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Expert Group Meeting on Industrial Co-operation between Developed and Developing Countries for Exports

SELECTED CASE STUDIES [1]

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a) CO-OPERATION

BETWEEN INDUSTRIAL EXPORT BUCHAREST and IRAN TRACTOR MANUFACTURING CO. TEHERAN [1/]

The co-operation agreement between the partners in the joint operation has been signed in [illegible] by the Government of Romania and Iran, as both partners are public firms.

Under the new industrial co-operation agreement, at first the Romanian 65 HP tractor is assembled with components supplied from Romania. It is planned that the components be gradually manufactured by the factory in Iran. The tractors will be manufactured under the licence of the Romanian partner in the framework of allround co-operation including the supply of Romanian manufacturing technology, training of personnel in the Romanian plants and local training by Romanian experts sent to Iran. Exports are to reach 30% of the annual output. It is expected that the products will be exported to the Near and Middle East.

The motives of the Romanian partner for entering into co-operation with the Iranian one are the following:

a) There is demand for certain Iranian goods in Romania;

b) The possibility of rendering prices for tractors more competitive in the Middle East by wholly or partially manufacturing them in Iran with components imported from Romania. The lower sales price is made possible only by reducing the shipping cost.

At the stage of tractor assembly with components imported from Romania the value of imports represents 2/3 of the annual production, whereas at the stage of tractor production the value of input imported will be 10% of the annual value of the output if the factory works at full capacity.

1/ Prepared on the basis of the questionnaire by the Romanian foreign trade firm Industrial export - Bucharest

In the field of joint research and development programmes it is agreed that improvements made in Romania in the type of tractors manufactured in Iran will be provided to the Iranian partner free of charge. On his side, he commits himself to keep the Romanian party fully informed about improvements. The factory will have its own laboratory and a research department where Romanian and Iranian experts will work jointly during the training period.

After-sales services and repairs have been provided to most of the countries where the Romanian tractors have been sold. The Iranian partner will be in a position to provide the same services to countries which will import tractors manufactured in Iran, on the basis of the experience gained in the services rendered by the Romanian partner. After-sales services include the sending of experts, the establishment of stores for spare parts and repair centres during the guarantee period, as well as mobile and permanent workshops after the guarantee period.

It is stated that one of the major difficulties in implementing the industrial co-operation agreement is the adverse influence of the foreign tractor manufactures who have lost this market (since Iranian authorities have stopped the imports of tractors of similar types). On the other hand, the lack of trained local personnel for tractor manufacturing has made it necessary to send this personnel for training in Romania and to dispatch, at the same time, a great number of Romanian experts with a view to help in starting the production and training the personnel. It should also be stressed that the quality of the tractors manufactured in Iran should be equal to the quality of Romanian tractors. The production costs and prices are comparatively high because of the small scale of production, however they remain competitive.

(For further details see also "Co-operation between Romania and Developing Countries in Promoting Industrial Exports" (ID/WG.47/2), pp. 30-32).

b) CO-OPERATION BETWEEN IMR - BEOGRAD AND EL NASR AUTOMOTIVE MANUFACTURING CO. - CAIRO

The industrial partnership between Industrija Motora Rakovica, Beograd and El Nasr Automotive Manufacturing Co., Cairo - both of them public firms - was established in 1961.

On the basis of the agreement, the partners will co-operate in the production of agricultural tractors and Diesel engines on the territory of the U.A.R., with the following final annual capacities:

3000 units of tractors IMR - "Zadrugar" type 50/1, complete with IMR diesel engine type [illegible] (47 HP, 2000 r.p.m.)

3000 units of diesel engines, IMR-33 series, which are independent units from the tractors, with 3, 4 and 6 cylinders, for various vehicle and industrial applications

2000 units of generally overhauled engines on exchange basis (engines with 3, 4 and 6 cylinders).

