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JOINT VENTURES AMONG DEVELOPING COUNTRIES WITH SPECIAL EMPHASIS ON THE ROLE OF PUBLIC ENTERPRISES

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1. Introduction

The basic objectives of the paper are to underline some existing characteristics: criteria for the identification of economic potentials, issues related to the strategy of strengthening joint venture undertakings especially among public enterprises, to present some of the results of the seminar on Joint Ventures of Public Enterprises held at ICPE in 1980 and finally to indicate some policy measures which seem necessary for the promotion of this form of ECDC.

2. The Extent and Characteristics of Existing Joint Ventures of Developing Countries

Generally it is believed that there are not many joint ventures among developing countries but studies in this field showed that they exceeded expectations, indicating quite a number of investments among developing countries. At the same time it was noticed that they are rapidly gaining in importance. The study of the Research Center for Co-operation with Developing Countries (TCDC/2/INB.6, May 1981) identified more than 600 Joint Ventures among Developing Countries. L.T. Wells Jr. 1/ identified 823 manufacturing projects originating in developing countries and later as many as 2.000 developing countries' subsidiaries. He estimates that this is only between one third and one quarter of the total. That would mean that the total number of developing countries' subsidiaries would be in the region of 6.000 - 8.000.

The internationalization of developing countries' firms is anyhow a rather recent phenomenon and due to the lack of data it is really not possible to reliably estimate the actual scope and significance of this phenomenon. Nevertheless, it is obvious that Latin American and Asian investors are in the lead while African ones are somehow lagging behind, although many studies have shown that they are also gaining in importance. UNCTAD study (T.D./B/AC.19/R.3, 1975) identified a list of 53 industrial projects in Africa of varying levels of investments. This certainly underestimates the real number, which can be illustrated by the fact that only in Nigeria, in the same year, 54 investments were registered from other developing countries (24 from Asia, 21 from Middle East and 9 from Africa). In the UNDP study we identified 28 Joint Ventures of other developing countries located in the Sudan. At the same time Yugoslavia now has more than 30 Joint Ventures in Africa.

The information usually underestimates this form of mutual co-operation between developing countries. In a number of countries outflows of investments are not registered due to their foreign exchange and other restrictions. Unfortunately the existing information does not allow a reliable estimate of the factual share, importance and role of public enterprises in developing countries' joint investments. The available case and country studies nevertheless indicate that they are in a minority regarding the total number of existing joint ventures and that private and mixed companies still predominate, especially in manufacturing, in spite of differences in their role in different economic sectors.

1/ L.T. Wells Jr. Multinationals from Latin American and Asian Developing Countries: How they Differ, Harvard Graduate School of Business Administration, 1980, p.3, and the Third World Grows its own Multinationals, International Management Review, January 1982, p.39

Compared to the total number of subsidiaries in the world (more than 80.000) and the ones established in developing countries (more than 20.000) the subsidiaries established by developing countries constitute only a small portion. Therefore it is safe to say that developing countries have not yet developed this form of mutual co-operation enough and that other forms of ECDC are far ahead.

In order to elaborate the long-term strategy of the establishment of joint ventures of multinational companies of developing countries, which is needed in order to systematically promote this form of ECDC, it seems to be indispensable to identify at least some of the existing characteristics of investments among developing countries. Unfortunately, it is only possible to identify one characteristic of joint ventures among developing countries in general and only indicate some characteristics for public enterprises joint ventures in particular.

The majority of joint ventures are established within regional integration groupings or regions in general. Mutual investments of developing countries on the inter-regional level constitute only a small share in the total number of existing joint ventures. L.T. Wells has identified 30 Hongkong, 14 Taiwanese and 47 Indian projects in Africa which, in most cases, own their existence to ethnic links.

This number is growing lately, especially in industries like textiles and leather. Ethnic and historical links are among the strongest stimuli for this type of long term business co-operation.

The second major feature of existing investments in developing countries is that they are mainly based on factor cost advantages such as cheaper labour, cheaper managerial costs, minimal costs of technology transfer, adaptation of technology to small scale production, factor endowments and general conditions. Existing joint ventures are characterized by labour intensity and standardized technology and prevail in sectors such as: food, textiles, machine tools, electro mechanical products, leather industry,etc.

The majority of joint ventures have been established at the instigation of one partner country. They are rarely the result of simultaneous initiatives of both partners or even of co-ordinated action, intergovernmental agreement or a systematic component of long term joint venture strategies within the national or regional development strategies. The situation is somehow different in the case of public enterprises, which are frequently established on the basis of intergovernmental agreement.

