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D01201

United Nations Industrial Development Organization

Distribution
LIMITED

ID/WG.22/7
13 August 1968

ORIGINAL: ENGLISH

Meeting on Industrial Investment Promotion Services
Vienna, Austria, 23 - 26 September 1968

SELECTION OF A PROSPECTIVE INVESTING CORPORATION -
INDIA'S APPROACH^{1/}

by

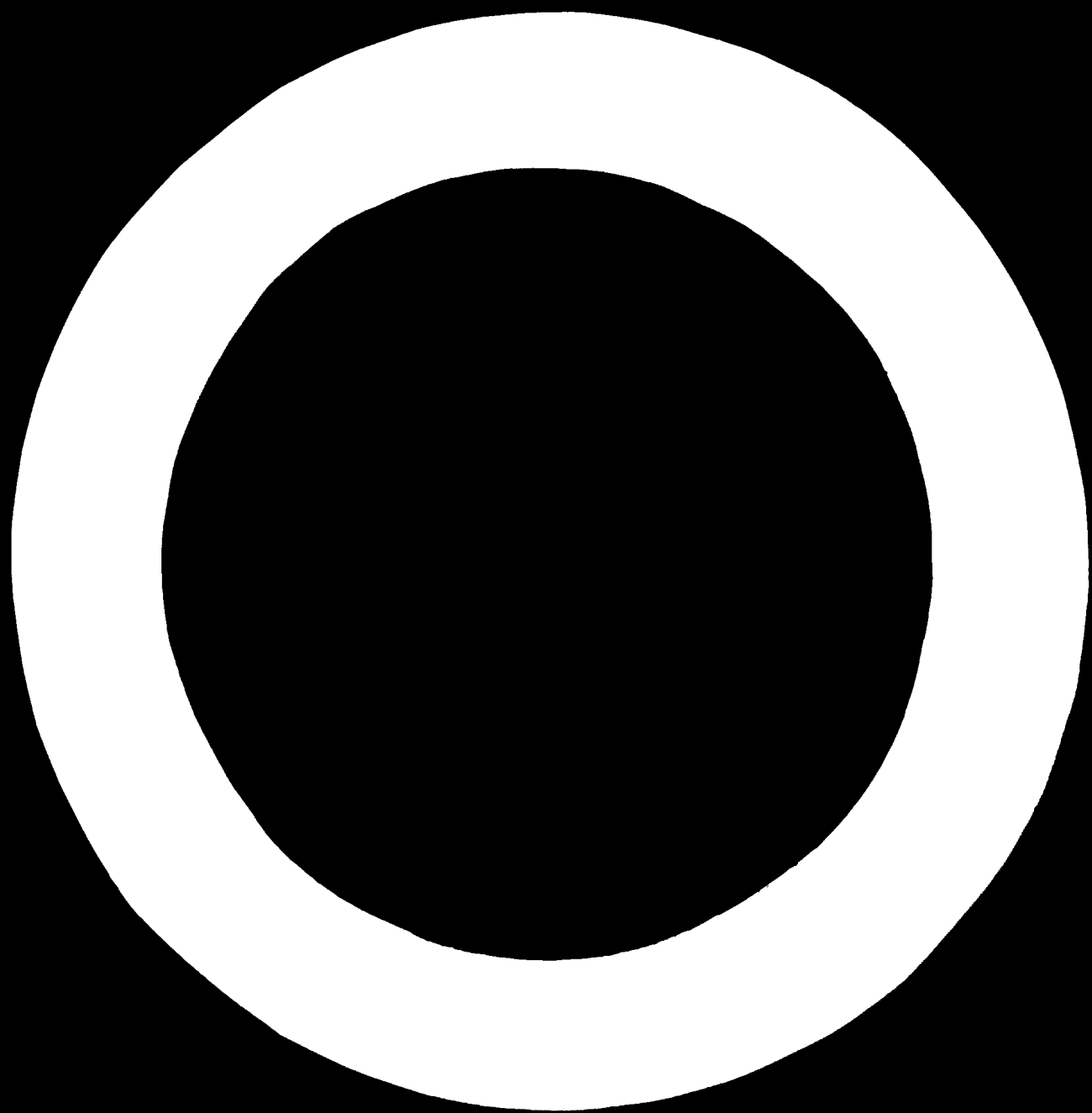
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presented to the UNIDO/UNITAR Training Programme in
Industrial Investment Promotion, April-May 1968

