

# India-Japan Investment Relations : Trends and Prospects

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18 March, 2009

## Objectives of the Study

- Overview of India-Japan Macro Economic Indicators with emphasis on external sector.
- FDI regime in India and Japan.
- Trends in India-Japan FDI flows.
- Investment barriers to FDI flows from India to Japan and vice-versa.
- ODA from Japan to India.
- Foreign Technology Transfers
- Policy suggestions for improving investment relations.

## Overview of the Presentation

- FDI & External sector in India & Japan
- Investment Policy in India & Japan
- Japanese FDI in India.
- Barriers to Japanese investment in India: An Indian perspective.
- Government Measures to promote FDI in India and Japan
- Investment opportunities & recommendations

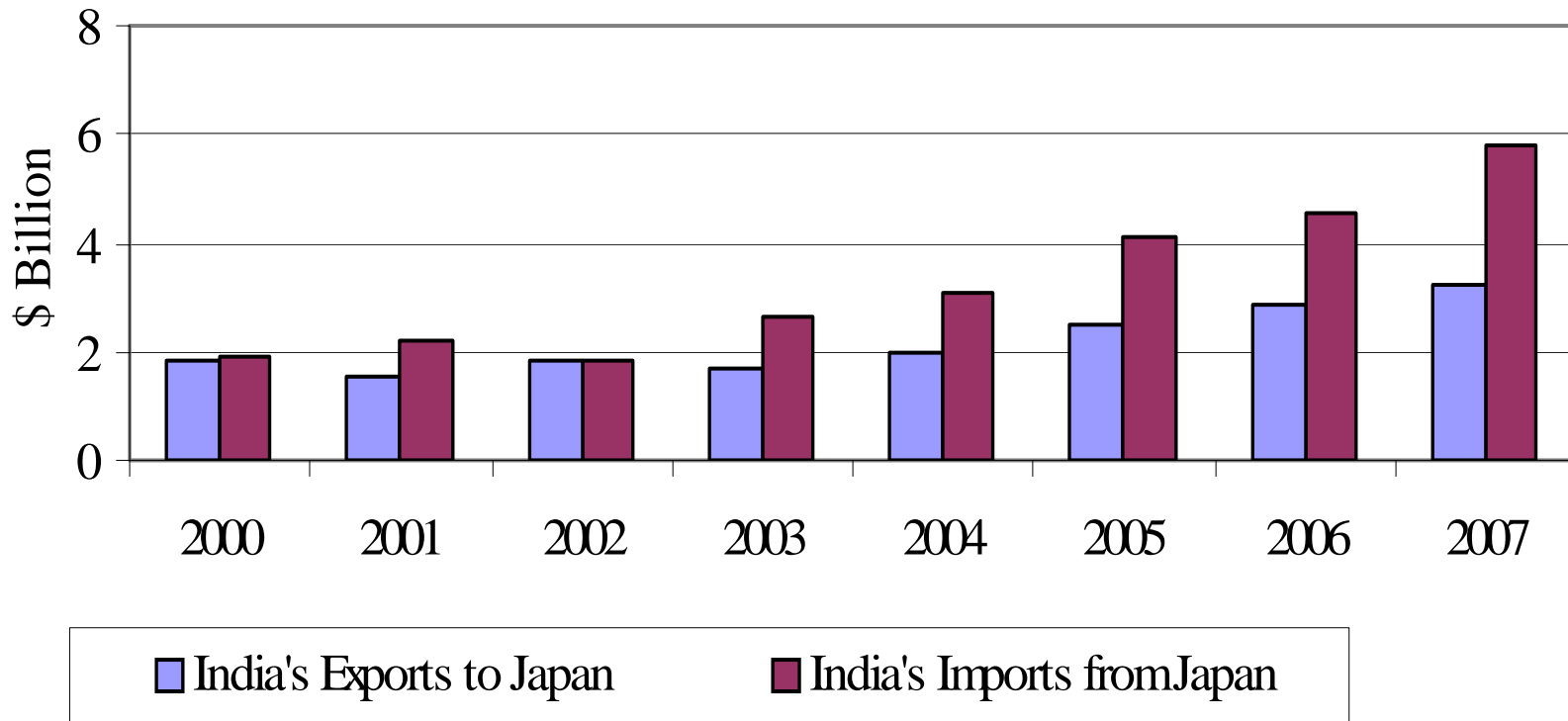
# India-Japan Historic Relations

- Asia : power centre of the world with Japan, India and China at the forefront.
- India and Japan share common values such as democracy, human rights and market economy.
- Exchanges between the two countries began in 6<sup>th</sup> century A.D. when Buddhism was introduced to Japan. Diplomatic ties were established in 1952
- The start of negotiations on India-Japan CECA in January 2007, mark the beginning of a new phase in India's economic relations with Japan.

