

Japan's Foreign Direct
Investment Experience in India:
*Lessons Learnt from Firm level
Survey*

Dr. Srabani Roy Choudhury

Associate Professor

CEAS/SIS/JNU

ICRIER-SPF India- Japan Project

Outline

- Research Objectives
- Questions
- Responses
- Wish list
- Lessons

Research Objectives

- To examine the actual experiences of a select number of Japanese firms operating by themselves or with Indian partners in India and draw some understanding of:
 - What needs to be done by policy makers to improve the investment climate, both at the central level and at the state level.
 - How to create a labour pool which is compatible with the requirements of the Japanese firms.
- To dispel the myths and misnomers in the minds of Japanese investors about operational conditions in India.



(Estd.1941)

MITSUBISHI
CHEMICAL

(Estd.1950)

YKK
Little Parts. Big Difference..

(Estd 1934)

Selected Japanese Companies

SATAKE Creating the Future

Estd. 1896

 **TOYOTA**
Quality Revolution

(Estd.1857)



1985 Partnership with Koyo

THE NEW VALUE FRONTIER
 **KYOCERA**

(Estd.1975)



(Estd.1941)

ICRIER-SPF India- Japan Project

Selection of Firms

Name of Firms	Location	Nature of Partnership	Year of Estab in India
YKK	Delhi	Subsidiary	1995
Honda Seil Pvt Ltd	Noida	Joint venture	1995
Sona Koyo Steering	Gurgaon	Technical collaboration/ Joint venture	1985
Satake India engineering Ltd	Delhi	Subsidiary	1999
Kyocera wireless Ltd	Bangalore	Subsidiary	2003
Mitsubishi Chemical Corporation PTA India	West Bengal	joint-venture	1997
Toyota kriloskar Motor Ltd	Bangalore	subsidiary	1999
Eisai pharmaceuticals pvt. ltd	mumbai ICRIER-SPF India- Japan Project	subsidiary	2004

The Questions

Phase: I Firm initiates its strategy to come to India

- What factors are responsible for initiating the process, for a Japanese firm, to look at India?
- How do the firms, especially with respect to locations, production facilities, legalities and markets, educate themselves about India?
- With regard to India, what mode of entry do these firms prefer/consider at the time of making the investment decision? Does this have any bearing on the conditionality of the investment policies?
- How does the Japanese firm find a partner? What are the factors that contribute towards this partnership? How do the two partners come to an agreement on the partnership^[1]?
- ^[1] In case they make a joint venture or any other alliance to enter the market.

.....contd

Phase: II Establishment and commencement of operations(1- 5yrs)

What are the obstacles encountered during the initiation period?

- Institutional obstacles
- Issues of skilled labour
- Underdeveloped infrastructure
- Confronting the regulatory/legal authority
- Work ethics

How do they counter these obstacles?

- Are there any problems of authority between the partners over the operations of the venture?
- Does the culture of both the partners come in the way of ground operations?

.....Contd

Phase: III Well oiled operations (5yrs and beyond)

- What are the kinds of challenges that continue to affect the Indian operations?
- Do changing policies on taxation, export-import duty and governmental intervention create obstacles towards strategizing and operating the business?

.....Contd

What lessons/ policy prescriptions can be inferred from firm level experiences of foreign direct investment?

- Dealing with institutions at the central and state level
- The availability of labour at the shop floor level, labour laws and unionism
- The climate of the human resource market, and the quality of the available human resources
- The issue of retention of the talent pool and the problem of succession.

Firms entry strategy into India

- Once bitten twice shy
- Choice of India was conditioned by emerging market potentials, competitors advances into India and location advantage.
- They conducted surveys by themselves and also took help of renowned consultant.
- Apart from legal needs, the previous experience has been the key factor
- Two of the company tested water by exporting to India before venturing into India

Infrastructure obstacles

Hard Infrastructure

- Road ways
- Power
- Port

Soft Infrastructure

- High end connectivity of telephonic system

Institutional /Govt Obstacles

- Land Acquisition
 - The process of acquiring the land continues to be in-transparent and extremely complicated
 - If the land happens to be a agricultural land it becomes cumbersome process to change its usage to industrial land