The motive for the Yugoslav enterprise to enter into co-operation with El Nasr Automotive Manufacturing Co. (NASCO) was the impossibility to place all products in markets of developed countries, having similar and sometimes even better technical achievements. Therefore, Industrija Motora Rakovica (IMR) earmarked approximately 50% of its production programme for export to developing countries.

The industrial co-operation between IMR and NASCO takes the following forms:

- the right of production and sale of tractors and diesel engines as well as the right of future improvement and modification of the manufactures being subject of the agreement;
- licence documentation and know-how documentation;
- factory and production designs for the manufacture of tractors and diesel engines and the transfer of know-how. IMR undertook (a) the design of the tractor and engine plant with the supply of part of the necessary equipment and tools; (b) putting of machine tools into operation and running in of production groups. IMR undertook to render complete technical assistance in

respect of training of the production and technical personnel of the new factory and allocating its own technical personnel for supervision of the production process.

- Delivery of assemblies and parts, semi-finished parts used for assembling tractors [illegible], production and servicing.

In the field of exports NASCO has the right of marketing products which are referred to in the agreement (tractors, engines and spare parts) both in local market and markets of other countries including Morocco, Tunis, Algeria, Yemen, Kuwait and Saudi Arabia. Some efforts have been made in respect of sales to Syria, Iraq and Sudan but without achieving noteworthy results.

The value of the total output of the joint operation is about $4,000,000 with a tendency of increasing this value to 6 - 8 million dollars annually. NASCO produces also manufactures under Deutz and FIAT licences and the value of deliveries on the part of IMR is about one third of their total value.

For the final product NASCO has to import 75% of the total value, while the remaining 25% are produced by NASCO or by local subcontractors. For parts produced in the A.R.E., a small quantity of raw materials, e.g. for forgings, are purchased abroad.

The present situation in the A.R.E. is such that the average production of 1,[illegible] tractors per year is insufficient and too small for export to foreign markets. NASCO is still at the stage of development and completion of the production. Therefore, there is no point in joint research and development programmes from the viewpoint of export promotion. No experience has been made in establishing joint maintenance and repair services in the export markets, because no joint exports are being practised. However, IMR helps NASCO to establish a service and spare parts organization in the local market of the A.R.E. All technical literature and documentation necessary for a correct handling and maintenance of products are handed over to NASCO. Also IMR organizes training courses for instructors and tractor drivers in the A.R.E. and trained groups of instructors at IMR in Yugoslavia.

The advantage derived from the joint venture is a secured market for IMR products for a long-term period, until NASCO completes its production in the A.R.E.

c) [illegible] – HUNGARIAN AND INDIAN [illegible]

The first is a joint venture between MEDIMPEX and Themis Pharmaceuticals of Bombay, for the manufacture of Vitamin B.12 and other sophisticated chemicals. The Indian company holds 75% of the shares and 25% are owned by the Hungarian state enterprise. Under this agreement manufacture will start from an intermediate and gradually Themis will switch over to complete manufacture based on Hungarian manufacturing methods. Manufacture of Vitamin B.12 in India has already begun. To set up this undertaking MEDIMPEX supplied technical assistance in the form of Hungarian technicians. By training local staff in the application of modern manufacturing processes, MEDIMPEX has enabled the Indian company to reach the desired degree of quality in a relatively short period of time. This co-operation has resulted in Themis raising its market share so that today it supplies 25-33% of India's needs for Vitamin B.12.

After the completion of the B.12 manufacturing programme an expansion in the product range is envisaged, e.g. into such fields as Phenilbutazon and Etionamid. The long-range programme includes a further expansion of the list of products to be covered.

The other joint venture was concluded with Dey's Medical Stores of Calcutta. In the execution of this programme the Hungarian firm CHEMOKOMPLEX joined MEDIMPEX. This involves the manufacture of Chloramphenicol. The manufacturing process is based on Hungarian know-how and Hungarian experts supervised the construction of the plant and trained the necessary technical staff.