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id.68-2886

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The title, namely, "selection of a prospective investing corporation" is perhaps suggestive of a rather wide field from which a selection could be made. If this was true of some past period it is not true today - certainly not, I think, in relation to a developing country's efforts to seek investments from capital exporting countries like the U.S.A. to which my experience is limited. It is rare now that there is a race among U.S. corporations to invest in developing countries. It would be more appropriate to describe the subject as "the search for a prospective investing Corporation".

Perhaps I should explain why this is so. Investment in the newly emerging countries is an idea which is now at least a decade old for most big U.S. corporations which are foreign investment oriented. A fairly good amount of knowledge of the economies of most developing countries has been built up by such corporations and their resources, relevant investment laws, incentives, regulations have been analysed. What is more important, experience has been gained either first hand or through exchange of information and impressions with fellow investors.

Most such corporations, therefore, have evolved their own view of a country's investment climate and determined their interest with reference to factors which they consider important. This might result in the exclusion of certain areas. At other times it leads to initiatives being taken by the investor himself reacting to a set of circumstances in a specific country. But often he weighs two or more countries for the best advantages. In this sense the foreign investor selects a country or a project rather than the other way round.

For my more limited purpose today I shall assume that a project proposal is ready to be presented to an investor. This means that it contains enough material to show that the economic feasibility of the project has been studied with particular reference to demand, product mix, inputs, transport, location, capital estimates and profitability and that the needed Government approvals, if any, have been obtained. It also presupposes that the entrepreneur possesses adequate management skills and local capital resources. Let me point out that this is an ideal situation which is not often realised in practice. But I shall make this assumption because the investing corporation usually expects it.

The task of matching such a proposal with the interest of the right kind of foreign investor is one of the most important functions of an Investment Promotion Agency. It is also a great test of its efficiency, because a great deal of time and effort could be wasted in fruitless correspondence and search.

Since conditions vary from country to country and the requirements of individual projects are different in each case, no predetermined rules for locating a prospective investor are useful, but in all cases the approach would involve two basic steps:

- (a) The identification of corporations engaged in the industry and
- (b) The isolation, from among the larger group, of a small number of corporations who would be interested and willing to provide the assistance required.

(a) The first step of identification needs one or more of the following aids:

1. Reference Directories

A number of Business Directories providing industrywise listing of manufacturers is available in the U.S. The most popular ones are the Thomas Register and the Poor's Register. They give a general idea of the size and credit rating of Corporations and names of the major products manufactured by them. While it may be easy to prepare a list of Corporations engaged in the manufacture of an important product such as a transformer or a compressor, the search becomes progressively more difficult as one attempts to pinpoint smaller, less well-known items.

I once addressed letters to six different U.S. Corporations seeking assistance for the manufacture of silicon rectifiers after what I thought was a thorough search of the Directories. Half of them replied that they were only users of silicon rectifiers and not manufacturers. And yet all were shown under the same industry classification.

This difficulty in tracking down the right source is more apparent when the search is for a source of a new technology or product. These are generally not listed in Directories. For example, it would be difficult to know who, among the U.S. manufacturers of phosphoric acid, would have the technology for the manufacture of elemental phosphorus as a route to the acid and who, again, has the technology for large plants as distinct from smaller ones.

Sometimes, the Directories become completely useless. Cashew shell liquid is processed in the U.S. and made into various industrial products. The names of manufacturers of end products are found in the Directories but not the processors of the liquid and since India produces large quantities of the liquid we were interested in the processing technology. All our efforts to locate processors proved futile. Then we looked through the Buyer's Guide which gave a listing of a few U.S. buyers of the liquid but they would not disclose the names of companies to whom they sold the liquid for processing as their transactions were said to be strictly in confidence. A list was finally obtained through an acquaintance in the paint industry. It was a big surprise to us when we came to know that one of the processors was a U.S. Chemical company whom we had known very well.

