventures abroad is so inadequate that there is no proper transfer of technology. Further, the Indian entrepreneurs give the impression of taking these ventures as marginal to the larger concerns as most of them have no equity stake other than the capital.

31. Raju and Prahalad, n.20, p.4.
equipment supplied which in any case is probably backed by long term loans from I.D.B.I. In fact their stake in those countries in which they have invested seems minimal and they act as though it did not matter to them at all whether these companies did well or not.

The lack of commitment is clearly obvious in the case of Leather Cloth Company and Usha Industries in Sri Lanka. As regards the former, the Indian partners' interest in the unit appears quite casual. The infrequency of their visits to Sri Lanka and the lack of participation in the policy making work of the company show that the Indian partners' commitment is minimum.

Also in the case of Usha Industries the large D.C.M. group could have certainly made better efforts to withstand the competition in the market, if they were allowed larger participation in the working of the company. The participation of the Indians, perhaps, merely in the Company Board meetings does not enable the joint venture to enjoy the benefit of the Indian partners' highly evolved technological pre-eminence.

Operational Defects:

Examples of failure due to poor operations management are not wanting. The failure of Parry Confectionery unit in Malaysia is a case at point. After several years of unsuccessful operation, the company went into receivership. The bank negotiated with a local Chinese group for a take

32. Financial Express, n.1.
over of the unit. The company turned the corner in less than six months under the Chinese management. The plant is now reported to be operating at full capacity and the management is launching major expansion. When the new management took over, they segmented the market, commissioned all equipments, achieved full capacity utilisation, developed their own brands and distribution, launched an advertising theme, introduced comprehensive financial controls and it was a major transformation of failure into success in a period of 12 months. This is also an instance of lack of commitment on the part of the Indian operators.

**Scale of Operation:**

One other feature responsible for the failure of Indian joint ventures abroad is the scale of operations. Indian joint ventures have not developed the scale of operations to exploit the regional markets in larger volumes. These units are unable to compete with Korean, Taiwanese and Japanese units which have considerable lower cost because of scale. The lower equity base is certainly one of the causes of the failure of Indian joint ventures abroad.

The technology that India is familiar with is in many cases best described as low volume, high unit cost technology. This gives flexibility in production and allows

33. Raju, n.26, p.5.
34. Ibid.
35. Raju and Prahalad, n.20, p.31.
for many models and types even if the overall volume is small. To illustrate the point, a list of Indian and foreign companies and their production capacities are given in Table 23 in the Annexure.

The relatively small scale operation which results in lower levels of technology and low level of product innovativeness are characteristics of Indian industry. High levels of debt servicing capacity as a result of generous and assured margins are contributing factors for high cost. When these units go abroad and try to transfer this kind of technology the consequences become disastrous.

Among the Indian joint ventures in Sri Lanka, none of them is large, except perhaps Asia Limited. The Ashok Leyland project which is starting its operation as an assembling plant is designed to produce 2,000 to 3,000 trucks a year. This is too small a quantity for an automobile plant. The size of the plant has been decided keeping in view the limitations of the market. Any factory intended to look after only the indigenous market in Sri Lanka is bound to be small or medium as the market potential is limited. The advantages of large scale operations cannot be availed in Sri Lanka so long as the plant is not venturing into export fields. Asia Limited is a 100 per cent export oriented unit and, therefore, has to think of scale economies.

**Lack of Tariff Protection**

A typical Indian entrepreneur is accustomed to operating in an environment characterised by tariff walls
which protect him from foreign competition, a domestic demand exceeding supply which ensures continued profitability, relatively small scale of operation which result in lower levels of technology and high unit cost than those enjoyed by his foreign counterparts, high levels of debt servicing capacity as a result of generous and assured margin and a low level product innovation. In other words, India represents a safe profit sanctuary to entrepreneurs because of the multiplicity of the country's regulations. These operating assumptions developed over the years in the Indian environment were transferred to other countries by most joint ventures but without any explicit re-examination of their applicability.