Further negotiations on similar projects are currently in hand with other Indian companies with the object of expanding this type of co-operation in the manufacture of more sophisticated chemicals. The Hungarian pharmaceutical industry has made a considerable contribution to the development of local industry in India. By placing a great variety of manufacturing skills and techniques at the disposal of the Indian pharmaceutical companies this has enabled India to produce a range of pharmaceuticals far beyond its indigenous capabilities. Several Indian companies, e.g.

Martin and Harris, Therapeutic Pharmaceuticals and Unichem Laboratories have as a result of the abovementioned co-operation launched several new pharmaceutical products on the Indian market. Biological Products Limited have started local manufacture of chemicals such as Pankreatin, [illegible] and Pepsin based on Hungarian manufacturing methods and with the help of Hungarian technical assistance.

2) THE [illegible] OF POLCO[illegible] - [illegible] IN [illegible]

(1) The Tasks and Role of POLCO[illegible]

This case study is based on the experience gained by the Polish enterprise POLCO[illegible] in the years 1967, 1968 and 1969. POLCOMEX S.A. was founded in 1960 as a licensed representative enterprise for the promotion of Polish imports, management of consignment warehouses and technical servicing of machines and installations supplied by the represented principals. By the end of 1[illegible] POLCO[illegible] started investigating the problems of industrial co-operation with developing countries.

Soon afterwards POLCOMEX S.A. was granted the necessary authority and facilities, including banking credits, for the organization and management of industrial partnerships abroad. In the course of the three years of its operation in the organization of industrial enterprises abroad in the form of industrial co-operation arrangements POLCOMEX has achieved the following results:

(a) It has analysed over 200 various offers and proposals from 49 countries. After a preliminary investigation it dropped 128 proposals which it considered unrealistic, and concentrated on feasibility studies of the remaining 62 proposals from 30 countries.

(b) It carried out market research in 22 countries and prepared over a dozen technical and economic reports on the most interesting projects.
The studies were carried out by experts with practice in the various fields of production and lawyers specialised in financial and organizational problems.

(c) It implemented four of the projects it had worked out, including:
- 2 projects in the capacity of partner with a 50% share;
- 2 projects without participation in the partnership, but with participation in the organization of international co-operation on the basis of special agreements.

(d) It expects within a few months time to conclude partnership agreements on the organization of five new industrial plants in developing countries.

(e) It has begun recently to work out proposals and ideas concerning the expansion of its activity and harmonization with the national system of planned economy.

(c) <u>Origin of the Partnership proposals.</u>

The proposals to form industrial enterprises in the shape of mixed partnerships were received by POLCOMEX mainly through Polish trade enterprises abroad. Apart from that, Polish foreign enterprises dealing in the export of machines and installations keep POLCOMEX informed about enquiries for offers for the delivery of investment equipment if the placing of such an order depends on the Polish partners joining such a partnership. It was only in recent years that the Polish party began to organize and participate in industrial partnerships. The main purpose of Poland's participation in such partnerships is the promotion of exports of Polish investment goods within the framework of international industrial co-production.

POLCOMEX receives also a large number of proposals in the course of its activity in the developing countries. This activity consists, among other things, in the conduct of preliminary negotiations with local partners who submitted proposals of co-operation, as well as in the study of the possibility of supplies and sales and the collection of data indispensable for the preparation of technical and economic reports.

The implementation of the agreements concluded, the organization of the building site, the construction of factory sheds, the delivery of machinery and installations, and particularly the commissioning of new plants, bring about a further flow of new proposals from local partners.

At present the first 200 proposals and projects for co-production and other forms of joint ventures between Polish and foreign partners are being analysed. The relatively large number of cases (200) makes it possible to establish certain general regularities, particularly as regards the degree of intensity of some phenomena, their essence and the general tendencies of their development.

The largest number of proposals received by POLCOMEX was from Africa ([illegible] = [illegible]%) and Asia ([illegible] = 37.5%). The largest number of proposals was submitted by Nigeria, Pakistan, Ethiopia, Sudan, Ghana, Brazil, India, Lebanon, Mexico and Iran.