## FDI inflows: Global Trends: 1999-2007 (US\$ Billion )

<b>Region/Economy</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
World	1086.8	1388.0	817.6	678.8	557.9	742.1	958.7	<b>1411.0</b>	<b>1833.3</b>
Developed Economies	828.4	1108.0	571.5	489.9	358.5	418.9	611.3	<b>940.9</b>	<b>1247.6</b>
Developing Economies	231.9	252.5	219.7	157.6	175.1	283.0	316.4	<b>413.0</b>	<b>499.8</b>
Asia	112.6	146.1	111.9	94.4	110.1	170.0	210.0	<b>272.9</b>	<b>319.3</b>
China	40.3	40.7	46.9	52.7	53.5	60.6	72.4	<b>72.7</b>	<b>83.5</b>
India	2.2	2.3	3.4	3.5	4.6	5.8	7.6	<b>19.7</b>	<b>23.0</b>
<b>Japan</b>	<b>12.7</b>	<b>8.3</b>	<b>6.2</b>	<b>9.2</b>	<b>6.3</b>	<b>7.8</b>	<b>2.8</b>	<b>6.5</b>	<b>22.5</b>
<b>Source : World Investment Report, Various Issues</b>									

## India Trade With Japan

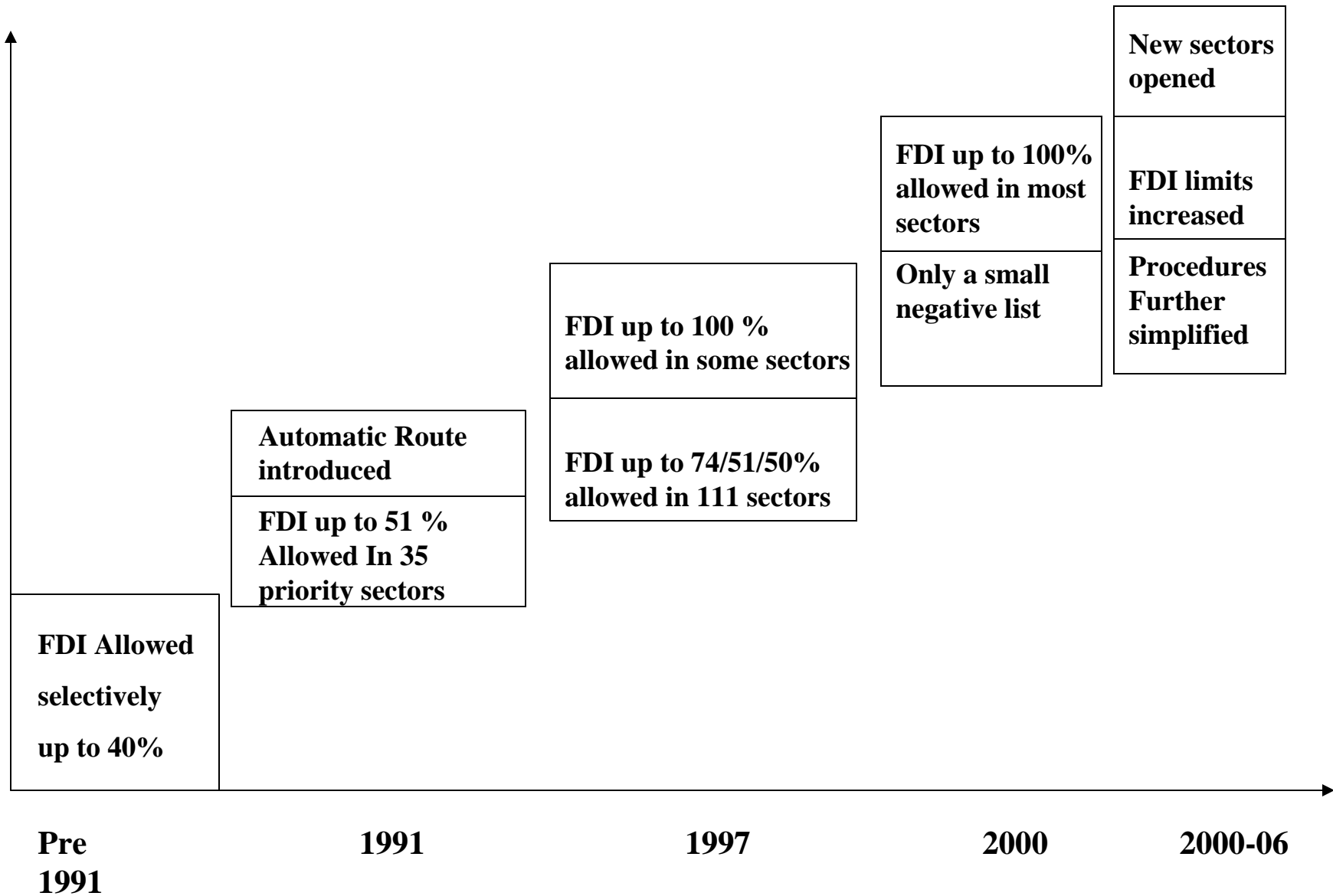


Source : UN COMTRADE

# Macro Economic Overview

- Sustained Economic Growth
  - Growth of over 8.0% during last 5 years
  - Fourth largest economy in the world in PPP terms
- Services account for around 55 % of GDP
- Manufacturing sector growing annually at over 9% (17.4% in GDP)
- Foreign exchange reserve of over US \$ billion 250
- FDI inflows grew by 48.1% in 2005-06.
- The growth in 2007-08 was 46.9%
- FDI inflows continue to be impressive this year as well with US\$ 21.15 billion 2008-09 till December 2008