The highest intensity in the existing pattern of joint ventures among developing countries is among partners at different levels of economic development. The more advanced developing countries are becoming increasingly important investors in other developing countries.

Investments among developing countries take place mainly in manufacturing. Capital intensive investments in raw materials exploitation have not a significant share. The situation is, by sectorial distribution, different as regarding public enterprise involvement in foreign investments in other developing countries. Their participation is the strongest in some of the key-sectors of the economy, such as natural resources, transport and communications, basic industry such as steel and petro-chemicals, foreign trade, energy and infrastructure in general.

Public enterprise joint ventures are a much more recent phenomenon than the internationalization of private firms. Some indications show that we could differentiate three categories of public enterprise joint ventures: a) jointly owned and managed enterprises by governments of two or more developing countries, b) basically national enterprises expanding their activities abroad in response to changing conditions, and finally, c) originally private enterprises which have been nationalized and have already previously expanded their activities abroad. *

A special characteristic of public enterprises, compared to private ones, is that due to the frequent, direct or indirect, subsidies from their governments, preferential treatment or even monopoly position they are generally in a better position to compete with foreign enterprises than the private sector. The domination of transnational enterprises in the international economy may find a more effective challenger in public enterprises. They seem to offer a more effective bargaining mechanism vis-a-vis transnationals. Public enterprises have special advantages and capacities to overcome the financial, some marketing and other barriers to entry into oligopolistic sectors where scale economies and their ability in the economic and legal arrangements of the projects are important. Public enterprises can use government officials for initiating and administering foreign projects and scanning investments opportunities.

Public enterprises are better suited for the realization of long-term national objectives and priorities and can therefore make better use of co-operation with foreign partners in general.

Although public enterprises can serve as a countervailing power to transnationals, sometimes even an alternative to them, we should not idealize the possible role of public sector enterprises in joint ventures among developing countries. There are also important disadvantages. One of them is that frequent monopoly position does not stimulate the achievement of efficiency of operations. They are frequently not very fast in tapping the opportunities and realizing the ideas. It is therefore necessary to evaluate the advantages and disadvantages of joint ventures by public enterprises, topic by topic and sector by sector.

As compared to transnational enterprises, several differencies can be identified as specific characteristics of joint ventures or multinational enterprises of developing countries. That does not mean that multinational enterprises of developing countries are by definition different from transnationals.

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* See also K. Kumar, Multinationalization of Third World Public Sector Enterprises, in, Multinationals from Developing Countries, Lexington Books, 1981, p. 190.

Among the existing differences in favour of developing countries' joint ventures compared to transnationals we can stress the following: the propensity of partners from developing countries to adapt to local conditions is stronger, integration with local economies is more intensive, there is less political interference from developing countries' firms, the propensity to joint ventures is stronger in the case of partners from developing countries, possibilities for unpackaging and thus maximizing local inputs are stronger, management styles, adaptation of technology and management styles to local conditions is more frequent, technology is usually adapted for the smaller scale production and lower quality of local inputs, investments prevail in labour intensive activities and not in research intensive or trade marks intensive activities.

3. Elements of the Long-term Strategy of the Establishment of Joint Ventures Among Developing Countries

Joint ventures are one of the forms of economic co-operation which encompass the association of labour and production factors on a wider, regional or global basis. The conditions produced by the technological and scientific revolution create the necessity of the wider, even global combination of production factors as a law governing the process of development. Internationalization of production is a progressive component of development to the extent that it is rid of explcitative relations imposed by monopoly capital or various systems of hegemony. If based on equal or joint responsibility and interests of all partners it could lead to the development of productive forces.

Secondly, joint ventures constitute a lever for restructuring international economic relations and the improvement of the position of developing countries in the international economy or for the elimination of the old vertical type of integration of developing countries in the international division of labour. The result of this induced type of development is a similarity or even competitivity of their economic structures, limiting their possibilities of co-operation. In such circumstances, joint ventures could induce other forms of co-operation among developing countries, creating the need for co-operation through forward and backward linkages. They can be regarded as a nucleus stimulating other production links and increasing the resistence of developing countries to shorter market fluctuations and even political differences. Trade flows originating from joint ventures could be more stable and less exposed to strains tha, traditional trade.

