Seminar
“How China Impacts Contemporary India-Japan Relations”
March 9, 2013
Organized by ICRIER
in collaboration with
Center for Asia Studies and Chennai Centre for China Studies
At The Raintree Hotel, Chennai

Session 2:
The China Factor
in Deepening India-Japan Economic Relations

How Could We Interpret
JBIC’s FDI Survey Results?

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Japan Bank for International Cooperation (JBIC)
Japanese Manufacturing Sector

% of total


March 9, 2013
Japanese Investors’ Perception

Promising Countries for Overseas Business (Next 3 Years)

Source: JBIC’s Survey Report, December 2012

March 9, 2013
Japanese Investors’ Perception of India

Promising Countries for Overseas Business (Next 3 Years)

REASONS (out of 279 companies)

- Future growth potential of local market (237, 84.9%)
- Inexpensive source of labor (106, 38.0%)
- Current size of local market (74, 26.5%)
- Supply base for assemblers (69, 24.7%)
- Qualified human resources (44, 15.8%)

Source: JBIC’s Survey Report, December 2012
Japanese Investors’ Perception of India

Promising Countries for Overseas Business (Next 3 Years)

CHALLENGES (out of 255 companies)

- Underdeveloped infrastructure (122, 47.8%)
- Intense competition with other companies (86, 33.7%)
- Unclear Execution of legal system (frequent changes) (84, 32.9%)
- Labor problems (80, 31.4%)
- Complicated tax system (56, 22.0%)
- Rising labor costs (56, 22.0%)

Source: JBIC’s Survey Report, December 2012

March 9, 2013
## Japanese Investors’ Perception

Promising Countries for Overseas Business (Next 10 Years)

<table>
<thead>
<tr>
<th></th>
<th>Country</th>
<th>Out of 387</th>
<th>% of total</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>India</td>
<td>251</td>
<td>64.9</td>
</tr>
<tr>
<td>2</td>
<td>China</td>
<td>218</td>
<td>56.3</td>
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<tr>
<td>3</td>
<td>Indonesia</td>
<td>149</td>
<td>38.5</td>
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<tr>
<td>4</td>
<td>Brazil</td>
<td>140</td>
<td>36.2</td>
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<tr>
<td>5</td>
<td>Vietnam</td>
<td>110</td>
<td>28.4</td>
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<td>6</td>
<td>Thailand</td>
<td>103</td>
<td>26.6</td>
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<tr>
<td>7</td>
<td>Russia</td>
<td>78</td>
<td>20.2</td>
</tr>
<tr>
<td>8</td>
<td>Myanmar</td>
<td>65</td>
<td>16.8</td>
</tr>
<tr>
<td>9</td>
<td>Mexico</td>
<td>46</td>
<td>11.9</td>
</tr>
<tr>
<td>10</td>
<td>United States</td>
<td>34</td>
<td>8.8</td>
</tr>
</tbody>
</table>

Source: JBIC’s Survey Report, December 2012
## Japanese Investors’ Perception of India

### Promising States in India *(Next 3 Years)*

<table>
<thead>
<tr>
<th>Rank</th>
<th>State</th>
<th>Votes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Tamil Nadu</td>
<td>84</td>
</tr>
<tr>
<td>2</td>
<td>Maharashtra</td>
<td>78</td>
</tr>
<tr>
<td>3</td>
<td>Karnataka</td>
<td>63</td>
</tr>
<tr>
<td>4</td>
<td>Haryana</td>
<td>56</td>
</tr>
<tr>
<td>5</td>
<td>National Capital Territory of Delhi</td>
<td>53</td>
</tr>
<tr>
<td>6</td>
<td>Gujarat</td>
<td>24</td>
</tr>
<tr>
<td>7</td>
<td>Andhra Pradesh</td>
<td>16</td>
</tr>
<tr>
<td>8</td>
<td>Uttar Pradesh</td>
<td>15</td>
</tr>
<tr>
<td>8</td>
<td>Rajasthan</td>
<td>15</td>
</tr>
<tr>
<td>9</td>
<td>West Bengal</td>
<td>11</td>
</tr>
<tr>
<td>10</td>
<td>Madhya Pradesh</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Others</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td><strong>Total voting</strong></td>
<td><strong>187</strong></td>
</tr>
</tbody>
</table>

Source: JBIC’s Survey Report, December 2012
World FDI Inflows into India

In millions of U.S. dollars

Source: UNCTAD database

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Japanese FDI Inflows into India

In millions of U.S. dollars

Source: JETRO

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Japanese Investors’ Perception of China

Promising Countries for Overseas Business (Next 3 Years)

REASONS (out of 312 companies)

- Future growth potential of local market (299, 73.4%)
- Current Size of local market (146, 46.8%)
- Supply base for assemblers (87, 27.9%)
- Inexpensive source of labor (83, 26.6%)
- Concentration of industry (69, 22.1%)

Source: JBIC’s Survey Report, December 2012
Japanese Investors’ Perception of China

Promising Countries for Overseas Business (Next 3 Years)

CHALLENGES (out of 312 companies)

- Rising labor costs (229, 76.3%)
- Execution of legal system unclear (frequent changes) (172, 57.3%)
- Intense competition with other companies (157, 52.3%)
- Insufficient protection for intellectual property rights (127, 42.3%)
- Restrictions on foreign currency/transfers of money overseas (107, 35.7%)

Source: JBIC’s Survey Report, December 2012
“Do you feel that your business operations in China have been adversely affected by the anti-Japanese demonstrations?”