One of the reasons for the poor performance of most Indian joint ventures abroad is that they have been transferred from a protected environment to a competitive one. Not having the stamina to cope with the type of surprises one faces in such an environment, they have failed. Indian industries are really used to a hot-house atmosphere built up over the years. Industrial development and entrepreneurship in India, says an analyst projecting an extreme point of view, has mainly meant obtaining licences, permits and quotas from Delhi. He adds, once they are taken out of these atmosphere and planted in a situation where competition is fierce they list as causes of failure

things that are really normal incidents of a free competitive atmosphere.

We have already mentioned about the Indian joint ventures' problems in Sri Lanka because of the liberalisation of imports in that country. Had the high tariffs been continued, Usha Industries and Leather Cloth Company would have made enormous profits, particularly during the period when Sri Lanka's economy underwent a large expansion. In fact Usha Industries recovered considerably only after the reimposition of higher import duties late in 1982. By and large Indian industries, with a few exceptions, can thrive only in a protected atmosphere.

Lack of Exposure:

For most of the Indian entrepreneurs who set up joint ventures abroad it would be their first exposure to the problems of operating in a new economic environment. As a consequence they were unable to make any advance changes in the operating aspects of their business. This leads to very unpleasant surprises.

Pausity of soft loans:

Another factor is that the developing countries find it difficult to ignore the carrot of aid or soft loans through which developed countries often transfer their technology, even though the technology component may be more expensive than that available from developing countries. The package becomes irresistible in view of the financial constraints in

37. Ibid.
which the developing countries generally find themselves. An obvious answer to this is that the World Bank and the Asian Development Bank should come forward to freely finance projects in which the technology transfer is from one developing country to another and earmark a portion of their resources for this purpose.

An Indian fertilizer manufacturing company lost the bid to put up a phosphatic chemical manufacturing plant in Sri Lanka because of the American competitor's (Agriço Ltd.) ability to offer better financial terms. The Indian company which made fairly good progress in convincing the Sri Lankan authorities about the feasibility of its project, finally lost the bid, it is believed, because of the softness of the financial terms of Agrico.

Bias Against Developing Countries:

Unfounded suspicion of getting sub-standard equipments have driven many developing countries to developed countries, even though they would have preferred to obtain the technology from another developing country. There is a need to set up an organisation to evaluate the quality of goods available in developing countries (like the International Standards Institute).

40. Ibid.
Wrong Partners:

Another important reason for failure is wrong choice of partners. In most cases the partners chosen do not possess the required financial or managerial capability that was assumed or assured. This aggravates further the marketing problems particularly where powerful lobbies of competing interests are at work.

We have seen how in the case of Kadirkama Kumarar Textiles, the Sri Lankan partner had chosen to withdraw midstream. The partners realised their incompatibility with each other quite late and this had created problems. We have not known whether this had seriously affected the project or not. However, it is bound to have its impact particularly in the initial stages after the withdrawal of the local partners.

'Son of the Soil':

The 'son of the soil' policy adopted by many countries is another reason for the failure of Indian overseas joint ventures. Whether it is Malaysia or Sri Lanka the host government is keen on not permitting Indian expatriates coming in and working. This puts the joint ventures at a disadvantage as generating trained manpower is difficult at short notice. In the case of Phaltan Sugar Mills in Malaysia when it was diagnosed that the failure of the project was due to poor output in sugarcane cultivation, the Indian partners wanted to import into Malaysia labour for planting

42. Financial Express, n.1.
sugarcane and for looking after the plantation. But the Malaysian authorities invoked the 'Bhumiputra Policy' and refused permission to bring in Indian labour.

Even in the case of highly skilled personnel, most of the countries are refusing permission. The Ashok Leyland project in Sri Lanka sought permission for a minimum of five expatriate personnel. But the Sri Lanka government refused permission and the company, after great persuasion, was able to obtain permission for three persons to work in Sri Lanka. It is surprising that out of these only one is a technical person.