I have referred to these examples only to show how difficult the search can become. This is not to detract from the immense usefulness of the Directories most of the time and they should be one of the most dependable instruments of an Investment Promotion Agency.

2. Manufacturers' and Trade Associations

If the Directories are not able to provide the required information, it might be useful to try the Associations of Manufacturers or Trade Association. When a suitable list of rice milling machinery manufacturers could not be had from the Directories available with us, we enlisted the assistance of the Rice Millers' Association of U.S.A. to obtain a list of leading equipment manufacturers.

3. Banks

Commercial Banks of the U.S. are one of the best means that could be employed to identify investor companies. Most of the large Banks have industry experts on their staff and a brief meeting with them could, in some cases, be of great advantage. The Banks, however, generally tend to recommend their own customers. Irrespective of their usefulness in any particular instance, Investment Promotion Agencies will find it necessary to cultivate the Banks carefully. They are good sources of intelligence and invariably refer potential investors to Promotion Agencies of their own accord. Their role is

further extended to possible financing arrangements if the need arises. When the size of the project is large it has been our experience that it is of decisive advantage to keep the Banks closely in touch with developments from the very early stages.

4. Government Agencies

In the U.S. the Department of Commerce maintains an up-to-date list of U.S. Corporations interested in foreign collaboration. There is a merit here not available elsewhere. The Department has ready access to responsible levels in Corporations and is always willing to assist investment promotion agencies. When a high level Government of India delegation wanted to explain the Government's new incentives policy in regard to foreign investment in the fertilizer industry, a large meeting of fertilizer producers and allied interests was organized with the cooperation of the U.S. Department of Commerce. Later meetings were also held individually with top officials of Corporations.

5. Consultants

There are many firms who provide assistance in locating prospective investors but in many cases their services would involve payment of fees. For this reason we have not used this source.

6. Advertisement

It has been suggested by some that projects could be advertised in foreign trade magazines or publications like "International Commerce". We have not liked this idea very much because advertisements have more often attracted the attention of persons or agencies who were themselves not genuine investors. I must, however, concede that the experience of other agencies might have been different.

(b) So far we have tried to identify Corporations interested in a given industry. The next step is one of arriving at a few of the more promising investors interested in foreign investment and in the country and project concerned. This process is obviously related to the nature of the project and the assistance expected from the foreign firm. Some are not interested in financial investment but are prepared to provide technical assistance. Others are not interested in any but a stake in ownership and yet others desire a controlling interest.

But just as I earlier referred to the ideal attributes of a project proposal there are some basic considerations which ought, ideally, to govern the final listing of prospective investors.

1. Corporations which have a history of international investment and business and especially those who have demonstrated a willingness to live with the constraints inherent in developing economies will perhaps be the most receptive to new project proposals. New Corporations in this area inclined to aggressive risk-taking also are ready listeners.

2. It is not always necessary that a larger company should be preferred to a smaller company. The size and technical standing of the foreign company become relevant primarily with reference to the sophistication of the products involved and the size of the investment. We know of cases where large companies with the best technical know-how and financial strength have failed to take sufficient interest in a foreign venture only because that venture constituted a very small fraction of their total business.

3. On the other hand, a broad range combined with the ability and willingness to provide continued assistance as the joint venture grows may be of decisive advantage to a project. When an Indian company was seeking an entry into the electronics industry it was offered assistance by a small U.S. company possessing know-how only for the manufacture of transistors. The assistance was passed over because the Indian company felt that in due course, when the joint venture would need to diversify, the foreign collaborator might not be able to provide the assistance required.

4. In the normal course of its operation the Investment Promotion Agency will have been approached by foreign companies with a view to exploring investment opportunities in its country. Sometimes it becomes difficult to offer suitable projects to them, or they may be unable to pursue the projects suggested to them. The interest of such companies in the country should be kept alive and new opportunities should be suggested to them when they arise in their area of interest. There are also those Corporations which are known to be conversant with conditions in a given country, either because they have invested there or because they have officials who have first-hand knowledge of such conditions.