A strategy of promoting joint ventures calls for built-in-flexibility and adaptations at different levels. Gradual and flexible formulas are the precondition for necessary adaptations to the changing interest of the partners. They are not a permanent common interest but one likely to remain for long enough to provide benefits and stability to all partners over a certain period of time. *

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* R. Green: Developing Countries' Multinational Enterprises, Notes Toward an Operational Component of Third World Economic Co-operation. Conference on Economic Co-operation and Trade among DC's, Tunis, April 1977, pg. 8

We believe that within the strategy of promoting joint ventures among developing countries there is a special need for specific incentives for joint undertakings in modern skills and technology intensive activities and those where economies of scale are necessary. Thus, joint ventures are not only regarded as an instrument for developing industrial or other activities on the basis of the cost advantages but especially a vehicle through which developing countries could also undertake activities, which in the conditions of limited national markets and the availability of resources cannot be undertaken alone. Following only a development pattern based on "comparative advantages" in cheaper labour, in spite of short term attractiveness, developing countries could not embark on really productive development. Modern technology and research intensive activities will be, in such a case, "reserved" for industrial countries and the gap between North and South could only be frozen. Developing countries' joint ventures strategy should therefore be based not only on the existing allocation of factor endowments but progressively also on the necessary changes and restructuring of the international economy. This orientation is especially important for public enterprises since they have in many developing countries a key role in many of the technology or capital intensive sectors.

Although it is much easier in the short term to achieve the benefits of joint ventures in marketing, benefits of production undertakings deserve to be emphasized in long term perspective. This is the sector where, by joint action, developing countries could benefit from economies of scale and, by pooling their resources, overcome many of the limitations of small national markets. Therefore joint ventures must be gradually supplemented by linkages with transport and related activities. Finally, the linkages with production are optimal in order to maximize the development effects of joint ventures. Production joint ventures call for much stronger advanced commitments from the partners. They face difficulties in achieving a balanced distribution of benefits among partners and therefore are not flexible for short term adaptations to changing interests and conditions.

Consultancy and engineering joint ventures by public enterprises deserve priority attention as they can be regarded as a first stage for possible future undertakings.

The heterogeneity of developing countries and infrastructural limitations make it advisable to promote joint ventures at the first stage at the subregional, then regional and at the latter stages, on the interregional level. On the sectoral level there are many reasons for giving priority to joint undertakings in infrastructural facilities, consultancy, and marketing.

Vertically designed infrastructural facilities in many developing countries represent a significant obstacle for intradeveloping countries' investments.

The closing of infrastructural gaps is one of the basic prerequisite for the establishment of joint ventures among developing countries, requiring the functioning of permanent communication and other infrastructural links (transport, dissemination of information and other communication elements as well as different research, training and consulting activities.)

Joint ventures in agriculture are also one of the important areas for joint efforts, especially in view of the long term food shortages in the world and in developing countries in particular. Through joint undertakings, developing countries could engage, not only in large scale farming, but also in the marketing of agricultural products, small scale farming and especially in processing agricultural products. Joint ventures offer developing countries the opportunity to develop new agricultural production pooling resources and knowledge, introducing new sorts and even new technologies suited to local (regional) conditions. Such ventures could be specially beneficial for small and less developed countries with food deficiencies.

4. Some Problem Areas

One of the major problems in establishing and the functioning of joint ventures among developing countries, as well as in general, is how to achieve an equitable distribution of costs and benefits between the partners and the need to find an acceptable mechanism for it. Only a balanced distribution of both (benefits and costs) of a joint venture over time can ensure stable conditions, and fruitful and efficient co-operation. In one sense it is also regarded as the "comparative advantage" of joint ventures among developing countries as compared to co-operation with transnationals, which have clear advantages in the field of technology and financial resources.

At the same time there is a need for certain modifications in the concept of efficiency of public enterprise joint ventures. This cannot only be regarded as a narrowly defined profit efficiency but has to imply broadly defined social criteria and the distribution of benefits and costs among partners in addition to all the macro-economic effects which are difficult to define.

Additionally, the link between micro and macro efficiency broadly defined, is needed in many cases. Many of the macro-economic benefits, such as stability or security of supply, lessening of the dependence, strengthening of the bargaining power vis-a-vis transnationals, do not usually appear in the form of normally defined business efficiency. Therefore mechanisms have to be introduced to enable such a link and the transformation of macro results into micro economic efficiency (preferential treatment, fiscal or financial allowances, etc.).