**Foreign Exchange Earner:**

The foreign exchange earnings 'fixation of the government has been myopic and misplaced', says *Business India*. Official statistics on foreign exchange earnings distort the situation. For example in one instance the Indian joint venture resulted in Rs.9.4 million in additional exports. On further study, it was found that of this amount, more than 47 per cent or Rs.4.4 million was due to the sale of castings to the joint venture on credit. The financial situation of the joint venture was such that it could not in the foreseeable future pay for even a fraction of the castings it had already used. In other words, while

43. In an interview with the Officials of the Overseas Investment Cell, Ministry of Commerce, New Delhi.

44. In an interview with Kannaperumal, Resident Representative of Ashok Leyland in Colombo, in February 1983.

45. Indra Gidwani, n.6, p.73.
the official statistics indicated that exports of Rs.9.4 million has been made, there was in effect no real foreign exchange inflow. The only interesting aspect of the transaction is that this represented one of the two cases where the Indian partner company tried to help the joint venture with parts and sub-assemblies (eg., castings) replacing the remittance of equity funds.

We see a similar situation in royalties, technical fees, and dividends — a majority of firms used the joint ventures prematurely as a foreign exchange generator and a few others carried their foreign exchange earnings on their books while there was in fact no real cash inflow and by all projections there was unlikely to be any for a long time to come. The Government of India's concern with foreign exchange as the primary motivation for joint venture is reflected in the attitudes of some of the industrialists.

An I.I.F.T. study examines as to how far Indian joint ventures have been instrumental in the expansion of Indian exports, since the primary justification of Indian joint ventures has arisen from the supposition that they would be a vehicle of export expansion. It points out that in many cases inspite of the joint ventures, imports of similar products are being liberally allowed in the host countries and the joint ventures are pleading for tariff protection.

46. Raju and Prahalad, n.20, p.27.
47. Ibid.
This shows that India could have continued to participate in the direct exports instead of putting up the joint ventures. After examining the data provided by several companies the study concludes that there is substantial evidence to show that the Indian joint ventures have caused a reduction in the overseas market for Indian goods without any important corresponding advantage, judged from the point of view of export earnings over a stipulated period.

Even in the case of the joint ventures in Sri Lanka there are instances to suggest that Indian exports are affected by the joint ventures. In the case of International Cosmetics, the Indian company was exporting sizeable quantity of finished cosmetics to Sri Lanka prior to the starting of the joint venture factory. However, the joint venture has resulted in India foregoing the entire exports and instead send raw materials for the manufacture of the cosmetics.

Again in the case of Kadirkama Kumaraar Textiles the joint venture is trying to market its products (cotton yarn) in East Europe where India is already selling its yarn. Since in this instance the same operator is selling from India and from Sri Lanka through the joint venture, he would prefer to effect the sale from Sri Lanka (as it is a 100 per cent export oriented unit with export obligation) and to that extent forego the exports from India. Thus, Indian exports could be indirectly affected.

49. Ibid.
Further, putting up joint ventures became meaningless in cases like International Cosmetics when India slips down from the position of an exporter of value-added finished products to an exporter of raw materials, which means reversing the order of progress.

**Lack of Preparation:**

While the Government of India's initial thrust was characterised by "expediency" the Indian entrepreneurs' moves were characterised by "opportunism". Internationalised operation in most forms (there were some notable exceptions) were preceded by very scanty preparations. It appears that project feasibility apart, the motivation to internationalise operations was clouded by short-term foreign exchange considerations. Very little managerial discipline was exercised. Even before the joint venture could take roots, it was perceived as a 'foreign exchange generator' through either the export of raw materials, or receipt of technical fees or royalties.

This short-term orientation of the Government of India and of most of the Indian industrialists meant that inadequate attention was paid to strategic and managerial considerations. India's strategy in industrial collaboration is unclear and does not have any operationally relevant component other than the earnings of foreign exchange. The strategy of specific Indian joint venture was equally unclear. Most of the expatriate managers were concerned about "staying afloat" but they did not have a vision of "where they wanted to go", in some cases they even wonder...
"why we are here".

**Want of Research and Development**

With all the progress in research and several concrete achievements, science in India is an odd predicament. On the one hand, observes an analyst, there are more than a million scientists in all disciplines, spread over hundreds of laboratories and university departments—but the scientific output is not commensurate with their number. The quantum of significant research is a bare minimum compared to the crores of rupees spent in those laboratories. He feels that the quality of scientific research being carried out in India is also at best, average. Original work of any kind is conspicuous by its absence.

Even the quantum of money that India spends is too meagre by global standards. The U.S. is said to earn U.S. $6 billion as income from transfer of technology. But behind this return there probably must be an investment of U.S. $60 billion on research and development.