# Liberalization of FDI Policy



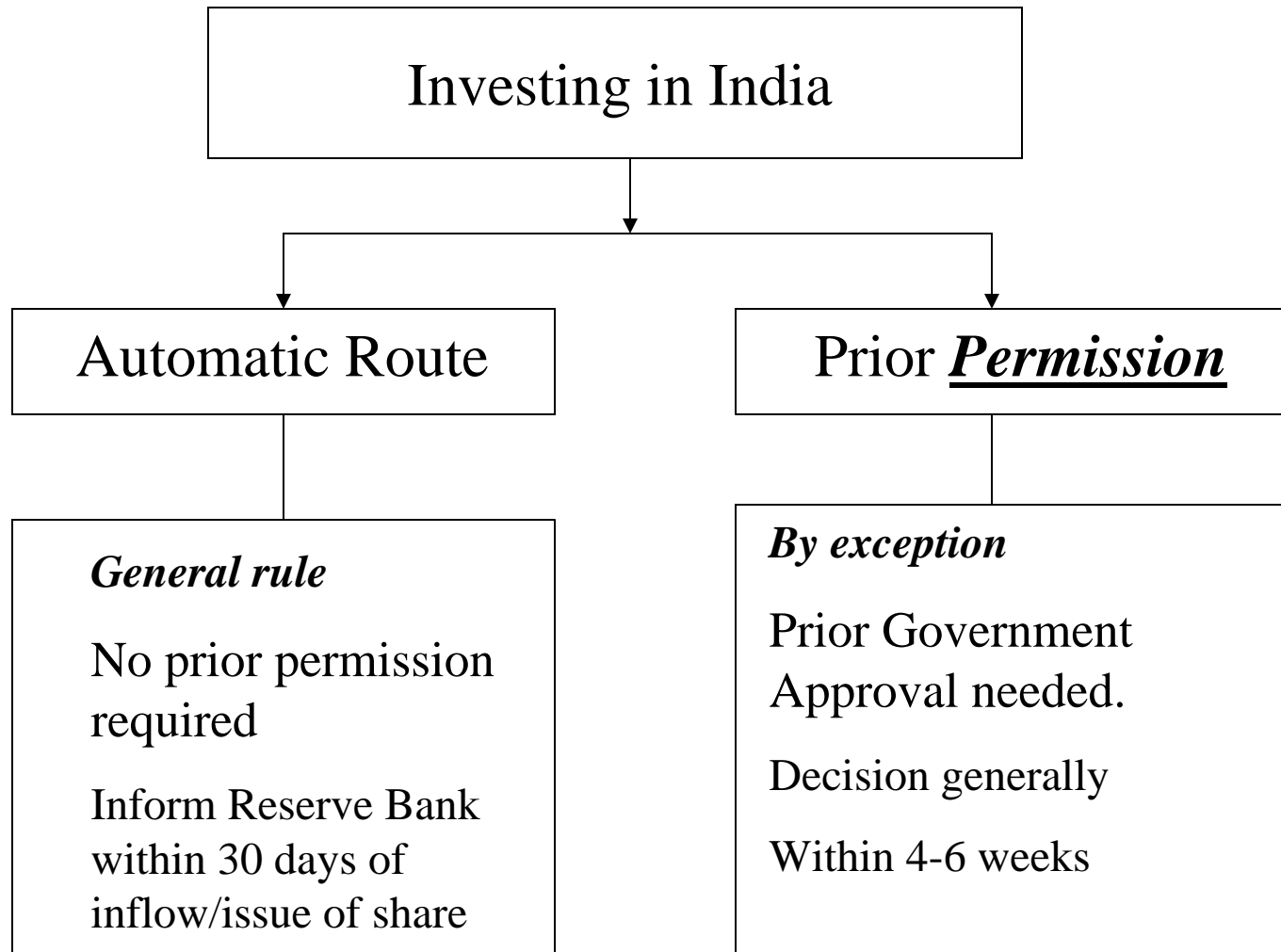
## Sectors where FDI is prohibited

- Retail Trade (except Single Brand Retailing)
- Gambling
- Betting & Lottery
- Atomic Energy

# FDI Policy in India-An Overview

- FDI permitted in almost all activities
- Up-to 100% FDI allowed in manufacturing
- Most FDI allowed on the ‘automatic route’- only to inform the Central Bank within 30 days of remittances
- Liberal policy for foreign technology collaboration
- Policy supported by a legal framework
- National treatment to investment
- Ceilings and routes for investment being constantly reviewed and liberalized
- Indian FDI policy regime assessed independently to be liberal and progressive.

# Investing in India-Entry Routes



## India:FDI Outlook

- 2nd most attractive investment destination AT Kearney FDI Confidence Index 2007.
- The quality of the business environment in India has improved tangibly in recent years-Dun & Bradstreet
