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Japan's Foreign Direct Investment  
Experiences in India:  
Lessons Learnt from Firm Level Surveys

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## Foreword

After years of stagnation Japanese investment in India has gathered momentum. In 2008 Japan was the fourth largest investor in India. In this context Srabani's study attempts to bridge an important gap in the research on Japan's foreign direct investment in India. Based on a survey of actual firm-level experiences of a selected number of Japanese companies this study undertakes a qualitative assessment of the business environment in India. The objective is not simply to understand what needs to be done by Indian policy makers to improve the investment climate. Not surprisingly the Japanese companies emphasize continuity of policy irrespective of political change, removal of the bottlenecks in administration, more e-enabled procedures to facilitate faster operations, more transparency in taxation and approvals, priority to infrastructure development and aligning of technical education to the needs of industry. The value addition this study brings is in highlighting the productive experience of the Japanese companies operating in India. Indeed, the key findings that the surveyed firms entered India with a long-term orientation and are expanding their operations can hopefully help in dispelling the myths and misnomers widely prevalent in the minds of potential Japanese investors about operational conditions in India.

The paper is part of the series being brought out under ICRIER's Japan Project, which is funded by the Sasakawa Peace Foundation (SPF), Tokyo. It was presented at the seminar on "*Japanese FDI in India: Experiences and Lesson*" organised by ICRIER on March 18, 2009 at New Delhi at which useful comments were received. We thank the SPF and the participants at this seminar.



(Rajiv Kumar)  
Director & Chief Executive

December 24, 2009

## Abstract

Ever since India decided to globalize, concentrated effort was made to attract Japanese participation through foreign direct investment. However, response from Japan has been rather subdued. This paper attempts to gain some insight into this reluctance of Japanese investors by studying the experiences of eight firms which are either subsidiaries or joint ventures of Japanese companies. The companies that were studied are YKK, Honda Siel Pvt. Ltd, Sona Koyo Steering, Kyocera Wireless India Ltd, Mitsubishi Chemical Corporation PTA India (MCC PTA), Toyota Kirloskar Motor Ltd, Satake India Engineering Ltd and Eisai Pharmaceutical Pvt. Ltd.

Key findings of the study are as follows: Japanese companies are long term orientated with a strong commitment to 'quality' and 'the customer' and they try to fulfil this commitment by embedding the Japanese style of management into their operations. Among other factors, Japanese firms seek trust in their partner and each of the companies that have a joint venture in India spent a long time in deciding about the partnership. Labour unions are no longer viewed as a threat, as they have realized that a humane approach to labour guarantees harmony. Skill gap at the lower end of the employee order is a concern and the response has been to participate in skill enhancement. In the telecommunications and pharmaceutical sectors, India has become a potential destination for R&D activity because of its cheap, knowledgeable and capable talent pool. Kyocera and Eisai have taken steps to take advantage of this opportunity. Though there are obstacles that continue to impede smooth operations, the Japanese firms that were studied have acquired a greater understanding of the Indian market, and the Government of India has also stimulated foreign direct investment through investor friendly policies, thus contributing to their success in Indian operations. The achievements of these firms show that many of the perceptions about investing and operating in India are unfounded and/or outdated. The success stories of these companies should help attract more Japanese firms into India.

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**Keywords:** Foreign direct investment, Japanese multinational corporations, strategies, obstacles in operations.

**JEL classification** F0, F1, F21, F23, N85

# **Japan's Foreign Direct Investment Experiences in India: Lessons Learnt from Firm Level Surveys**

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## **1. Introduction**

Foreign direct investment (FDI) is often used as an engine of growth by developing countries. For a developing country, it is the vehicle through which capital is provided and efficiency induced in the industrial sector. The firm in the country of origin is encouraged to invest in the developing country because of the lower resource costs, a growing market and restrictive import policies. Foreign direct investment is, therefore, an intertwining of interests of both the host and the home country. A firm that undertakes foreign direct investment gets involved in the purchase of an existing enterprise or facilities, establishing and managing new ones and/or participating in the management of an enterprise in a foreign country. It therefore requires the firm to conduct operations in the foreign country either through overseas subsidiaries or through joint ventures. Studies conducted so far have concentrated mainly on studying trends, patterns and location issues with respect to FDI, and therefore, have dwelt on the macro factors and policy orientations of both the host country as well as the country of origin. Though these dominate the movement of FDI into the host country, a neglected area of research, as pointed out by Meyer (2003), has been an analysis at the firm level of the conditions and externalities that help/deter the FDI flow.

Until recently, Japanese foreign direct investment into India has been significantly lower when compared with FDI in other Asian countries. At the firm level, this means that a large number of companies have shied away from investing in India. One reason that is often quoted for this is that India is not perceived as a viable destination for investment by Japanese firms. This study is a modest attempt to understand how eight Japanese companies have entered India and have successfully carried out their operations. Some lessons may be drawn from their experiences, which in turn could help increase participation of Japanese foreign direct investment into India. Since only a small sample size has been used, this should be treated as exploratory research.