If joint ventures of public enterprises are really to be an instrument for strengthening collective self-reliance, the management and control must be in the hands of partners from developing countries. Domination of transnationals should therefore be excluded or, from the very beginning, linked to a phasing out formula.

The prevailing macro economic approach in promoting joint ventures of public enterprises among developing countries needs to be supplemented by a more realistic "bottom-up approach". Many macro economic programmes and declarations have not achieved adequate results because they have not been based on the real, micro economic incentives which are the pre-requisite for the realization of business undertakings. The crucial task of economic policy is to regulate and to guide the activities of public enterprises which have to be efficient to be successful, but preferential and other incentives can ensure the realization of the broader social objectives which public enterprises should also achieve.

From various points of view different producers associations would appear to provide a possible framework for joint ventures of public enterprises. They could be an inter-enterprise complement to the prevailing intergovernmental co-operation among the member countries. The importance of this micro-economic approach can also be illustrated by the fact that many inter-Arab joint ventures have been able to survive even severe political problems among the partner countries if based on long term economic rationale.

Finally we cannot overlook the attitudinal barriers existing in many developing countries which prevent the strengthening of their mutual undertakings. They are manifested in the "climate", convictions, and assumptions that the quality of products, technologies or capabilities are second rate in the great majority of fields in developing countries in general, although in many fields they are competitive with ones from industrial countries or even better adapted to the conditions in developing countries.

5. Some of the Criteria for the Identification of the Economic Potentials for Public Enterprise Joint Ventures Among Developing Countries

The basic criteria for the identification of economic potentials for joint ventures among developing countries and, usually, even the pre-condition for successful joint undertakings, is the existence of common economic interests and the political will to pursue them. Their characteristic is that they cannot be pursued by individual action by one country alone but only by joint action. Therefore the first priority for the selection of economic potential is the identification of all the activities which cannot be realized by individual action by one country alone. The second area of economic potential is area of joint interest where joint action is optimal but individual undertaking also possible, although not the most efficient alternative.

The pooling of economic factors such as technological and administrative experience, production and service facilities, financing, natural resources and skills is another priority sector for the establishment of joint ventures. Certain complementary factor endowments of developing countries and especially in natural resource-rich African countries, offers prosperous grounds for the promotion of investment co-operation, especially by public enterprises.

This is particularly important because of the industrial countries' domination in the exploitation and processing of raw materials. The present share of developing countries in the field of primary commodity processing is low in general (48,6% in minerals in 1976)*. Among the existing joint ventures among developing

* The share of the output processed by developing countries beyond the crude stage is in: Tin 81%, Copper 77%, Manganese 69%, Lead 65%, Nickel 55%, Zinc 45%, Boxite 40%, Iron 20% and Phosphates 15% (K. Takeuchi and C. Chung, "Export-oriented processing of primary commodities in developing countries", IBRD, 1979).

countries there are very few in the exploitation field and relatively more in the processing of primary commodities. Among our list of more than 600 joint ventures we identified only 13 in mining, oil and gas drilling. Among 177 Latin American joint ventures only 7 were in the primary sector. Apart from this, existing processing capacities located in developing countries are mainly in the so called reallocated activities from industrial developing countries, which are characterized by strong labour intensity or pollution (copper, steel, petro-chemicals, pulp, leather, and similar). Through the joint ventures of public enterprises, developing countries could substantially increase their share in the processing of their natural resources where one country alone does not possess all the necessary capabilities or where economies of scale or substantial financial resources are needed.

Transport cost intensity which falls proportional to the level of processing, stimulates the location of processing within developing countries themselves. Increased processing in developing countries would have created additional export earnings for developing countries amounting to 33.750 million dollars in the case of iron, 3.337 million dollars in the case of bauxite or for 8 minerals together in the range of 32 billions (see Takeuchi Choeng). Joint ventures could be set up around successive stages of processing, in combination with purchase contracts, transportation, energy supply or even co-ordinated planning.

The importance of the transport costs criterion for the identification of the economic potential for public enterprises' joint ventures is increasing with the rise in oil prices and the high oil intensity of transport. It substantially means, that above a certain point, increasing transport costs make trade a second best solution compared with local processing which could be undertaken jointly by developing countries in the capital intensive activities like raw materials processing. In some cases transport costs exceed 20% or even 40% of total production costs. The higher the transport costs in relation to the total production costs, the stronger the stimulus for joint ventures as an alternative to trade in these commodities. Cost reducing effects of the modernization of facilities for bulk handling or the bias of international freight rates in favour of unprocessed materials do not reduce substantially the importance of this criterion.

