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A COMPARATIVE STUDY OF THE PRE AND THE POST LIBERALIZATION ERA REGARDING FOREIGN COLLABORATION IN INDIA

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ABSTRACT

In India, Foreign collaboration agreements are being made between Indian and foreign companies through its sale of technology, spare parts and use of foreign brand names for its final products.

There have not been many studies, however, to understand its impact and implication for technology capacity building of the country, and the deficiencies to be overcome for deriving the maximum benefits from collaborations. Experience shows that many collaborations have failed to give results as expected. Therefore these is the requirement for systematic and comprehensive studies on the subject to help the Industry and government

This study is based upon the authentic databases available from the Indian Investment Center, New Delhi and Center for monitoring Indian Economy makes an effort to address some of the above issues this study is focusing on the patterns of foreign collaborations in India, from 1951 to 2000, the pre and post liberalization era.

RESEARCH OBJECTIVE

1. The main objective of this study is to analyses the pattern of foreign collaboration in Indian Economy from 1951 to 2000 divided into two parts the pre and post liberalization period.
2. The study also points out the need for close monitoring of the foreign collaboration and for developing relevant database in public domain to facilitate systematic, comprehensive studies for practicing managers as well as policy makers.

The data Sources for the study are primarily the information obtained from the Indian Investment Center, New Delhi and from the PROWESS databases which are developed by the center for monitoring Indian economy (CMIE).

LITERATURE REVIEW

Foreign direct investment has played a very important role to boost the economy of a developing country like India. It was designed to attract significant capital flows into India.

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It is well known fact that not only for developing countries but also for developed countries. It is difficult to bring all the factors of production viz. capital investment, raw material, advance technology etc. from internal sources. Hence Collaboration ensures optimum utilization of available resources.

The inflow of foreign investment or NRIs investment and the transfer of technology in to the country as mentioned earlier, take place mainly through foreign collaboration. The approval of a designated authority has always been necessary in all cases of foreign collaboration.

TYPES OF FOREIGN COLLABORATIONS

Foreign collaborations are generally, of three types which involve direct investment in share in Indian companies:-

1. **FINANCIAL COLLABORATIONS:** Which involve financial collaborations (foreign equity participation where foreign equity alone is involved.
2. **TECHNICAL COLLABORATIONS:** Technical collaborations (technology transfer) which involves licensing of technology by the foreign collaboration with due compensation for the same.
3. **TECHNICAL CUM FINANCIAL COLLABORATION:** Such collaboration are found basically in joint ventures and generally, involve-

(i) Investment in India by non-residents; and

(ii) Acquisition of technical known how by India Company

In collaborations while developed countries offer proposals on account of cheap labor and raw materials available in developing countries. The developing countries like India seek such collaborations for industrialization and modernization with the inflow of technology and capital from developed countries so as to compete in the international market.

APPROVING AUTHORITIES

Whether it is technical collaboration or financial collaboration, there are two approving authorities at present:

(i) The Reserve Bank of India: and

(ii) The Government of India.

Therefore, trends in the approvals of foreign collaboration. The total of all foreign collaboration-financial as well as technical approved annually is when to reflect trends in technology-transfer from abroad. The approval reflects expected inflows and should not be confused with actual inflows.

The number of foreign collaboration approved before the Economic reforms by Govt. of India as follows:-

FOREIGN COLLABORATIONS IN THE PRE AND POST-LIBERALIZATION ERA OF INDIA (1956-1987)

Period	Approvals of foreign collaboration
1956 -1960	796
1961-1965	1643
1966-1970	832
1970-1975	1397
1976-1980	1644
1981-1985	3428
1986 -1990	4918
1991-1995	7975
1996 -2000	10736

From the above data we can say that after 1980 the number of foreign collaboration has increased considerably because of Govt. of India's policy to attract foreign investment. However, the above data could not draw a clear cut trend in foreign collaboration. For knowing exactly the impact of New Industrial Policy 1991, Total number of collaborations in the eighties equaled the total number of collaborations in the eighties equaled the total number of collaborations in the three decades of 1950s, 1960s and 1970s. The period 1991-2000 saw total number of collaboration in the decade surpassing the total number of all the collaborations in the 4 decades preceding it. Indeed, the total number collaborations in the 9 years of post-liberalization (1992-2000) period is observed to be 17820, while in the 41 years of pre-liberalization (1951-91), there were only 15549 foreign collaborations.