It is therefore natural that India cannot have a unique technology to sell. If the patent record of India is taken out, complains an expert, only 8 patents have been taken out in the last 10 years compared to nearly 27,000 by the rest

50. Raju and Prahalad, n.20, p.27.
52. Ibid.
of the world.

Secondly, India does not have strong trade brands or distributive systems. Better product image with brand names as household words ensuring brand loyalty and a lot of strategic surprises like new technologies, new products, increased capabilities, reduced prices and so on, are yet to be developed in full scale.

So far as the Indian joint ventures in Sri Lanka were concerned, the limitations of Indian technology was demonstrated in three of the projects. In the case of Leather Cloth Company the joint venture is not able to make P.V.C. cloth as soft and as attractive as that of the Korean or Taiwanese manufacturers. Again in the case of International Cosmetics the Company could not get screw type lipstick holders from India and had to look for supplies in the Far East. Finally in the case of Asia Limited the product made purely out of Indian technical help had to be scrapped and a fresh know-how tie-up had to be secured from a third country to make the product conform to the buyers' standards.

Time-bound Opportunities:

Multinational investment is considered at best as a necessary evil in many countries, whether it is India or any other country. Progressively every country wants to run its own industries, some day. Until then each country accepts
foreign capital, technology and management support. But it is always considered as the first phase of progressive localisation. Any investor looking realistically at opportunities abroad, is bound to accept that they are time-bound and that at some point it will become uneconomical to continue.

It is always a time-bound opportunity. The latest experience of American investment in Korea and Taiwan proves that. The change in the position between the seventies and the eighties is to be noted. American interests are withdrawing very rapidly and selling out to local interests. There is a point at which the local people want to take over all the world. In most countries, sooner or later, they insist on local majority equity holdings. Once that is accepted the Indian partner’s role in a host country is tolerated only as long as he is required.

Regulation on Transfer of Technology:

A notable consequence of the official patronage extended to Indian investment abroad has been the influence this has on the position taken by the Indian government in international forums on such issues as the need for and the extent of government control and regulation of foreign private investment in and import of technology into the Third World countries. More and more on such issues the Government of India’s position has moved closer to that of

56. Ibid.
57. Ibid.
the developed countries. For instance, in its report on the negotiations in Geneva on an international code to regulate transfer of technology, The Economist noted with satisfaction that India was a "notable moderate" at the conference, supposedly because it has realised that "its own know-how is an exportable commodity". However, if one takes the most grandiose view of the likely scale of investment abroad by Indian companies, it is obvious that India will remain overwhelmingly a net importer of capital and technology for a long time. The so-called "moderate" position of the Indian government on basic issues pertaining to economic relations between the Third World and the rich countries have thus little to do with national interests, though they may suit a handful of Indian businessmen.

Conclusion:

From this study it is difficult to conclude whether overseas Indian joint ventures are necessary at all. Return wise they have been found to be uneconomical. From the point of view of generation of additional exports there appears to be doubtful justification. If the investment involved is taken into account to compute whether the additional exports generated so far, provides the justification, it may be difficult to answer. Rs.46.5 crores, part of which invested


59. Ibid.

60. Ibid.
over a period of two decades has earned an overall gain of Rs. 4.5 crores. If a strict financial profitability, applying the standard feasibility norms, is worked, the money is as good as having been written off. Interest on this capital, worked out at 10 per cent per annum comes to Rs.4.65 crores per year and if the loss of interest (without compounding the hypothetical annual interest accretion) is worked out for the back years, it will show that the entire capital has become unproductive. Such being the case would it be correct to say that the additional export has been beneficial? If the amount of Rs.46.5 crores were spent on export efforts by other means, certainly it would have produced better results. As has been pointed out, the additional exports form just 0.26 per cent of India's total exports. This virtually negatives the argument that if the joint ventures were not started India would have lost substantial export orders. On the other hand we have seen that the promotion of joint ventures abroad has resulted in the loss of exports. Further, if the losses incurred by units like Phaltan Sugars, Parry Confectionery and the other 48 units which have been abandoned, are to be taken into this computation the result would show a clear negative growth of India's overseas joint venture assets.