(The respondents: 327 companies)

<table>
<thead>
<tr>
<th>(FY10) (China)</th>
<th>[Q 1-1] FY12 China</th>
<th>[Q 1-2] FY12 Taiwan</th>
<th>[Q 1-3] FY12 Korea</th>
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</thead>
<tbody>
<tr>
<td>17.8%</td>
<td>20.8%</td>
<td>13.1%</td>
<td></td>
</tr>
<tr>
<td>59.6%</td>
<td>42.8%</td>
<td>84.1%</td>
<td></td>
</tr>
<tr>
<td>19.2%</td>
<td>22.3%</td>
<td>84.1%</td>
<td></td>
</tr>
</tbody>
</table>

Total: 22.6% Total: 65.1%

Q 1-1: [Query] (page 76)

- Can't tell at this point
- No real effects
- Affected somewhat
- Affected substantially

Two (65.1%) out of every three respondent companies recognize that their business operations in China have been negatively impacted. The number of companies affected was approximately twice as high as that in the previous survey.

- The companies responding to the additional survey were asked about the negative influence of issues over the Senkaku Islands on their business operations in China, and 73 companies (22.3%) selected "1. Affected substantially" for their answers, 140 companies (42.8%) selected "2. Affected somewhat". That is, 213 companies (65.1%) were more or less influenced. At the time of a similar additional survey conducted in fiscal 2010, a total of 64 companies (22.0%) answered that they were affected somewhat. This means the number of companies affected increased by approximately 2.3 times.

- Companies selecting "1. Affected substantially" or "2. Affected somewhat" for their answers about their business operations in China were classified by industry to obtain the respective response ratios. Many companies in the petroleum and rubber industry (88.0%), automobile (including automobile assembly and auto parts) industry (85.3%), and steel industry (77.8%) feel that they have been affected substantially. Companies in the paper, pulp, and wood industry (14.3%), transportation industry (25.0%), and ceramics, cement, and glass industry (40.0%) feel that they have had no real effects.

- On the other hand, 10 companies (3.1%) answered that their business operations in Taiwan have been affected somewhat while nine companies (2.8%) answered that their business operations in Korea have been affected somewhat, 80% of the companies selected "3. No real effects" for their answers about their business operations.
“Has your assessment of China changed since the recent situation change regardless of your answer to the promising countries/regions for overseas business over the medium term?”

[Chart showing survey results with percentages and categories labeled as: 1. Lowered a lot, 2. Lowered a little, 3. Hasn’t changed, 4. Can’t tell at this point.]

[Reference] Results of previous survey (additional survey of FY2010) [Respondent companies: 416]

Please see the left chart in the next page, 76, for the change of the ranking of China as a promising country answered by these 151 companies (46.2%) which selected “1. Lowered a lot” or “2. Lowered a little”.

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“Have your views on future approaches to business operations in China changed?”

- 55.7% (182 companies):haven’t changed
- 23.2% (78 companies): came to feel that the matter needs to be rethought
- 13.5% (44 companies): direction has yet to be decided but we came to feel that the need to monitor the situation and act cautiously
- 7.6% (25 companies): can’t tell at this point
- Total: 63.3% (207 companies)
“Select the answer that is the closest to your company’s response regarding your vision for future business operations in China and the Chinese market.”

1. We are aware that there are risks inherent in doing business in China, so we plan to change things, for example by reducing dependence on Chinese business/market, and to bolster efforts in other countries/regions

2. We will continue to do business in China, but at the same time, we feel that diversifying risk to other countries/regions is important

3. China is important as a market and business client, so we will continue to pursue business there as usual

4. Don’t know at this point
Why promising?

No.1: China

No.2: India

Changes over past 5 years

Changes over past 5 years

1. Future growth potential of local market
2. Current size of local market
3. Supply base for assemblers
4. Inexpensive source of labor
5. Concentration of industry

1. Future growth potential of local market
2. Inexpensive source of labor
3. Current size of local market
4. Supply base for assemblers
5. Qualified human resources
Still what challenges?

No.1: China

Changes over past 5 years

1. Rising labor costs
2. Execution of legal system unclear
3. Intense competition with other companies
4. Insufficient protection for intellectual property rights
5. Restrictions on foreign currency/transfer of money overseas
6. Labor problems

No.2: India

Changes over past 5 years

1. Underdeveloped infrastructure
2. Intense competition with other companies
3. Execution of legal system unclear
4. Labor problems
5. Complicated tax system
6. Rising labor costs

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