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# OVERSEAS PARTNERSHIP FOR JOINT VENTURES. CAN TIES ABROAD BOOST THE EXPORT PERFORMANCE OF SOUTH AFRICAN COMPANIES?

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I will make reference only to the trade relations between Germany and South Africa, but my observations are likewise valid for most other overseas countries. It is my intention to outline some aspects regarding strengthening the ties for exports from South Africa to Europe.

There are obviously several types of international involvements. The most common one is simply **importing and exporting.** A more advanced method of international activity is entering into **licensing agreements.** A third type of international business involvement is the **joint venture** and the fourth type would be a **wholly owned subsidiary.** American companies for instance have got abroad wholly owned subsidiaries to an extent of 62% and joint ventures to an extent of 38% of all their foreign investments.

**What is a joint venture?** A joint venture is a company whose shareholders are residents — individuals or (mother) companies — in mostly more than one country. A joint venture may also involve more than two partners. The shares could be distributed equally under the partners or on any other basis which would suit circumstances.

There are in principle two ways of forming a joint venture. Either one would form a company most probably a **"(Pty) Ltd" in South Africa** or alternatively a **"GmbH" in Germany** or a similar limited liability company in any other European country, for instance a "Société a Responsabilité Limitée" (SARL) in France.

Such a joint venture could be used in various ways and for several purposes. Let me try to outline some aspects.

One can assume that the **South African partner** of a joint venture in South Africa would principally make available production facilities, labour, raw materials, local contacts, local administration and local management, export finance facilities through the IDC, but also capital in the form of long-term loans and equity capital. And the **Overseas partner** would usually supply mainly technical know how, advanced equipment such as special machinery, possibly product design, experts, at least part of the management, contacts to the relevant Overseas markets and also capital again in form of long-term loans and equity capital.

**A joint venture** located in South Africa **may do** subcontractor's work, could do repair work, might process raw materials, assemble parts to units and/or semi-finished or finished goods which were delivered by the Overseas partner and then exported to him again after having been assembled. Examples might be winding and rewinding of electric motors, manufacture of clothing — partly and wholly, supply of drawings, patterns and dies from Overseas and for instance manufacture of components in South Africa for the motor car industry Overseas.

Then I feel there might be a good chance for a joint venture in South Africa in all the cases in which a prospective **Overseas partner** wishes to find or **secure suppliers' markets.** In the Economic Development Programme for the Republic of South Africa 1972 to 1977 it is envisaged that the export of various goods will increase considerally for chemicals, pharmaceuticals, metal products but also any other raw materials, ores, minerals processed to semi-finished products. In all such cases a joint venture would help to increase South African Exports and to secure suppliers' markets for the Overseas partner(s).

A joint venture in South Africa could also merely function as a **straight-forward exporter** to the Overseas partner. As you surely know the exchange rates over the last few years have been changed rather often. Whilst in 1968 the Rand equalled to 5,60 German Marks, the Rand is now in the middle of 1973 worth 3,44 German Marks or alternatively five years ago one German Mark amounted to nearly 18 cents and nowadays to 29 cents. In other words the South African exporter who trades with German companies still gets his South African Rand but his counterpart the German importer will only have to pay 3,44 German Marks instead of 5,60 German Marks five years ago — for him a saving of nearly 40%. On the other hand the German exporter will still invoice his export goods in German Marks but the South African importer will have to pay 29 cents now instead of nearly 18 cents five years ago for one German Mark. That means for him an increase in his expenses of 63% over five years due to exchange rates changes only.

Let me give you another example. For instance let us say the price of a ton of a certain steel product was in 1968 R83,- the German importer then had to pay 465,- German Marks. Today the South African exporter invoices R104,- and the German importer has to pay 358,- German Marks. That means on the German side a cost reduction of 23% in spite of the favourable price increase for the South African exporter of more than 25%. **Both the parters are the winners!** Therefor is no wonder that after the heavy devaluation of the South African Rand in November 1971 and all the revaluations of the currencies of the main South African trading partners the imports decreased and the exports of South African goods increased considerably. If one compares the actual export and import figures for 1972 with the targets set in the Economic Development Programme for the Republic of South Africa 1972 to 1977 then one realises that the planned figures have not only be met favourably but that they were considerably overstepped. According to the Programme the South African exports will improve by 58% whilst the imports will only be increased by 34% for the period 1972 to 1977 based on figures at prices 1971. The trade gap of South Africa will therefor be narrowing further.

**From a German point of view** South Africa is the 17th biggest customer and the 20th biggest supplier. During the first half year 1973 the exports from South Africa to Germany increased by 37% compared to the first half year 1972. For the same period the exports from Germany to South Africa increased by 16% only — mainly due to exchange rates changes.

A joint venture in South Africa could also avail itself of all the **export incentives and facilities** granted by South Africa such as Income Tax Allowances, Sales Duty Concessions, Special Facilities for Exporters of Capital Goods, Market Research Grants, Concessionary Rail Rates, Finance Charges Aid Scheme, Steel Export Promotion Scheme etc. If such a joint venture would merely function as a **straight-forward exporter** then the Overseas partner would offer his contacts and connections to the relevant markets and possibly take care of Finance such as equity capital, long-term loans and/or using import finance facilities in Germany.

