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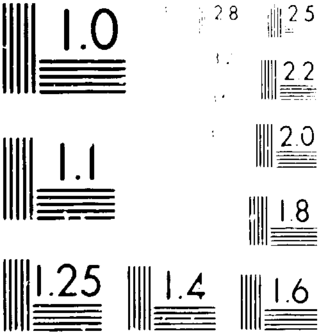
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# Joint Ventures Among Developing Countries and Industrial Development *

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** IDC: Institute for Developing Countries.

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This paper deals with the main conceptual, definitional and empirical aspects of joint ventures among developing countries (DCs), including an analysis of actors, factors and sectors involved, as well as some comments on the questions of advantages for countries involved and some suggestions for public policy actions. It seems that one of the main problems in the process of economic co-operation among DCs, is precisely the fact that we are frequently reluctant to see any value in what is going on at present in the real world of DCs' economies and prefer to postpone effective actions to the initiative of developed countries, multilateral organizations, etc. Therefore, the question of joint ventures among DCs illustrates very well the need of DCs self-reliance, before taking policy measures on an empty space. There are two main dimensions of the reality and the concept of joint ventures among DCs. One is, so called, the normative or prescriptive dimension. It includes dozens of declarations and resolutions of international organizations and meetings, systematically proclaiming the need and the advantages of having joint ventures among DCs. It also includes a series of efforts of international organizations to identify suitable projects for joint ventures among DCs. It also includes about a half a dozen of statutes of juridical regimes of regional nature, regional scope among DCs that should regulate and promote the formation of joint ventures among DCs. Most of these efforts,declarations and statutes conceive the joint ventures as a prescriptive or normative model, seen as an instrument for undertaking important projects of public interest for the national economies that are involved. The model is also conceived as being of immediate public interest for the economies of the countries involved or as an alternative to the transnational corporations' (TNCs) participation in developing world. Therefore,this image of joint ventures is severely restricted to certain atributes in terms of their structure and behaviour, ranging from the structure of the capital (that should represent in an equitable manner the contribution, the risks and the control excercised by the partners in joint ventures) to the lack of domination effects of any of the parties involved. There is also the fact that the activities of these joint ventures should fit into industrial or productive priorities defined by DCs' national or regional development plans.

All the above mentioned is a normative model of what the joint ventures should be instead of what the joint ventures may be or are in reality. If one has to judge the effectiveness of this approach, of this model of joint ventures, one has to recognize immediately that it is a failure because the projects identified were not implemented. The juridical regimes inacted for the promotion of these joint ventures in the Andean group, in the UDEAC countries, in the CARICON countries, in the Central American Common Market countries, or in the draft projects for the ECOWAS countries, and, so far, in the ASEAN countries (although this is the only case recently showing certain promising trends) have not been implemented at all, have not been used at all for the creation of joint ventures. Thus, the analysis of what has happened with the ideal expectations for the joint ventures of this kind is completely disappointing.

However, the other dimension of the reality and the concept of joint ventures among DCs is that there is another possible concept or reality for the joint ventures among DCs simply related to the process of resource transmission that is taking place among DCs through direct investments and technology transfer operations. This has been going on silently, and with little or no help of governments or regional organizations. The problem with this process of joint ventures among DCs (its second dimension) is that it does not necessarily coincide with the ideal picture of joint ventures among DCs. Primarily, because it is an informal process; it is being led by market conditions rather than by planning excercises. Secondly, the private sector is heading this process and not the public enterprises. Although these are domestic enterprises, in the sense that they are nationally owned, DCs have a sort of historical prejudice against the contribution of the private sector to the economic development, and, because of that, the observation that the private sector is leading this process in most of the DCs does not fit into the picture and therefore is not regarded as the most appropriate way of achieving the results proclaimed through the joint ventures process. Thirdly, this process involves sectors and activities which are not always defined or included in the sectoral development plans of our countries. Therefore, they don't fit very well within this idea of joint ventures attacking directly the bottlenecks of DCs developmental processes and priority activities to which resource division should be allocated. Then, the analysis of joint ventures of this kind also raises doubts about the possible asymmetry of the relationships that come out from these joint ventures between the partners and the countries involved. For example, a possible interpretation of this phenomenon could be a sort of sub-imperialistic view or version of the North-South relations through the TNCs' exploitation of the developing countries. The former will be replaced by the newly industrialized countries (commonly, the home countries of these joint ventures) going to the economies of the, less developed countries, in order to exploit their markets in the same or similar fashion as the TNCs do.