An investment promotion agency should, over a period of time, build up its own records of corporations likely to be interested in their country. They should also develop personal contacts with corporate executives who could provide a great deal of business information which may not be very conveniently available to a foreign agency. Such records and personal contacts could be one of the most useful sources of information on prospective investors.

The Indian Investment Centre had, in its early years of existence, relied heavily on the U.S. Department of Commerce and the Banks, but during our more than seven years of work here we have sought to build up our own records and contacts systematically and consequently we now depend on them for much of our work connected with identification and isolation of prospective investors.

There is a third step involved which, by enlarging somewhat the scope of the subject under discussion, completes the process of locating a prospective investor. This is the approach to the right man in the company. Generally, it is safe to address a communication to the head of the company by name if the Directories do not show any other official as in immediate charge of the international or regional division. If there is such an official it will be useful to approach him directly as the communication will filter down to him soon. Often it happens that some high official in a Corporation is more foreign investment oriented than others and it is worthwhile activating his interest.

It is hardly necessary to underline the need for preparedness to answer intelligently all questions asked by the Corporation on general investment aspects and as far as possible on the specific project proposal. It would be preferable to delay approaching the Corporation until such preparation is possible. After that it is necessary to provide the company with full assistance in collecting data necessary to evaluate the project.

These then, briefly, are the conclusions to be drawn from our experience in the Indian Investment Centre. In practice, it is not always that a joint venture can be arranged with the best possible attributes on either side. This is understandable and cannot, perhaps, be improved upon except with considerably higher expenditure of money and time than is at our command. Also

relevant to any Investment Promotion Agency's performance are factors beyond its control. While conditions back home differ from country to country, there are some factors in each capital exporting country which affect all Agencies more or less uniformly. So far as the U.S. is concerned we have observed certain trends in the recent past.

The expansion of the U.S. economy in the last 5-6 years has been so rapid and her international commitments have been so stupendous that the U.S. private investor finds himself squeezed for capital to spare for investment in developing countries. Both the economic boom and the balance of payments situation have placed an unwritten embargo on private foreign investment unless the advantages far outweigh the difficulties. The recent mandatory controls have only formalised trends which were becoming apparent. The general tendency, therefore, is to cancel or defer foreign dollar investment decisions. This situation is likely to continue during the foreseeable future.