POLCOMEX received also a number of proposals from European countries, including Greece, Ireland and Iceland. A considerable majority of the proposals was submitted by private individuals, mainly merchants and businessmen, particularly dealing with imports and wholesale trade in goods which they now propose to produce on the spot.

But there are also proposals from persons who did not engage so far in economic activities but possess certain capitals and are in the position to obtain the necessary concessions and licences. But the funds held by such persons are usually considerably lower than the minimum amount required for a given undertaking, while their lack of experience and determination makes the choice of a proper solution more difficult.

Proposals and projects initiated by state organizations promoting the development of industry in a given country, as well as by banks and big industrial enterprises usually stand the best chance of being implemented. Such projects are as a rule better thought out, more consistent with local needs and possibilities, and their cost can be met from funds held by their initiators.

(3) Branch interests of POLCOMEX

The classification of the above proposals for joint organization and management of industrial plants according to branches is illustrated by the following table:

Quantitive analysis of proposals according to branches

		Number of projects				
		Total	% of whole	Current	% of whole	% of current to whole
1.	Deep-sea fishing	47	23.5	15	24.2	31.9
2.	Metallurgical industry	40	20	18	29	45
3.	Building materials industry	24	12	2	3.2	8.1
4.	Food industry	19	9.5	8	13.1	42.1
5.	Small-scale industry	16	8	3	4.8	18.7
6.	Textile industry	13	6.5	8	13.1	61.5
7.	Non-coal mining industry	13	6.5	0	-	-
8.	Chemical industry	11	5.5	3	4.8	27.2
9.	Sugar factories	4	2	0	-	-
10.	Aviation services	3	1.5	1	1.5	33.3
11.	Foundry industry	2	1	0	-	-
12.	Electronic industry	2	1	0	-	-
13.	Railway waggons assembly	2	1	2	3.2	100
14.	Power industry	1	0.5	0	-	-
15.	Electrical industry	1	0.5	0	-	-
16.	Building machinery industry	1	0.5	1	1.5	100
17.	Cable industry	1	0.5	1	1.5	100
	Total	200	100	62	100	31

A decisive majority of the projects (183 = 91.5%) belongs to the first eight items which are, therefore, worth closer attention.

(4) <u>Why did POLCOMEX refuse to participate in proposed partnerships</u>

After a preliminary examination POLCOMEX rejected 138 proposals (69%) considering them unrealistic. These decisions were dictated by the following reasons:

In 75 cases (54%) the cause lay with the partners, in 19 it was found that Polish exporters cannot carry out the deliveries (14%), while in 44 cases (32%) there were no conditions required by POLCOMEX.

The most important reasons in the first group of cases were: lack of suitable partners (37 cases) undetermination or withdrawal of suitable partners (31), their unrealistic demands (2) and finally lack of production licences (5). The lack of possibilities of delivery of complete industrial plants by Polish exporters was caused mainly by the fact that the exporters could not offer sufficiently short delivery terms, and that they would have to implement the deliveries by a rather large import from other developing countries by way of transactions unfavourable for Poland from the point of view of payments.

The inconsistence with conditions required by POLCOMEX lay in the majority of cases in:

- insufficient or improper security of the contributions or credits of the Polish party;
- too risky undertakings or too risky methods of its execution;
- impossibility of having a sufficient influence on essential decisions in the proposed partnerships;
- lack of encouraging conditions for foreign investors and partners on the part of local partners and their authorities.

- [illegible] -

[illegible]) Austro Indian Joint Venture

(This case study of a joint venture between Austrian and Indian partners was prepared by Dr. Ewald Nowotny, Department of Economics, University of Linz, Austria.)