The economies of scale criterion is of extreme importance in the promotion of public enterprise joint ventures among developing countries. According to available detailed engineering data indicating sectors or activities in which economies of scale exist, the priority areas could be identified for the promotion of public enterprise joint ventures. Forward integration could not only optimize the production, but also contribute to the appropriation of the benefits now earned by the buyers of unprocessed minerals as well as reducing the dependence of developing countries on industrial countries.

Among others, the structure of trade among African countries or within integration groupings could also represent one of the possible criteria for the identification of economic potentials for joint ventures, since export is usually the forerunner of foreign investment. It can be applied both statically as well as dynamically. In the first case, countries could identify the highest intensity of mutual trade by groups of products or by products. In the second, dynamic approach, the ratio of intensification of mutual trade, the most dynamic products can be identified assuming that this offers promising potential for long-term co-operation through joint undertakings.

6. Some Conclusions and Recommendations for the Promotion of Joint Ventures of Public Enterprises

The identification of sectors, activities or even projects by individual countries for joint undertakings with other developing countries represents the departure point for the promotion of a joint ventures strategy within the strategy of the collective self-reliance of developing countries. The inclusion of this strategy as a regular component of national or regional development plans seems to be one of the prerequisites for the promotion of this. Priority should be given to public enterprise joint undertakings since they are usually more directly involved in the implementation of national or regional development plans, especially in some key economic sectors.

The efficient development of public enterprise and other joint ventures has been faced with a lack of information on the capabilities of other developing countries, on the experiences, modalities, advantages, operational modalities as well as on the availability of international, regional and national capacities for promotional support services. The bridging of this information gap is thus one of the priority areas for the promotion of a joint venture strategy for developing countries.

We would like especially to stress the urgent need for a systematic development of national information systems as a catalyst for the dissemination of regionally or internationally available information which unfortunately does not usually reach the level of enterprises.

Social emphasis should be given to the establishment of joint ventures in infrastructure where the lack of transport and communication links limits the possibilities for the establishment of joint ventures among developing countries. Secondly, the consultancy and other agencies should give special attention to the assimilation, adaptation, unpackaging, training and research and finally also the dissemination of information on the availability of such capacities in developing countries in order to promote the establishment of joint ventures.

Many case studies show that knowledge about the availability of advisory or consultancy services, although playing an extremely important role in promoting joint ventures, does not exist to a sufficient extent in many developing countries.

Information on the existing joint ventures, TCDC promotional activities, the capacities and the requirements of developing countries in the promotion of joint ventures, relevant experiences and legal arrangements should become the regular component of national, regional and international information systems.

Except in some integration groupings, there are generally no speical provisions for preferential treatment of joint ventures of developing countries as compared with investments from industrial countries. It seems necessary to develop such preferential treatment which could substantially promote this form of co-operation among developing countries.

Additional systematic efforts are needed to develop institutional arrangements and operational mechanisms (alternatives) for the fair distribution of costs and benefits including development effects between the partners in joint ventures since non-existence of such mechanisms could be a source of many problems, even disputes, and could limit the strengthening of joint ventures between developing countries.

Only in exceptional cases do international, regional or national financial institutions give special priority to the financing of joint ventures. Participation of banks or regional financial institutions in equity capital of joint ventures is generally an exception although it could perform an unavoidable catalystic function in promoting joint ventures.

Educational programmes, training, research and development, information systems in developing countries have not been directed towards the creation of specific know how on joint ventures. What seems to be needed is the strengthening of this form of joint undertaking of developing countries

The establishment of different working groups, pools of experts, task forces etc., for giving consultations, information and offering other supportive activities for the promotion of joint ventures could substantially contribute strengthening of joint ventures among African countries.

The national and other educational systems in developing countries should therefore develop appropriate courses to cover specific needs for strengthening investments among developing countries. Simultaneously, certain modifications to existing programmes, the introduction of new fields and training patterns and post-graduate studies should be introduced at the national or regional level, supported by international or similar institutions. Universities could establish special departments concentrating on ECDC, joint ventures and self-reliance in general, since only a systematic long-term approach could effectively promote investment among developing countries in order to overcome many barriers, including attitudinal ones, existing in developing countries themselves.