India is thus banking on expert technological support for goods and services at an accelerated pace than in the pre-liberation era, 10-fold compared to the decade of 1950s, 5-fold compared to the decades of 1960s and 1970s and 2-fold compared to the decade of 1980s.

We may utilize our data on annual approval of foreign collaboration in four distinct growth phases.

The first phase until the mid sixties is marked by sluggish growth. This followed by the second phase of stagnation in growth until the end of seventies the third phase during the eighties has witnesses gradual recovery in growth. Finally there is the ongoing fourth phase of rapid growth beginning from 1991. The annual approval of foreign collaboration averaged 244. 239. 724 and 1626 cases respectively during the four growth phases. As it is shown by table given below:-

GROWTH PHASES IN FOREIGN COLLABORATION APPROVALS

Phases	Average number of approvals		
	All collaborations	Financial collaborations	Percentage of financial collaborations
1956 -65	244	N.A.	N.A.
1966-77	239	40	16.73%
1980-95	724	174	24.03%
1991-95	1627	837	51.44%

From the scrutiny of the above mentioned table it is evident that the proportion of cases involving financial collaboration in the total approvals has increases from an annual average of 17 percent in the phase to 24 percent in the third phase and further to 51 percent in the fourth phase.

So we may draw two conclusions from the number of approvals that first, foreign investment inflows and technology transfer increases considerably after the announcement of New Industrial policy 1991. Second economic liberalization tends to improve the inter-relationship between technology transfer and foreign investment.

Since 1991 after the liberalization and reforms process was initiated the trends in foreign direct investments may be given as under:

TOTAL FOREIGN DIRECT INVESTMENT IN INDIA (IN US MILLION DOLLAR)

Foreign Investment	1991-92	1996-97	1998-99	1999-2000	2000-01	2001– 02
(a) Direct Investment	129	2696	2462	2155	2339	3904
(a) RBI route	-	136	179	171	454	757
(b) SIA/FIPB route	66	1922	1821	1410	1456	2221
(c) NRI (40% & 100%)	63	639	62	24	67	35
(d) Acquisition of Shares	-	125	400	490	362	881
(B) Portfolio Investment	4	3312	-61	3026	2760	2021
(a) FII	-	1926	-390	3135	1847	1505
(b) Euro Equities		1366	270	768	8314	477
(c) Other	4	20	59	123	82	39
Total (A+)	133	6133	2401	5181	5099	5925

SUGGESTION

1. India has vast natural resources. The export of primary goods from India should be controlled gradually. The export of secondary goods provides opportunities for development of industries for the purpose of value addition to the primary products and its processing etc. but shall also generate good employment potential. The values added products shall enable the country to earn higher foreign exchange for the country.
2. Foreign collaborations can also made to participate in oil exploration, refining and processing of petroleum products. This will help the country saving scare foreign exchange resources spent now in import of crude petroleum oil from gulf and other countries.
3. The Schemes of Free Trade Zone and Export Procession Zones should be made more attractive and full freedom should be allowed to NRIs for establishing industrial units in such FTZs and EPZs. The principle of full freedom should be applied in such zones. This will attract NRIs, PIOs and OCBs to start their processing units in such zones for exclusively export purpose.
4. The NRIs should be allowed finance from development finance institutions at service cost plus LIBOR or any other international rate of interests. For this purposes the FIs may be allowed to seek ECBs at such international rates. Thus, such financing should be at low rates, but on no profit and no loss basis.
5. The systems and procedures should be so simplified as not to leave any room for corruption and ensure that they are not impractical and counterproductive.
6. The law and order situation should be improved. The NRIs and other foreign nationals should not become victims of extortion, mafia control, cheating and should be able to live in peaceful environment.
7. The Government should nominate an Indian Citizen as representative of NRIs in the Parliament to raise their voices in the legislature.

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