Further, there is also the problem of this spontaneous process taking so many different forms that it is very difficult to visualize to what extent we are dealing with joint ventures and to what extent with another type of arrangements.

Ideally, the joint ventures could be defined, by the objectives of the normative model, as equity share structures to which companies of different countries contribute the resources in a proportionate manner, and share the control, the risks and the profits of these common-ownership companies.

But, in practice, this flow of resources among DCs takes so many different forms, including the direct investment relations, different sorts of equity participation, a lot of non-equity participations, including technology agreements, engineering contracts, turn-key jobs, etc.

Hence, there are no strict parameters or criteria to distinguish between the cases that fall within the model of joint ventures and those that don't merit the label of joint ventures. This is what happens with the second dimension of the joint ventures' concept. And what we actually have is precisely on the basis of this process of informal spontaneous co-operation among DCs' enterprises, countries, regional communities, and the international community.

Before proposing any policies, there is a need of an objective observation at the real world situation.

First of all, we can notice that the flows of productive resources among DCs are really important and increasing significantly. UNCTC's recent calculations reveal that the outflows of foreign direct investments from DCs increased from about $ 30 million as an average annual basis in the early 70's to about $ 500 million in the late 70's. Most of such flows of investment goes to other DCs. In some of these countries like Malaysia, Sri Lanka, Columbia and Peru, they have already achieved a significant share of the total foreign direct investment in the host economies, ranging, for example, from 15 - 30 percent of the total stock of FDI in DCs.

In addition, DCs' firms have successfully participated in industrial co-operation projects in other DCs through forms different from the FDI operations (like technical assistance, engineering contracts, turn-key jobs, etc.). We can see, for example, from some recent studies, that up to the year 1979 Indian firms have undertaken more than a hundred contracts for industrial projects is other DCs, amounting to more than $ 1 billion. Comparable performances might be observed in cases of Brazil, Mexico, South Korea, Argentina, etc. Hence the dimension or the volume is the first evidence we have about this process of joint ventures among DCs.

The second notion is that there are, in fact, several hundreds of DCs' firms (from about 15 - 2o DCs) which are actively and systematically involved in international activities of this kind. Argentina, for example, ranks with about 6o parent companies with activities in other DCs, most of them in Latin America. A small country like Columbia has about 3o companies of different sizes involved in different exercises of this kind in other DCs, again in Latin America in particular. In the case of India, up to the year 198o, there were 2oo projects of FDI abroad in DCs, most of them approved by the Indian government, and in the case of the Republic of Korea the government had, by the late 7o's, approved more than 3oo projects of FDI in other DCs. Thus, we are dealing with no less than a thousand firms of DCs which are currently involved in some form of foreign direct investment and technology transfer in other developing countries. These firms include producers of final and intermediate goods, consultancy and engineering organizations, construction firms, and a variety of research entities. They include private firms as the most common form of organization, and these private firms are normally large in their home markets with productive experience in traditional sectors such as textile, food products, but they are also very active in certain high technology fields such as the pharmaceutical industry or the production of some capital goods. Of course, there are also public enterprises with capacities in certain basic industries like steel and petrochemical, as well as engineering and consultancy firms that have developed their skills during the last 2o years of import substitution. They have been led by the state and given many opportunities to undertake public works for the building up of physical infrastructure in their home countries, and have, therefore, already achieved a certain degree of capacity for design and execution of projects, after this period of learning in their home countries, so that they can do the same abroad. The common characteristic of these firms is that they are nationally owned in spite of the fact that the majority is still in private ownership.