- India has improved its position by two places in the World Economic Forum's Global Competitive Index (GCI) rankings for 2008-09, coming in 50th, well ahead of Brazil (64), China (30) and Russia (51)

## FDI Inflows-From August 1991 to November 2008

Year	Amount of FDI inflows		Annual Growth (\$ Value)
	Rs. Crore	US \$ million	
1991-92	316	0.13	
2001-02	29235	6.13	52.1
2002-03	24367	5.04	-17.9
2003-04	19860	4.32	-14.2
2004-05	27188	6.05	40.0
2005-06	39674	8.96	48.1
2006-07(P)*	99985	22.08	146.4
2007-08(P)+	130522	32.43	46.9
2008-09(April-November)	85700	23.33	
From August 1991 to March 2000	57348	15.48	
From April. 2000 to Nov. 2008	474937	112.37	
From Aug. 1991 to Nov. 2008	532285	127.86	

Source: SIA, Various FDI Fact Sheets.

Note: \* Include Swap of shares US\$ 3.1 billion.

+ RBI has included the amount of US\$ 92 million for the month of April 2007.

(P) Provisional

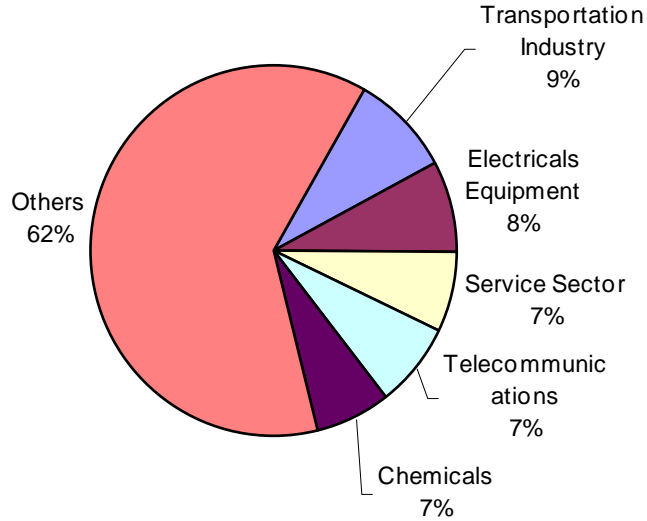
## India's FDI Outflows

<b>Year</b>	<b>FDI Outflows (US \$ Million)</b>
1991	-11
1992	24
1993	41
1994	83
1995	119
1996	240
1997	113
1998	47
1999	80
2000	509
2001	1397
2002	1107
2003	1325
2004	2179
2005	2978
2006	12842
2007	13649