Also the sum of Rs. 46.5 crores will not be realised back as foreign exchange. Instead of sending these machines out of India the government could have utilised them within India and tried to make the best out of them. The shortage of textile machines experienced in the early 1970s could
have been avoided if the surplus production of the later half of the 1960s were not exported as equity capital for the joint ventures abroad. Inspite of there being a planning mechanism to forecast the developments there had been short-sightedness in planning and failure to correctly envisage the future pattern of growth, particularly in the matter of joint ventures abroad.

**Image:**

Image wise, India cannot be said to have gained much. The negative image created by the abandoned units has marred the total picture of India's industrial capability. The theory that joint ventures project an image in a big way is itself misconceived. Are there not countries with better image but without overseas joint ventures?

**Quality Products:**

Repeating the complaints about scales of production, inability to stand competition, level of Indian technological capability and lack of commitment, is not going to take India any far. Indian industrialists, barring a few, should learn to improve their product quality and improve their competitiveness by reducing the cost. Atmosphere must be created for achieving this in India. There should be no point in asking the Indian industrialists to acquire outside India a virtue which basically they do not possess in India itself.

Joint ventures were started at a time when the economy was not in a position to absorb surplus production in the capital goods industry. That crisis has been over and the
economy has revived having developed the capacity to assimilate more capital goods. For the present India could slow down on further expansion of joint ventures and try to improve and consolidate those that are already working. There must be an attempt to consolidate the existing ventures and, thereafter, if feasible, plan for expansion.

**Peculiarities of Indian Joint Ventures in Sri Lanka:**

We have so far made a study of the general problems facing Indian joint ventures abroad, which have also affected the ventures in Sri Lanka. There are certain special characteristics and peculiarities relating to the Indian joint ventures in Sri Lanka which have to be examined separately. Observations about such peculiarities are detailed below:

1. Starting industries in a country without any locational advantages is bound to have handicaps. Almost all the units are using imported raw materials and have to perpetually depend upon government's import policies for their growth. With the ever increasing foreign exchange constraint if in future the government tries to restrict imports as it had done in the 1960s and early 1970s resorting to strict allocation, these industries may suffer.

2. The restrictions on imports on credit terms by the Sri Lanka government is adding further to the difficulty of the operators. As they are unable to procure the raw materials on credit they are put to the difficulty of organising for working capital. Asked to comment on this, Wilfred Nanayakkara, Director, Foreign Investment Advisory
Committee, Department of Finance, Sri Lanka, said that this is part of a broad fiscal policy designed to prevent indiscriminate dumping of foreign goods into the country and there could be no possibility of revising it.

3. In areas like restaurants where small operators are permitted to put up joint venture there could be very little benefit for India from the point of view of foreign exchange earnings and the broad objective of joint venture philosophy adopted by India may not be achieved.

4. In the fields where Indian joint ventures depend mainly upon Indian raw materials, the Government of India should take sympathetic view in permitting the export of these raw materials from India as otherwise it would amount to virtual starvation of these joint ventures.

5. In areas where multinationals operating in India are permitted to put up overseas joint ventures, the Government of India should make a deeper investigation to eliminate any doubts about the genuineness of their operations. In Pond's India's case the bottle supply tie-up and the joint venture taking up the marketing of products not manufactured by the joint venture factory are matters that deserve investigation.

6. The general lack of sympathy for India experienced at the hands of the Sri Lanka government and officials is something based on the interview conducted on 25 January 1983.


62. Interview with R. Janakiram, General Manager, Pond's India, in Madras on 24 October 1982.
to be taken note of. The lack of enthusiasm on the part of joint venture promotion agencies of Sri Lanka, like the G.C.E.C. and the F.I.A.C. is quite apparent. Better public relations activity is to be carried out by the Indian High Commission to ensure better relations with the Sri Lanka governmental agencies.

7. Export of Indian technology becomes difficult when it is not supported by permission to send enough technical personnel to implement it. The Sri Lanka government's reluctance to permit more number of technical staff is a big handicap for the joint venture operators. In the case of Ashok Leyland only one technical person from India is permitted and this certainly will have an impact on the working of the plant.