This case study of a joint venture in India is of special interest insofar as the Austrian partner [illegible] in the joint venture [illegible] for those medium-sized, technologically advanced firms, which in Austria [illegible] and willing for such ventures. The economic and legal construction, too, is very similar to that of other joint venture arrangements of Austrian firms (this is mainly due to the fact that in Austria there are very few experts to counsel firms entering a joint venture in a developing country).

The joint venture was founded in 1961 in Calcutta as a joint-stock company with a capital stock of 10 million Rupees. The initiative for this enterprise came from the Indian government, which had the intention to establish a factory for machinery for the [illegible] production of manufactures made out of plastic materials. An Indian delegation visited a number of possible partner firms in Europe and finally agreed with the Austrian firm to start a joint venture in India. The Austrian firm was only founded after the war and has since then expanded at a rapid rate. Today it is one of the most important producers of automatic injection moulding machines with screw plasticizing and perhaps the technically most advanced in the world. The firm is expanding its [illegible] production but up to the Indian case it had not been engaged in a joint venture or a foreign subsidiary.

When the Indian [illegible] arrived there were very different opinions within the company. It was argued that one should not accept because:

a) the firm had no experience in such ventures,
b) it will be very difficult to find experts within the company willing to go to India
c) there were misgivings concerning the political and economic stability of India

d) it was doubtful whether the whole enterprise would be profitable for the Austrian company;

e) in the case of a failure, this would have a negative effect on the newly built-up world-wide image of the firm.

The main argument against these considerations was the possibility to get a dominating position on a market, which is particularly promising for automatic injection moulding machines. This chance was all the more attractive, as in the case of a rejection on the part of the Austrian firm a Japanese competitor would have been willing to go to India. In addition, it was hoped that a joint venture in India could be more successful in the competition at the Far-Eastern and Middle-Eastern markets. As a result of these internal considerations the management of the Austrian firm decided:

a) to accept in principle, the offer by the Indian Government;

b) to concentrate its interest in the provision which secure the market position in India;

c) to minimize its risk by taking the smallest possible participation and exercising a strict technical control in the new joint venture.

On this basis their fiscal negotiations began which, within a relatively short time, came to a positive end.

The joint stock company was founded with four main shareholders, the rest of the shares was held by various private persons. Although originally favouring a smaller percentage the Austrian firm eventually agreed to sign a participation of 26%. This percentage was not to be paid in cash, but it mainly consisted of an option for new shares, which should be paid by the royalties from the licensing and know-how agreement. Also some contributions in form of important machinery (partly new, partly second hand) were made. When the 26 per cent level will be reached the Austrian firm has no further obligation to buy shares of the joint venture, but will be paid for its know-how agreement in transferable currency. The other major share holders are an assurance company and two finance corporations, which are partly controlled by the government.

Besides the arrangement on creating the joint venture, a know-how and licensing arrangement was signed, which is the real essential basis for the co-operation.

Under this arrangement a licensing royalty of 6 per cent (which due to Indian taxes amounts to [illegible] per cent net) of the value of output is foreseen, which in the first years (probably till 1970) will be paid in the form of shares of the joint venture. The Austrian firm laid special emphasis on the binding of the royalties to the value of output, which is much easier to control and gives more security than other possible forms. Concerning the range of production, it was arranged that some particularly complicated and essential parts should not be produced in India but be delivered by the Austrian firm. This has a double effect. First, it secures the quality of the essential parts, which mostly need very costly machines for their production. The second effect is, of course, that it is thus possible to exert a very strict control on the number of machines produced, which later on turned out to be of some importance. The know-how arrangement further regulated, that all technical components needed for the production have to be bought from the Austrian company. This regulation was also mainly motivated by the necessity to secure the technical standard of the machines produced in India and pertained also to components not produced by the Austrian company itself. This arrangement, on which the Austrians had insisted for matters of security, in reality did not prove to be of special relevance. As far as possible, components (especially for the hydraulic parts) are bought from Indian subsidiaries of the firms which deliver the same components to the Austrian plant. The other parts are delivered by the Austrian company which gets a certain administrative remuneration for this. Still they are up to 25% cheaper than they would have been if bought directly in India, because the Austrian company with its greater demand and easier payment conditions is able to get better prices. It is also easier to get the necessary import licenses from the government, if the transaction is between the Austrian parent company and the Indian joint venture. Still it takes from 6 months to one year to get the import-licences, which is considered as a major handicap for an efficient and flexible planning of production of the Indian company. In total the value of import components for the products of the joint venture amounts to 15 – 20 per cent of the value of the output.