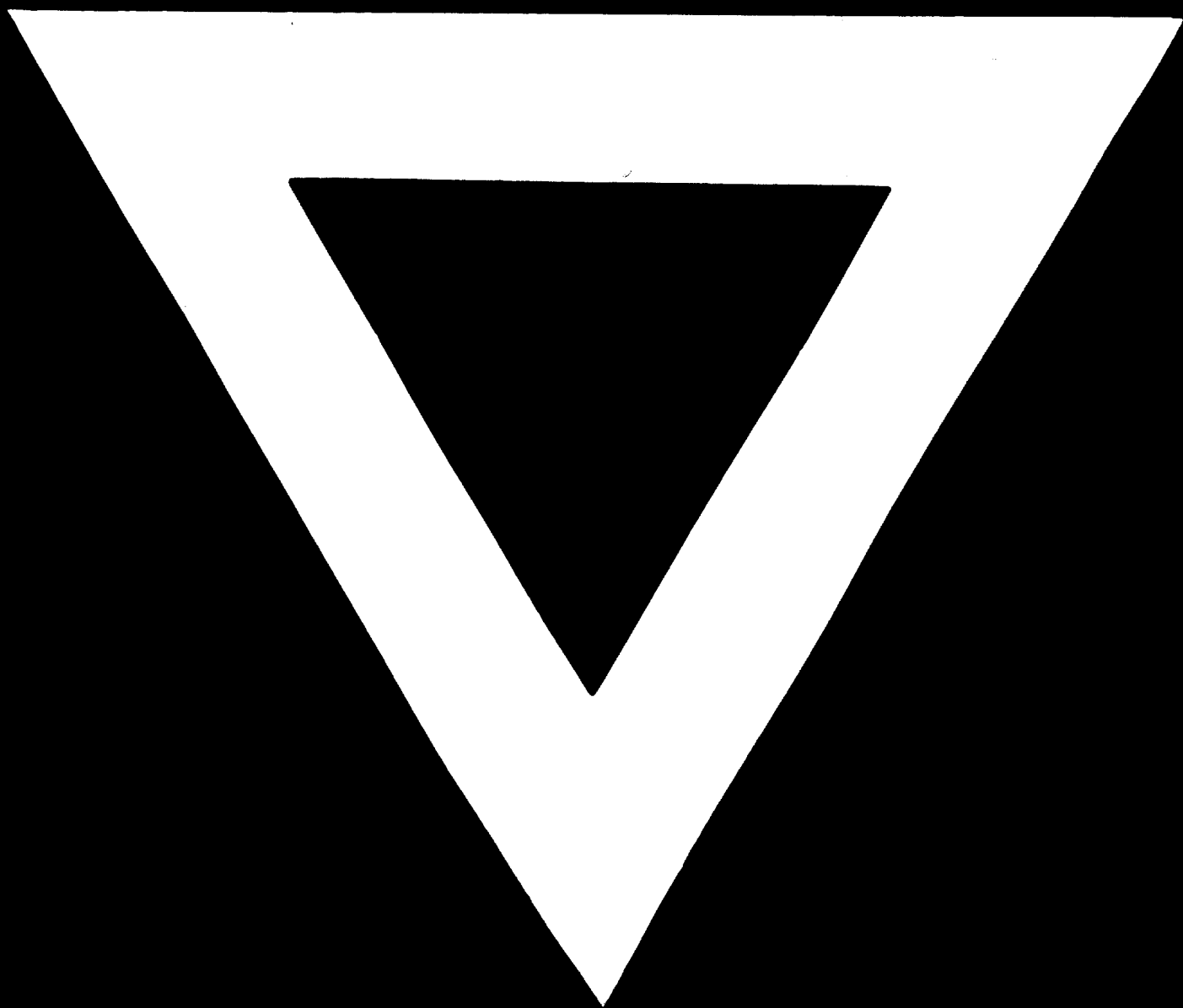
There are, of course, internationally oriented U.S. Corporations who do not take too grim a view of the situation and are prepared to explore and invest in worthwhile schemes, especially if they think they can establish their influence in virgin fields of industry in developing countries. Some oil companies, who have large funds, are so minded and can be expected to show continued activity in developing countries. Oil turned chemical companies will also be interested but exclusively chemical companies are apathetic. Electronics corporations are too busy with their own U.S. programs and most of them are now engaged in so sophisticated fields that collaboration proposals for ordinary items such as semi-conductors do not attract them. At the same time, manufacture involving human labour in the electronics industry is becoming too expensive for U.S. Corporations and they are likely to look at proposals for captive plants in countries where labour is cheap but skilful. This applies increasingly to all labour-intensive industries or sectors of industries.

The response to technical collaboration proposals is also poor though not negative. This is mainly because of the increasing manpower needs within the U.S. Many Corporations cite trained manpower shortage as a greater deterrent to foreign activity than capital shortage. Deputation of project technicians

to U.S. factories is preferred to the deputation of U.S. experts to the project, and yet many corporations shy away from any deep involvement because they think that unless their foreign facilities are suitably manned by their own technicians to start with, they would not want to take the risk of licensing a foreign venture.

I shall conclude by expressing the hope that UNIDO can assist developing countries in tapping sources of capital and technology with a minimum of wasted effort. It can develop detailed data in its files on various aspects of this important but difficult process. Among relevant aspects are the specific sectors of technology in which foreign corporations are generally willing to part with their know-how, sectors which are monopolies or near monopolies and which need greater incentives, detailed listing of corporations under these sectors, the extent of their interest in international operations, preferences of investors for investment as distinct from technical collaboration and their favoured conditions. If this can be done, not only will developing countries benefit greatly but UNIDO will have built up invaluable expertise in this important area.





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