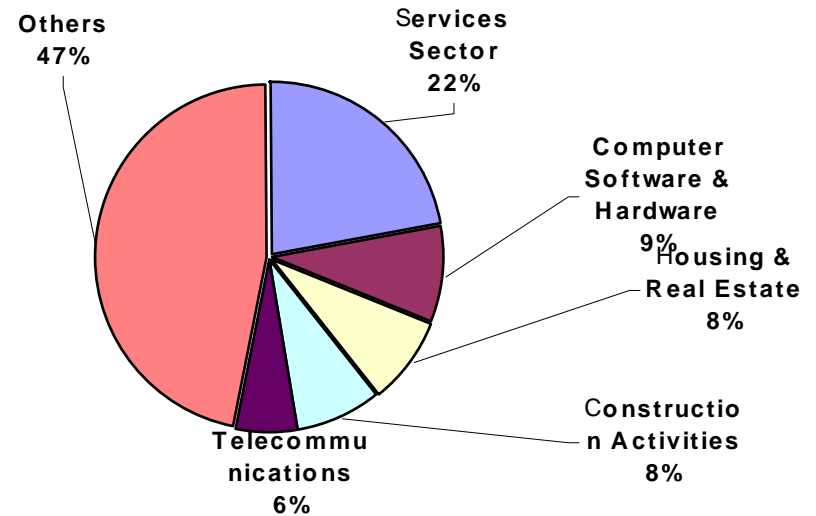
**Source: UNCTAD, World Investment Report**

# Sector-wise FDI Inflows

Sector-wise FDI Inflows duty Aug 1991-Dec 1999



Sector-wise FDI Inflows duty, Jan 2000-October 2008



**Statement on RBI's Region-wise Break-up of FDI Inflows**  
(From January 2000 to October 2008)

Sl.No	Regional Offices of RBI	States Covered	Share in Total FDI inflows
1	<b>MUMBAI</b>	MAHARASHTRA, DADRA & NAGAR HAVELI, DAMAN & DIU	33.3
2	NEW DELHI	DELHI, PART OF UP AND HARYANA	16.6
3	AHMEDABAD	GUJARAT	6.9
4	BANGALORE	KARNATAKA	6.8
5	CHENNAI	TAMIL NADU, PONDICHERRY	5.5
6	HYDERABAD	ANDHRA PRADESH	4.4
7	KOLKATA	WEST BENGAL, SIKKIM, ANDAMAN & NICOBAR ISLANDS	1.6
8	CHANDIGARH	CHANDIGARH, PUNJAB, HARYANA, HIMACHAL PRADESH	0.5
9	PANAJI	GOA	0.3
10	KOCHI	KERALA, LAKSHADWEEP	0.3

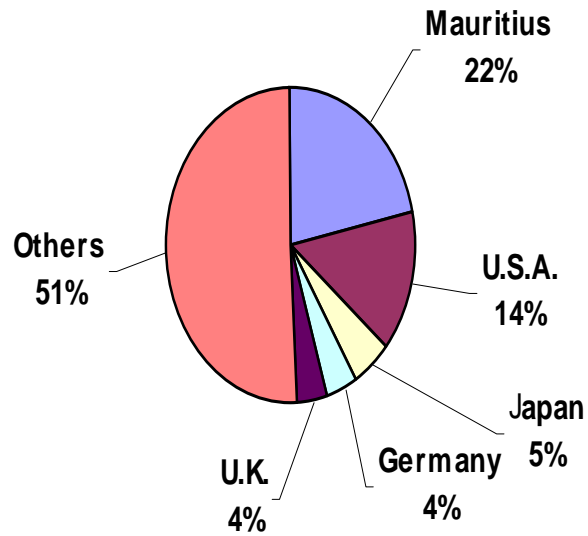
Source: SIA Newsletter, November 2008

Note:

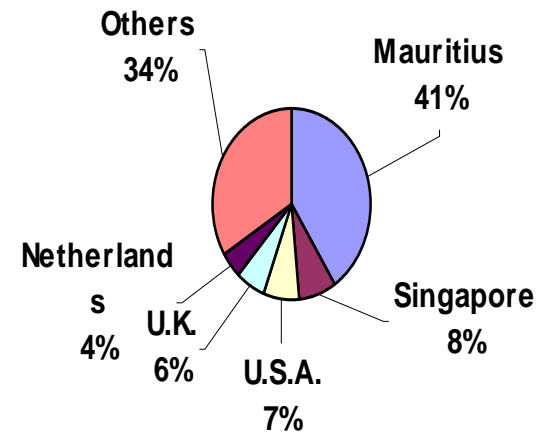
1. The Sector specific amount includes the Inflows Received through SIA/FIPB route, acquisition of existing shares and RBI's automatic route only.
2. Inflows through ADRs/GDRs/FCCBs, against FDI approvals have not been included.
3. Inflows Includes ' Equity Capital Components' only.