A further provision allows the Indian venture to use the name of the Austrian firm for its products. This permission can be cancelled by the Austrian firm at any time. This provision, of course, also leads to a strengthening of the influence of the Austrian partners in the joint venture. The Indian side was interested in it, however, because it should allow the new company to use the good-will of the Austrian firm on export markets. The further development of the company though, showed that the export business was of relatively small importance. In a separate agreement the Indian joint-venture was given the status of a sales and service agent for all the injection moulding machines that are not produced in India. There exists an understanding with the Indian government, that only machines from the Austrian company will get import licenses. Thus, the main interest of the Austrian firm in the whole operation is secured. In fulfillment of this agreement the Indian joint venture established a number of sales and service offices throughout India.

After reaching these agreements the construction of the Indian plant began on a site in the industrial area of Calcutta. The technical planning was done by the Austrian company. The plant was planned for a capacity of 300 machines per year (this being about half of the production of the Austrian company) and a staff of about 600. These goals have not been achieved yet, production amounting to about 150 machines and number of employees to about 240.

It was decided to produce 6 out of the range of 25 models, produced by the Austrian company. These were the simplest and most demanded machines, where both sufficient technical standards and sufficient local and export demand could be expected. The management of the new enterprise was mainly Indian, only the technical manager was an Austrian, sent by the Austrian partner company.

According to the constitution of the company the Austrian shareholder also would have had the possibility to send an officer as member of the commercial management, but it was not possible to find a suitable candidate, prepared to take this job. This points to one of the major problems encountered by the Austrian firm: Within this relatively small firm it was rather difficult to find people interested in going to the new Indian plant. This mainly was due to personal reasons. It would have been possible to hire foreign experts (e.g. from Germany) who already had some experience in developing countries and would have been ready to work for the new Indian company. But the Indian management was not willing to accept the wages, demanded by these experts and usual in developing countries for Europeans in companies with strong European participation or majority. In addition to the local Austrian technician technical experts from the Austrian plant were in India for shorter stays during the time of construction and are returning for inspection, counselling etc. at regular intervals.

The joint venture began production in 196[illegible]. The first years were very successful and showed rapid rates of growth. The main customers of the new enterprise were the Indian subsidiaries of great international firms, where the parent companies were already costumers of the Austrian firm. This group still needs a great part of the output of the Indian company, but meanwhile also local plastic processing factories have developed, so that the range of customers has widened. The quality of the machines produced in India was considered as sufficient by the Austrian experts, but did not totally reach the standard of the machines produced in Austria. Several controversies within the management resulted from the price policy of the new company, as the prices demanded in India were up to 50% higher than the prices for similar machines built in Austria. The Indian management argued, that productivity was less and thus production costs were much higher, especially at the beginning, the optimum capacity had not been reached yet. But clearly the pricing policy partly also reflected the monopolistic situation, which could be exploited.

The export experiences of the joint-venture were rather disappointing. Originally it was intended that it should deliver its machines to already established and important markets of the Austrian firm, especially to Australia. This turned out impossible as the Australian customers did not accept this, because they held the opinion that the quality of the Indian machines did not equal that of the Austrian ones. (According to the Austrian technicians this was only partly true, partly the rejection had more psychological motivations). It was possible to export to some countries of the Far East, as e.g. South Korea and Indonesia. The very difficult

Japanese market only accepted some of the most modern and technically advanced Austrian machines.