All the above mentioned doesn't mean that the TNCs are absent from the process of expansion of domestic firms. The TNCs are really behind this process in the sense that the technologies, which are the basis of the competitive advantage of these DCs' firms, are imported from TNCs and, afterwards, adapted and mastered and absorbed by the technology exporting firms of DCs. TNCs are also involved as the licence source of those technologies that are being directly exported by these firms of DCs. There are also cases in which TNCs participate in the tripartite joint ventures in other DCs or as technical partners in joint ventures among two or more DCs, in which case they are the suppliers of technology imported jointly by the enterprises of two or more DCs.

The third characteristic of these phenomena is that such arrangements naturally tend to take the joint venture form. Of course, there are cases like the one of India. The Indian government has insisted that the companies requesting approval for investment abroad take, by necessity, the minority participation in the enterprises in which they invest abroad. Hence, there is a clear policy of the Indian government in requiring their companies to have joint ventures in other DCs and to adopt the minority participation. But even in the countries where there is no such regulation (Brazil, South Korea, Argentina, etc.) it can be noticed that because of many empirical research work done on this subject, the enterprises of these countries are naturally inclined to take local partners in their projects abroad, not because they are better or more generous than the TNCs, but because they are weaker than the TNCs (weaker in the sense that they have less monopolistic advantages of financial, technical or organizational nature on the basis of which they could require or impose strict control structures). Therefore, they are not very much interested in having the control structures based on the majority ownership. They are naturally inclined to accept the laws, regulations or requirements of the host country to go in a joint venture. This should be noticed primarily because the DCs, in this case, don't hove the problem of bargaining for joint ventures with the firms of other DCs. The same thing seems to happen with the non-equity kind of joint ventures like the turn-key deals, technology agreements, etc, which tend to be less packaged and free from tied-in inputs by the foreign resource contributor. These arrangements tend to be much more open to the local participation, much more inclined to give rise to a division of labour between the foreign and the local partner, and, therefore, to a much equitable and symmetrical kind of relationship between technology suppliers and technology recipients in the DCs.

The fourth characteristic is a nice profile that is emerging out of the observation of the sectoral and geographic diversification of joint ventures among the DCs. First, there is a clear sectoral diversification that includes some specialization of different home countries in different activities or branches like i.e. South-East Asian specialization in light consumer and engineering goods; Argentinian joint ventures based on food products and certain branches of capital goods, machine tools, etc; Brazilian firms with strong capacity in certain basic process industries; South-Korean in construction activities; Indian in metal work, methalurgy and some intermediate products, etc. On the other hand, if we observe the regional pattern, the geographical pattern of this processes, we can see immediately a sort of a regional concentration or tendency in the sense that Latin American joint ventures are in Latin America, Asian are in Asia, and there is not much exchange or cross-investment or joint ventures between the regions of the Third World. However, this is particularly the case with the equity joint ventures, and not so much with the non-equity ones. Equity joint ventures are much more regionally concentrated because they normally involve the production of those consumer goods which usually tend to follow previous patterns that have, of course, taken the regional, concentrated shape. On the other hand, the equity joint ventures imply a permanent activity in another country, and this activity, in order to be successful, requires, of course, a certain familiarity of cultural and geographical nature, which is, therefore, another factor for stimulating the regional concentration of equity joint ventures. However, we also notice that for the non-equity joint ventures, like technical assistance, turn-key jobs, engineering contracts, etc, we find a lot of inter-regional flows (Korean, Indian, Latin American firms going to the Middle East or Arab countries, and to certain African countries).

In future, it will be possible, perhaps, to find a more global approach in the joint ventures among DCs because, first of all, the firms of DCs will become more familiar with the requirements and needs of international activities, and, then, the technologies which they transfer will become more and more formalised and codified, and, therefore, much more easy to be transferred on a pure technical basis without much need for the person to person, or enterprise to enterprise common experience and mechanisms.

An additional or final observation regarding the geographical scope, so important for DCs, is that these joint ventures seem to show the tendency to go to the least developed countries in a much more evident way than the TNCs.

This is, again, not because they are better, but because smaller enterprises tend sometimes to see their opportunities in small markets and small economies that are neglected by big TNCs. So, for the least developed countries there is a very nice opportunity to use these joint ventures as a basis for obtaining those resources that cannot be obtained from TNCs.