8. One other handicap of the Indian operators about which the Sri Lankan officials are quite conscious is the elaborate procedures and restrictions of the Indian government that contribute to the delay in the processing of joint venture applications and in getting helpful or positive replies. Even Indian partners as in the case of Kadirkama Kumarar Textiles (K.K.T.) have experienced considerable difficulty in getting permission or clearance from the Government of India. In the case of K.K.T. the implementation of the project had been delayed by several months because of such procrastination on the part of the government.

63. Interview with Meyyappan, Factory Manager, Kadirkama Kumarar Textiles, Colombo.
9. From the point of view of transfer of technology to Sri Lanka, no conscious effort is being made to transfer any intermediate technology. Although the government of Sri Lanka has been favouring employment potential as the main feature of industrialisation most of the Indian joint ventures are putting up plants with lesser and lesser employment potential. The only factory with a fairly high labour intensive industry is the shoe making Asia Limited, but this is a 100 per cent export unit for which the need for the use of intermediate technology is not much desired as the principal objective is to compete in the international market using sophisticated machines and technology. Excepting in the case of Kadirkama Kumarar Textiles, a cotton spinning unit, the rest of the units are not in areas where India has developed adequate capabilities and expertise to score over the multinational corporations of developed countries in an atmosphere of liberal imports.

10. The policy of setting up joint ventures only with the supply of machines and technology is considered a big handicap. Indian collaboration terms compare unfavourably with the terms offered by other countries particularly as foreign exchange release is quite strict in the case of India.

11. The failure of a good number of Indian joint ventures in Malaysia is cited to substantiate the argument about India's

lack of ability to put up healthy joint ventures. A Malaysian Minister complained about used machinery that had been sent to the joint venture unit in an effort at dumping old machinery. A cleaner image should, therefore, be created of India's joint venture efforts and performance.

12. The Sri Lanka government is strict in not permitting Indian joint venture operators to bring in money from third country sources. This puts the joint venture promoters to further handicap as quick transfer of funds to tide over a crisis is not possible.

13. By and large, at least the Indian banks should be more helpful and responsive to the demands of the joint venture units and come to their rescue. The phenomenal increase in the prices of capital equipments and raw materials between 1980 and 1983 had thrown many of the estimates and calculations totally out of alignment and the banks should take a sympathetic attitude towards the joint venture operators. Except in cases where the bonafides of the businessmen is suspect, in all other cases the benefit of doubt should be given to the operators and help should be granted.

14. The craze for western products and technology that the underdeveloped countries have always exhibited is also prevalent in Sri Lanka. This stands in the way of their

65. Tengku Ahmed Rithaudden's remarks about Indian joint ventures in Malaysia was cited by the Sri Lankan Officials during the interview in Colombo. See also The Hindu, 11 September 1982.
accepting Indian technology as of equivalent value. They at times even refuse to submit for training by Indian technologists and managers. The Indian management contract with the Sri Lanka Railways for increasing the productivity in the badly managed losing undertaking, the Sri Lanka Railways, was opposed by the Sri Lanka Institute of Engineers. They protested saying that the morale of Sri Lanka engineers and workers would go down if they worked under Indian management. Sri Lankans are, however, working under British, Canadian and West German management in the Mahaweli project.

15. The limitations of Indian technology and its inability at times to stand competition from the Western or Japanese products have also greatly affected the chance of Indian ventures.

16. Insistence on minority participation is one other reason for the sluggish growth particularly in a small and undeveloped island state. In projects like Usha Industries the participation of a large Indian company, D.C.M. has not brought any spectacular result because of the minor role assigned to the Indian partners in the policy making and running of the company.

The Unimplemented Ventures:

As discussed earlier, the rate of abandonment or of


67. From the trade statistics, it is seen that Japan is emerging as the largest exporter to Sri Lanka. Sri Lanka Customs, External Trade Statistics, Sri Lanka (December 1981 - June 1982), p.vi.
non-implementation of Indian joint ventures has been worrying the Indian authorities. In the case of Sri Lanka there has been no instance of abandonment so far. However, the rate of non-implementation has been quite high. In the wake of liberalization, a large number of industrialists wanted to set up joint ventures in Sri Lanka and registered with the Commerce Ministry of India. Subsequently, many of them did not evince interest and eventually dropped out. The Indian Investment Centre mentions that out of the total approval for 33 units 15 have not been implemented in Sri Lanka. There are no instances of abandonment after commencing the vital work, but many of them have not taken interest in pursuing their applications.