# Country-wise FDI inflows

Country-wise FDI Inflows during Aug 1991-Dec 1999



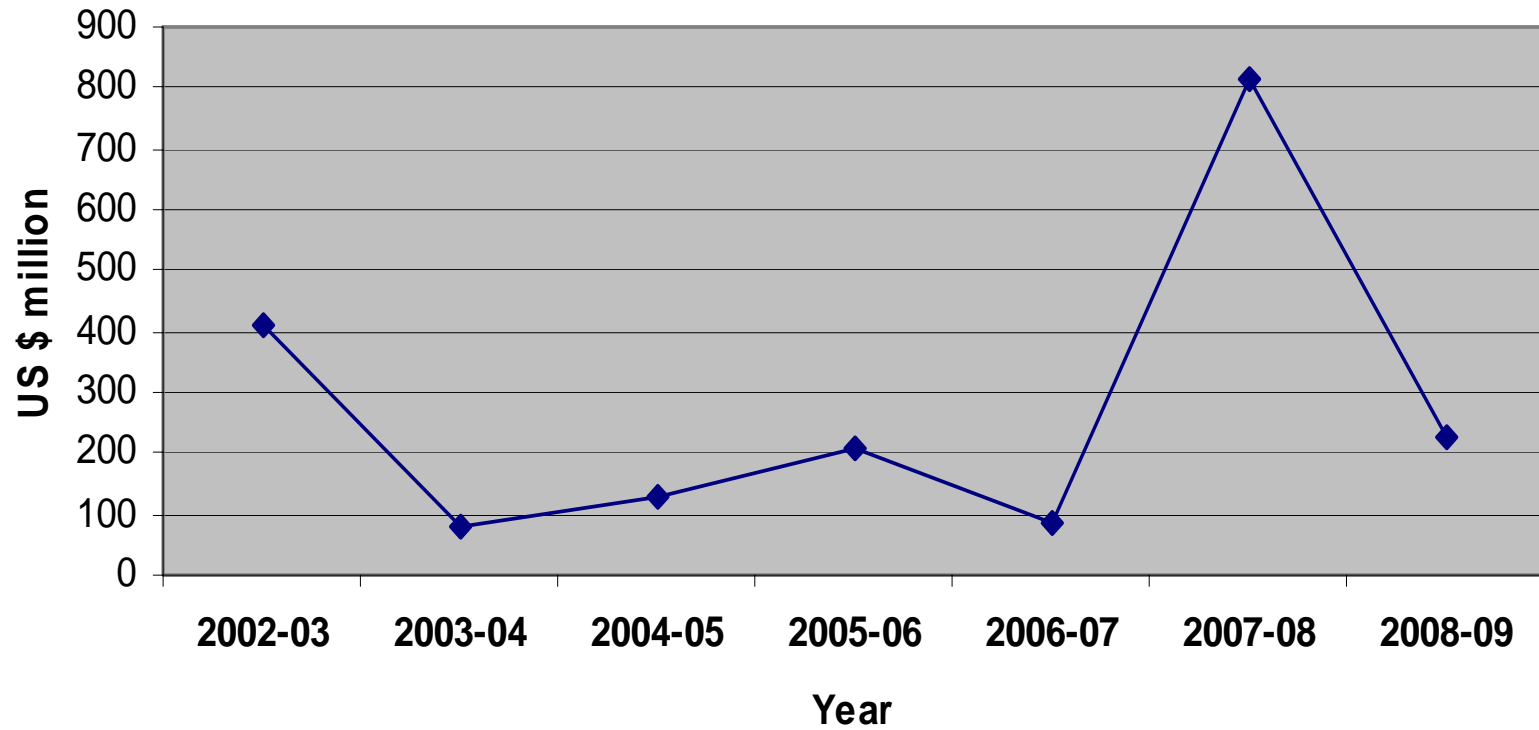
Countrywise FDI Inflows during Jan. 2000- Oct. 2008



# FDI Regime in Japan

- Governed by Foreign Exchange & Foreign trade Act together with cabinet & ministerial ordinances.
- FDI generally requires reporting to the Minister of Finance and minister in charge of industry involved, within 15 days of executing a foreign investment in Japan.
- Prior notification is required in some other sectors on the grounds of public order, public safety and national security
- The provisions of BIT's also regulate industrial policy.