Another motive to form a joint venture could be that an Overseas investor would like **to invest purely some money** into a good proposition and would in turn merely offer Overseas contacts and connections.

Another aspect could be **co-production in South Africa** by simply deciding to divide the physical output in agreed proportions. The South African partner would then market his portion locally and the Overseas Partner would export his share to his home country for assembly, completion and sale. Such an arrangement should be a good proposal for parts for Television sets due to the fact that South Africa will now prepare herself for the introduction of Television. Good chances in that direction could also be seen in parts, components and/or units for the Ship-Building Industry especially for sports-boats, equipment for the Centralized Traffic Control System (CTC-System used inter alia by South African Railways and Harbours), equipment for communication expecially telecommunication and other especially electrical equipment.

A similar aspect refers to the Textile Industry. I learnt that the **import restrictions for**

**textiles** were lowered recently. And I heard further that the argument was said to be that such a step would decrease the South African inflation rate due to the fact that imports are less expensive than local production. Will that really be the case? I personally can't see my way clear for such reasoning. To my mind — and I don't want to critizise anybody — one should consider mass production of textiles in Homelands for (local supply and) exports. Big volumes of mass production would decrease manufacturing costs per unit. As such one could be more competitive on export markets and minimize imports as such saving of foreign exchange so badly needed in South Africa. This aspect might possibly also be a question of quality.

Another reason for a joint venture in South Africa especially for German companies could be that the production costs are increasingly soaring there. It nowadays becomes more and more common in **Germany to look around for production facilities abroad** instead of further investments in Germany. Nearly each and every day one can read such reports in German newspapers and magazines.

**A joint venture** located either in South Africa or in Germany could also be used to **increase the product lines** and the pallette of goods to be marketed in making arrangements that the partners and the joint venture would manufacture **products which would add to each other,** for instance low-voltage motors and high-voltage motors, small and big steam boilers, body and engine, trousers and jackets.

Are there really good chances for a South African-German **joint venture to be located in Germany?** — I think so. — To my mind a joint venture in Germany could serve as an **importer** making available import finance facilities and marketing facilities. In case of capital goods such as plants and machinery a joint venture could take care of the **After-Sales-Service** such as availability of spare parts, proper service, maintenance and repair facilities in Germany.

I am of the opinion that **a joint venture located in Germany** could also play the role of **holding consignment stocks** of articles made in South Africa to secure reliability of supply. This aspect should seriously be considered due to the long distance between South Africa and Europe which means either long transports by ship or costly delivery by air. Both the factors are detrimental to the target set namely penetrating new markets in Europe by being competitive. I am telling you surely nothing new in saying one can only be competitive if and when **price, quality and delivery time** are right. The price can be kept down for example by using the partner's more favourable finance facilities. Quality may be improved by using the partner's know how. Required delivery times may be met by arranging consignment stocks in Overseas centres. We just said the price can be kept down for instance by using the partner's more favourable finance facilities. In this connection I should like to mention that the interest rates in South Africa for instance are usually relatively low if and when the rates are high in Germany and vice versa. Presently the interest rates for bank overdraft facilities have reached a certain climax in Germany, namely 14% to 16% and occasionally even 17% and 18% whilst here in South Africa they are slightly under 10%. Here I should like to mention some other of the **present economic conditions in Germany.** Two weeks ago the credit restrictions were tightened again in order to further curb the inflation. The Cost of Living Index rose meanwhile to nearly 8%. The price level in general is rather high in Germany nowadays. Salaries are now higher in Germany than in the United States of America. Raw materials seem to be scarce all over the world but also in Germany. Air and water pollution became a threat to the population. Traffic congestions belong to the daily life.

I want to give you finally **a last good example for a joint venture.** There are approx. 75 international trade fairs and exhibitions held in Germany annually. From my own experience during the last few months in which I paid many visits to several trade fairs and exhibitions I can only state that South African companies — but don't take it amiss — are poorly represented on such occasions. At the Hanover Fair, the biggest Industrial Fair of the world, only one South African company showed his products. At other exhibitions only a few South African companies were represented by their German importers or they were not represented at all whilst other overseas companies from other overseas countries are showing their products.

Therefor I would suggest the serious consideration of a joint venture located in Germany which then could arrange **joint booths at relevant Fairs** and show the partners' products manufactures in South Africa. If serveral South African manufacturers and exporters are prepared to make such a joint effort together with their German partners then the Trade Fair expenses for each and every partner could be cut down considerably for such a South African Show in Germany or elsewhere in Europe and the success would not stay away.

Examples of having successfully exhibited South African products at German Trade Fairs are pianos, mini-safes, vending machines, electrical equipment. A **joint booth at a Fair** can only increase the success so far.

Overseas Partnership can obviously **boost the Export Performance** of South African Companies. There are various ways and means. The right idea at the right time and the right partner Overseas are the pre-requisites for a successful joint venture. There are surely ready markets overseas for South African products. The past has proven that in some instances. It's now your turn to increase such examples through your activities. I wish you the best success in such endeavours.