In the Free Trade Zone alone between 1979 and 1982, 21 Indian applications were received and processed. There are at present only two units in production and a third one is in an advanced stage of implementation. A list of the units that have dropped out is given below:

1. Handgar Industries -- Indexport.
2. Caves Interpack
3. Rukmani Spinning and Weaving Limited.
4. Telengana Spinning and Weaving Limited.
5. Herbertsons Limited.
8. Taj Hotel and Associates (not Taj Samudra).
10. Kinetic Technology India Limited.

Similarly in the area outside the Free Trade Zone there

68. Indian Investment Centre, n.9, p.27.
69. Details obtained from the G.C.E.C. Secretariat, Colombo.
are a few promoters who have applied and subsequently withdrawn. Some of them are:

1. Agrocargo Transport Limited.
2. Southern Properties Limited.

The reasons for these pull-outs are many. At the outset industrialists go in for registering their joint ventures without properly sounding the Government of India for the necessary permission. Joint venture applications are screened and examined at several points including the Ministry of Commerce, Ministry of Industries and the Director General of Technical Development inspite of such screening and multi-point checking, certain joint ventures fail because of lack of proper feasibility studies. In the case of Agro-Cargo Transport the company applied for permission to run passenger bus service (intercity) in Sri Lanka. The state owned buses are run at heavily subsidised fares and the joint ventures would have to compete with them. If at a future date the government chooses to control bus fares as part of its welfare measures, the company would have to stop operations. This project would have been suicidal in nature if it had been implemented.

One other reason for Indian promoters' inability to quickly plan their project is the paucity of foreign exchange. The Reserve Bank of India is quite strict about releasing liberal foreign exchange prior to the commencement of the project. Although this is a precaution intended to

70. In an interview with Venkataraman, Managing Director, Agro-Cargo Transport Corporation in Madras in October 1982.
safeguard against deliberate draining out of foreign exchange, it affects many a genuine promoter who could do more efficient survey with a liberal release of foreign exchange.

The inability to select a partner in Sri Lanka is another reason that withholds some projects. Agro-cargo Transport is one such instance. Again in the case of Kadirkama Kumarar Textiles the partner chosen is not found to be suitable and in the midstream he has withdrawn causing some confusion. Basically Sri Lankan entrepreneurs are traders and generally shun manufacturing activity. Also the capital outlay required in manufacturing activity is invariably large and the Sri Lanka businessmen are not enthusiastic about it.

Another reason for non-implementation is the delay which occurs in India while processing the application. Officials of the Foreign Investment Advisory Committee, Sri Lanka, mentioned about the delay that occurs in India. It is complained that Sri Lanka takes about two months to dispose of an application whereas India takes several months. Chandrika Ayurvedic Soaps had applied and waited for two years and still they could not get the sanction and they have naturally withdrawn. An official of the G.C.E.C.

71. Ibid.
72. Meyyappan, n.63.
73. Cooray, n.39.
74. Ibid.
in Colombo expressed the view that the reason for many of the withdrawals is the promoters' inability to obtain the approval of the Government of India. No doubt the Indian government makes an effort to study the viability of the project, its technical feasibility and other aspects before giving the clearance. This process takes a fairly long time as it involves inter-ministerial exchange of information (inspite of the Co-ordinating Committee). Besides this, the Ministry of External Affairs makes a reference to the embassy concerned to get reports about the collaborating partners and about the policies of the host government. However, efforts are made to hurry the process and the Government of India is repeatedly giving assurances about expediting the process.

There are some instances of Indian promoters complaining about the slow manner in which the Sri Lanka authorities are moving in disposing of applications. Although this may not be true generally, yet in the case of certain special joint venture project applications such as Ashok Leyland's, where the Sri Lanka government had to choose from among more number of international offers, there had been inevitable delays.

75. G.C.E.C., n.67.
76. Federation of Indian Chambers of Commerce and Industry, n.2.
77. Interview with officials of Overseas Investment Cell, n.43.