### India FDI inflows from Japan



—◆— FDI Inflow s

## FDI inflows from Japan

(US \$ Billion)

<b>Year</b>	<b>FDI Inflows from Japan</b>	<b>Total FDI Inflows in India</b>	<b>Share of Japan in total FDI inflows</b>
2002-03	0.41	3.13	13.15
2003-04	0.08	2.63	2.96
2004-05	0.13	3.75	3.36
2005-06	0.21	5.55	3.75
2006-07	0.09	15.73	0.54
2007-08	0.82	24.58	3.32
2008-09	0.23	21.15	1.07

*Source: FDI Factsheet, Various SIA Newsletters*

## Top Five Sector-wise FDI Inflows from Japan (from January 2000 to November 2007)

Ranks	Sector	Amount of FDI inflows		%age with FDI inflows from Japan
		In Rupees (million)	In US\$ (million)	
1	Automobile Industry	36203.8	792.7	40.6
2	Electrical Equipment's	16378.0	385.0	18.4
3	Trading	6086.9	145.7	6.8
4	Services Sector	2672.8	59.1	3.0
5	Telecommunications	2440.8	54.8	2.7

*Note: (i) Amount includes the inflows received through FIPB/SIA route, acquisition of existing shares & RBI's automatic route only.*

*(ii) The amount of FDI inflows in respect of the Country & Sector specific data is not provided by RBI, Mumbai prior to January 2000*

## Sectors-Wise Technology Transfer Approvals ( From August 1991 to November 2007)

Rank s	Sector	No. of technical Collaboration approved	%age with technical collaboration approved
1	Transportation Industry	247	28.69
2	Electrical Equipments (Including computer software & electronics)	198	23.00
3	Chemicals (other than fertilizers)	77	8.94
4	Misc. Mechanical Engg. Industry	53	6.16
5	Industrial Machinery	48	5.57

## FDI Inflows Received From Japan through Indian Companies (From January 2000 To November 2007)

Nos.	Name of the Indian company	Name of Foreign Collaborator	Sector	Amount of FDI inflows ( Amt in Million)	
				Rupees	US \$
1	Maruti Udyog Ltd.	Suzuki Motor Co. Ltd.	Transportation Industry (Passenger Cars)	10000	208.3
2	Escorts Yamaha Motor Ltd.	-	Transportation Industry	4000	88.9
3	Maruti Udyog Ltd.	Suzuki Motor Co. Ltd.	Transportation Industry (Passenger Cars)	3990	83.1
4	Yamaha Motor India Pvt. Ltd.	-	Automobile Industry	3000	65.2
5	Sanyo BPL Pvt. Ltd	Sanyo Electric Co. Ltd	Telecommunications	2269	51.0
6	Yamaha Motor Escorts Ltd.	-	Transportation Industry	2152	47.8
7	Telco Constructions Equipment's Co.	Hitachi Constructions Machinery Co. Ltd.	Mfg./Sale Construction Equipment's/Earth Moving Machinery	2043	44.7
8	Birla NGK Insulators Pvt. Ltd.	NGK Insulators Ltd.	Ceramics	1193	25.9
9	Welspen Productions Pvt. Ltd.	Dunearn Investment Mauritius P. Ltd.	Textiles (including dyed, printed)	1183	27.2
10	Escorts Yamaha Motor Ltd	Yamaha	Misc.Industries	1172	27.3

## Official Development Assistance

- Japan has been India's largest bilateral donor since 1957.
- In 2007, the amount of Japanese ODA loans to India has marked annual record of 225,130 million Yen (approximately \$2,085 million) for the first time, corresponding to the ever-increasing demand in India for infrastructure, transport, energy, water supply, sewage system, or irrigation, to name a few.

# ODA cont...

- The Delhi Metro funded by Japan's ODA is the new transportation mode since 2002. This project can be cited as an excellent example of best practices in transport technology, project management and safety-first principle in operation.
- West Bengal Transmission System Project is another example of Japan's ODA to India. Through this project, the power grid across the State of West Bengal has been enhanced and expanded through yen loans.

## The ODA package ( 2007-08)

- Delhi Mass Rapid Transport System Project ( Phase 2)
- Bangalore Power Distribution Project
- Vishakapatnam Port Expansion Project.
- Transmission System Modernization and Strengthening project in the Hyderabad Metropolitan Area.
- Andhra Pradesh Irrigation and Livelihood Improvement Project.
- Amirtsar Sewerage Project
- Orissa Integrated Sanitation Improvement Project
- Kerala Water Supply Project (II)

## Indian view on Japanese Investors

- India acknowledges the chronic hesitancy of Japanese corporations in doing business in India.
- This is largely attributed by some Japanese Industry sources to massive government red tape, poor infrastructure such as power supply and port and road facilities and pro-labour policies resulting in numerous labour disputes.
- Japan's concerns are shared by other major developed countries.