Finally, it can be seen that most of these arrangements have been taking place with little or no help from the governments. There are certain DCs like India, South Korea, Argentina, Brazil that have started to give incentives to promote the export technology of their domestic firms. But these incentives and these advantages of fiscal or financial nature are still very much behind the advantages that are given by developed countries to their own firms to go abroad. On the other hand, several aspects of the economic policies of the home countries create obstacles to the export of technology (such as the unstable and changing policies of exchange control, exchange rates, industrial development, etc.)

The evidence about the behaviour of joint ventures among DCs has also revealed that there are certain advantages that can be expected from joint ventures among DCs for both home and host countries. Home countries' typical advantages for big industrialized countries of their own investments abroad. For host DCs the advantages are in that part of the tendency of such arrangements to go "naturally in the joint venture form", that is in several dimensions of the so-called appropriate technology. This appropriate technology has to do with small-scale technology, smaller, intensive use of raw materials in the local economy, etc.

Very important is also the capacity of DCs firms to transfer technology and to deal with the TNCs in order to import technology from them. They have extensive experience in dealing with the TNCs so that they can transfer the technology easily to other DCs' firms through this experience.

With regard to the policy implications it is possible to summarize some recommendations and suggestions: First, the governments should have more confidence in the strength and activities of their productive sectors including the private sector; they should recognize that the private sector can play an important role in this process. For home countries this, of course, doesn't necessarily imply (and, perhaps, not at all) the adoption of free market policies. On the contrary, home countries' policies should be an adequate and intelligent mix of TNCs' control with the possibilities, first, to have access to the most important technological developments internationally, and, second, for measures of support of the national enterprises at home and abroad through adequate incentives, which should be expanded. Of course, they should also take care that the projects of investment and technology in other DCs take form of the joint venture with the local firms in recipient countries. One idea to be proposed to the UNCTAD, the UNIDO or to other international organizations involved in this process is the organization of a meeting or a series of meetings of the home countries' public and private sector representatives (especially from South Korea, India, Argentina, Brazil), to co-ordinate common approaches vis-a-vis what to do with these joint ventures in other DCs trying to avoid the necessary competition, trying to arrange methods of complementation and division of labour as well as systems of how to go to the least developed countries together to help them take advantage of the technologies offered by these countries. The host countries should try to see the opportunities of joint ventures among DCs coming from more developed DCs as a challenge which needs to be matched by their own development of the absorbtive capacity to have an efficient transfer of these technologies and to negotiate with the DCs in adequate terms. This means that if they do this they will have much better opportunities of having success than if they were dealing with the TNCs. But they have to do something before, instead of waiting for other DCs' firms to substitute their own capacities, skills and absorbtive capacities.

Secondly, the regional organizations have failed, until now, because they have adopted a paternalistic approach regarding the participation of the productive sector. They should be modest, and they should try to obtain and mobilize true participation of the productive sectors directly in the identification and proposal of the projects of this kind for the promotion and the access to the regional advantages. In this sense, it seems that the ASEAN recent changes and proposals for the industrial co-operation agreements, for the industrial projects of ASEAN, and certain new projects which are being negotiated now are signs of a much more flexible approach of this kind. Also the revision of the decision 46 of the Andean Group recently has also gone in the line of this more flexible approach, connected with the productive reality.

Third, the main role of international organizations should be to try to help in the sphere of the South-South inter-regional joint ventures. Because there is a potential for that, although a very limited one because of many barriers of informational, technical and financial nature, which can be bridged by the role of the international organizations like UNCTAD, UNIDO, UNCTC, etc. So, they should try to promote links between producers from DCs, on the public and private level. In this sense the UNIDO has started to organize global consultations which, until now, have been focused upon the participation of TNCs, host country governments, etc. Also, a whole new series of global consultations for the Third World country firms should be adopted by UNIDO or some other organization, focusing on the sectors in which this co-operation is feasible. On the other hand, they should try to co-ordinate policies of home governments, try also to provide technical assistance to the least developed countries, in order to envisage, screen, identify and promote the participation of joint ventures of this kind in their own economies. And, finally, they should try to inquire to the development of new financial institutions with the capacity and competence to fund joint ventures with the participation of the capital surplus of the developing countries and the international community in general.