Institutional Obstaclecontd

- In principle, the process of seeking various compliance for a manufacturing unit has been made easier but the agents handling them continue to be overtly bureaucratic.
- Customs officials are not updated about the products that are imported and cause delay in clearance

Institutional Obstaclecontd

- Often during seeking various permissions related to construction work there are contradictions between departments.
- Often there is change in the decision after approval
- Regulations are enforced without giving sufficient time for preparations

Regulatory and Legal Obstacles

- While the policies have become friendlier over the years, the implementing agents continue to harass and this usually results in delays with project deadlines

Regulatory and Legal Obstacles

- Taxation continues to be complex and changes every year creating uncertainties and require changes in computing
- The corporate tax gap results in discriminatory treatment of the companies
- Multi layer taxation is complicated and difficult to understand.
- R&D cess and IT software duty create entry barrier.

Market Obstacles

- A large number of duplicate products
- Low price, poor quality products are in abundance

Response to Institutional, Regulatory and Legal Obstacles

- The companies having Joint-Venture rely on their partners
- Use of consultants for market research and legal advice
- Dedicated personnel for liaison activity at local level.

Labour obstacles

- The selected companies essentially came under two groups
 - the large manufactures the automobiles
auto component
process industry
 - others
pharmaceuticals
IT infrastructure provider

Labour issue is different in these sectors

Labour in Manufacturing Sector

- Labour is of two types the shop floor level workers and the managerial workers.
- The shop floor level workers are recruited at entry level from ITI. They form the major percentage of the work force
- The skill set of this group is found to be below the expectation of all the companies surveyed.
- Issue of attrition, earlier insignificant has surfaced from the year 2000.

Labour and Union

- All the companies had an in- house union
- Apart from Toyota no one had faced an issue with the union which had percolated to a stand off between the management and the union
- However, there is a underlying fear of the union activity and all of them follow a policy of involvement of the union.

Labour in Manufacturing Sector

- The managers in the manufacturing sector - smart and knowledgeable
- Rigid in their approach to work and imbibing the work culture
- At the junior level they are short term oriented which results in attrition.

Labour and Pharma

- Eisai finds its talent pool well educated and in line with the skill specification of the company.
- The talent pool is picked up from the university providing a degree in Bachelor in Pharmacology

Labour in IT

- The talent in IT sector are Bachelor or Masters in Technology
- The knowledge of the talent pool during recruitment is rather high, the application orientation is poor and there is a gap.
- Attrition is an issue to contend with.

Response to Skill Set Gap

- Adoption of ITI- Honda Seil, Sona Steering
- Own Training institute -Toyota Technical Training Institute
- Apprenticeship
- Dedicated campus recruitment

Wish List

- Work at decreasing ambiguity in approvals
- Simplify procedures for granting permission of foreign exchange transfer
- Reduce taxes to enable fair play
- Labour laws (1940) Factory Act (1956) needs amendment
- Create system to police duplication and spurious products

Wish ListContd

- Moving certain infrastructure from central government domain to state government domain.
- Progressively increasing power supply in the industrial area
- State partnership is useful and should be encouraged.
- Transportation efficiency , smooth TAG toll gates

Wish list.....Pharma

- Pre-post grant of patent (Pharma)
- Pricing by drug controller should factor in quality

Lessons

- India has become increasingly important and most established firms are expanding their operations.
- Trust is the most important element for partnership.
- Labour union is not an issue.

Lessons..... contd

- Inventor/ Innovator should be given some leverage so as to be able to compete with low price poor quality product
- A technical committee that assess technology and grades the technology could help in getting bank loans etc

Lessons.....contd

- Increasingly attractive destination for R&D activity
 - Cheap talent pool
 - Cheap establishment cost
 - Geographical location central
 - Strong Technology Absorption capacity
 - Increasing understanding of Quality and Diligence
 - English originating as the language

LessonsContd

- A strong need to provide continuity of policy/ies irrespective of political change.
- Work towards removal of the bottlenecks in administration
- A more e- enabled procedures to facilitate faster operations
- More transparency in the taxation and approvals
- Priority to Infrastructure development

LessonsContd

- Strong requirement to align the technical education system to the industrial need
- Technical orientation of custom personnel
- Allowing greater public- private partnership



THANK YOU

ICRIER-SPF India- Japan Project