As the capacities of the Austrian company are fully used for a long time and expansion of capacity is slower than the rapidly growing demand the Austrian company was very favourable toward a strong export business of the Indian plant, because this would have enabled it to concentrate only on the production of the most difficult and valuable components. But due to the heavy demand in India itself and the better prices it could obtain there, the Indian management was not very much interested in widening the export business, so that the value of exports hardly exceeded 10% of the value of the total output. In the last years some special form of exports has developed, (which is well-known also to a considerable number of joint-ventures of German and Indian partners): Due to shortage of convertible currency on the part of Socialist countries the exports of the Austrian firm to these countries were severely hindered. On the other hand, some socialist countries have rather large surpluses in their trade with India. Thus it was arranged, that a part of the export of machines to some Socialist countries should be done by the Indian joint venture. The Austrian company takes, of course, the responsibility for servicing these machines and gets for this a commission from the Indian firm.
A joint research and development programme with the Indian company is limited to projects concerning the application and adaption of the machines to Indian needs. Three Indian technicians are entrusted with this task, while the development of the new machines is going on in Austria. (But even there the new techniques became too complicated for the Austrian firm alone, so that it entered in a limited co-operation with a small Austrian engineering firm, specialized on the development of electronic equipment, as it is built-in in the more advanced models of injection moulding machines).

In the history of the joint venture the main troubles arose from management problems. The Indian chairman was able to change the management in a way that was favourable for members of his family etc., there were some cases of fraud, organized or tolerated by him and eventually some speculations with the shares of the company, initiated by the management itself, led to a severe crises.

The Austrian partner was not informed about these matters for a long time, as he was only represented by technicians, who were not interested in commercial matters, nor able to control them.

In an emergency session of the board of directors, which was attended also by the management of the Austrian firm, the situation of the joint venture was analysed and a new management elected. The firing of the old Indian management caused concern among the Indian workers, who threatened to strike, but then agreed with the measures taken after they had been given full information by the Austrian member of the board of directors. The new management is also Indian (except one Austrian technician) but the Austrian firm has now hired an external counsellor, who is well versed with the Indian business scene, to represent it permanently at the board of directors.

The joint venture is now expanding again at a rapid rate and the new management seems to work very well.

The overall result for the Austrian partner is rather positive. Concerning the financial aspects its costs have returned
Up to now no profits in transferable currency were achieved, but the point when this will happen is expected in the near future. Moreover, an interesting participation was acquired with the royalties of the know-how arrangement. This venture has also fulfilled the expectations concerning the penetration into an important market. The expected goals were not achieved on the export-side but this was mainly caused by the heavy internal demand, so that no incentives were given to go abroad. The difficulties concerning the Indian management and also partly the relations with the other major groups of shareholders were under-estimated. From the point of view of the Austrian partners some of the major Indian shareholders were too little interested in a long-run balanced expansion of the joint venture, and willing to give up too early, if difficulties arose.

For future co-operation the Austrian company would not agree to the same clauses, as executed in India and according to the management the same considerations hold true for a number of other Austrian and German firms with which experiences were exchanged. Instead two alternative forms would be preferred :

a) a simple licensing and know-how agreement, where only technical control is necessary and royalties are directly paid in convertible currency

or

b) a participation of at least 50% in the joint company or an other form of agreement which allows a controlling influence on the management. Such a participation also would allow to send real top men to the joint-venture, as then they could be given adequate posts with adequate salary. And, of course, as the risks for the foreign partner are greater, there would be a very strong incentive for him to try harder, then it is perhaps sometimes done now.

The Austrian company does not expect that the new "selective" licensing policy of the Indian government will change anything concerning its relations to the joint venture. The original licensing arrangement will end next year but as the technological development is very rapid in this field, it will be necessary to prolong it to secure the flow of know-how to the joint venture. The other points of interest for the Indian government, given sufficient permission to export do exist, but, as it has been shown they were not used very much up to now.

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