## Indian view on Japanese Investors cont...

- Mandal, one of India's largest law firms has been quoted as saying that Japanese businesses have been too slow to recognize the ongoing changes in the Indian economy.
- However, there is renewed interest in recent times and Japanese business would do better if they establish a 100 per cent subsidiary by hiring top managers from the local human resources market who are well-versed in the local business practices instead of setting up joint ventures with local partners in India.

## Indian view on Japanese Investors cont...

- For instance, several industries in Japan are now in a sunset plane because the current economic compulsions render them non-competitive. Such industries have a future in relocating elsewhere and India is a first class option.
- Consumer durables and food processing industries can be positioned in India where there is ample availability of skilled labour at a reasonable cost. Once set up in India, these industries would not only be able to take advantage of the huge market which India offers but will also be able to export to other countries from India. And even cater to Japanese needs.
- This is also in sync with the Look East Policy of India and Japan would welcome if India acts as a counter balance to China in the region.

## Japanese View

- However, a recent survey by JBIC shows that India has become the most favoured destination for long-term Japanese Investment.
- 70% of Japanese manufacturers regard India as the most attractive country to do business with for next 10 years, 67% preferred China, Russia came third with 37% rating and Vietnam 28%.

## Barriers to Japanese Investment In India

- The Japan Chamber of Commerce and Industry in India ( JCCII) has termed the Indian business environment as tough in its report to DIPPI recently.
- JCCII has listed 61 issues related to Infrastructure, taxation system and customs clearance that need to be settled for more Japanese investors to look at India.
- Japanese investors describe the tax system in India to be too complicated and difficult to understand.
- India's land acquisition and utilization procedures have been termed complicated and non-transparent and major obstacles to the facilitation of Japan's investment in India.

## Barriers to Japanese Investment In India cont...

- The unresolved issues include taxation, infrastructure, logistics, intellectual property rights, regulations of foreign capitals, visa issues and also administration's inefficiency and non-transparency with respect to various rules and provisions.
- Many clauses in contract with the industrial parks are not honored such as supply of power, water, drainage and so on.
- Japanese companies have requested for simplification and speeding up of procedure for applying various permissions related to construction.

## Barriers to Indian Investment in Japan

- Language is a major barrier and restricts easy interaction between the business representatives of India and Japan. There is lack of awareness and information about each other's market.
- Import of cosmetics and beauty products into Japan require obtaining a license from Japan's ministry of Health and Welfare. The ministry uses a pre-defined list of items that can be used as ingredients in the production of imported products.
- Indian exports to Japan are affected by a number of issues that include SPS/TBT measures, and high transaction costs .

## Barriers to Indian Investment in Japan

- Outdated impressions of the quality of Indian products and the reliability of the Indian suppliers continue to persist.
- Poor air links and connectivity and visa problems have also been highlighted.

# Initiatives to Promote FDI by India

- Simplification of investment procedures
- Liberalisation of trade policy
- Safeguarding IPRs
- Financial sector reforms
- Liberalisation of exchange regulations
- SIA facilitates availability of information to investors.
- Government has also established the Foreign Investment Implementation Authority (FIIA) to facilitate the implementation of FDI projects by assisting investors in getting the required clearances.
- The government of India has set up a dedicated ‘ Japan Cell’ in DIPP to promote and facilitate Japanese Investments in India.

## Initiatives to Promote FDI by Japan

- JETRO organises and despatches overseas investment missions to all parts of the World to promote investment in countries with high potential.
- Necessary data and information are collected from the 74 JETRO offices located all over the World.
- Japan also entered in BIT's with various countries in order to protect Japanese Investors and investments abroad.
- Japan also provides insurance cover to its investors when they are forced to discontinue their activities because of war, terrorism, natural disaster or suspension of remittance to Japan.

# Investment Opportunities and Recommendations

- To fast conclude the Comprehensive Economic Partnership Agreement in 2009.
- Huge opportunity for Japanese Investment in sectors such as biotechnology, agriculture, hydrocarbon fuels and Information and communication technology.
- Japan to set up Japanese language teaching cells at seven IITs and also setting up of an IIT with Japanese collaboration.
- Japanese investment and technology to play an important role in promoting SME clusters in the country.

# Investment Opportunities and Recommendations

- JSG has recommended the setting up of a joint investment promotion mechanism as the key institutional arrangement for investment promotion between the countries.
- Conclusion of an investment agreement covering issues such as national treatment, transparency; promotion; facilitation , investment protection and dispute settlement. Systems to be established to provide on a continuing basis accurate information to investors relating to the foreign investment laws and regulations, market information etc.

Thank You