In India, FDI operates through subsidiaries or joint ventures with Indian partners. At the firm level, FDI goes through three specific phases, and to understand the firm's experience, each phase has to be scrutinised separately. The first phase is when a firm initiates the process of targeting the Indian market. There are various reasons for entry into a market - for a Japanese firm, it is primarily access to the local market and to expand it for its own product(s). One focus area of this study is to understand the entry strategy of Japanese firms, and especially, how they identify their Indian partners.

The second phase is the period of establishment and commencement of operations. This usually lasts for one to five years. During this period, the manufacturing unit is constructed and commercial production is started. This period is the toughest, as firms have to contend with external obstacles as well as establish a fruitful relationship with their Indian partners. How the firms (that were studied) responded to and dealt with the obstacles can be held as examples for other Japanese companies seeking to test Indian shores.

The third phase covers the time beyond the first five years. During the first two phases, the firms have learnt lessons from their exposure to the host country. Having harnessed their understanding of the Indian market, they are now well established in their operations. It is in this period that they venture to expand their business. However, certain policies and obstacles continue to bother them. Understanding the ground realities could provide an insight into the problems being faced by the firms and help policy makers find solutions to them.

The paper first gives a brief history and comparison of Japanese foreign direct investment into India and other Asian countries, highlighting the fact that Japanese investment into India is quite low. It then outlines the research objectives and explains the methodology followed. Second, the firm's entry strategy is discussed to highlight how the Japanese view business partnerships. Third, attention is drawn to the obstacles faced by the firms which have been selected for the study and their responses to such obstacles. Finally, the key findings of the study are listed as lessons learnt and certain policy recommendations are suggested.

## **2. History of Japanese Foreign Direct Investment into India**

Japan's participation in FDI in India is conditioned by Indian foreign investment policy as well as its industrial policy. A chronological study of Japan's foreign direct investment into India can be divided into two phases - one, the post liberalisation phase-I, that is from 1991 to 2000 and second, the post liberalisation phase-II, which is from 2000 till date. In the first phase, the Government of India had allowed a maximum of 49 per cent equity participation by foreign companies in a limited number of sectors. Over a period of time, the cap on equity participation by foreign companies as well as the sectors in which foreign companies could participate was increased. The division of the liberalisation phases is essentially linked to the direction taken by the Indian government towards equity participation by foreign companies and the opening up of different sectors in which foreign companies have been allowed to participate.

India followed a restrictive foreign private investment policy until 1991, relying more on bilateral or multilateral loans with long-term maturity. The Foreign Exchange and Regulation Act (FERA), 1974, stipulated that foreign firms could have equity holdings only up to 40 per cent. The government could use its discretion to make exemptions. The law also prohibited the use of foreign brands. However, one did see some hybrid domestic brands like Hero-Honda operate in the Indian market. By the 1980s, some relaxation was made in the foreign investment policy, and this saw the setting up of Maruti, a central government joint venture with Suzuki Motors of Japan, in 1982. A crop of Japanese companies followed, who gained entry through technical collaborations or by getting exemptions. Sanyo and JVC used the technical collaboration route.

### ***2.1 The Post Liberalisation Phase-I***

In 1991, with the initiation of the industrial liberalisation policy, a significant change came about in the FDI climate. Foreign investment came to be regarded as supply of scarce capital, technology and managerial skills. India, having observed the development gains made by south-east Asian countries through foreign investments, benchmarked its own policies to help attract FDI. Over the decade, India permitted foreign investment in almost all sectors.

**Table 1: Japanese Investment in India 1991-2000**

Year	Investment in US\$ million
1991	21.5
1992	233.2
1993	84.0
1994	127.8
1995	482.3
1996	432.8
1997	531.5
1998	324.8
1999	379.7
2000	229.2

*Source: Government of India Statistics*

The cumulative FDI inflow received from Japan during the period 1991-1999 was US\$2.6 billion. This placed Japan in the fourth position among the countries which were investing in India. A closer look at the top ten investing countries in India (Table 2) shows that a fifth of the investment came from the US alone. Mauritius and the U.K. put together, made up almost another one fifth of the total investment. Thus, Japan with a 4 per cent share of the total FDI, had not taken advantage of the opening up of the Indian economy.

**Table 2: Top Ten Investing Countries in India 1991-2000**

Rank	Country/ Region	% Share in FDI inflow
1	US	20.4
2	Mauritius	11.9
3	UK	6.4
4	Japan	4.0
5	South Korea	3.9
6	Germany	3.4
7	Australia	2.7
8	Malaysia	2.3
9	France	2.1
10	Netherlands	1.9

*Source: Handbook of Industrial Policy and Statistics, 2001*

The importance of Japan and East Asia was realised during the first stage of the initiative of liberalising in India. Dr. Manmohan Singh, the then finance minister, launched India's 'Look East' policy in 1992 to seek out and develop economic ties with the members of ASEAN and major East Asian economies. The policy was a natural extension of the reform programme which aimed to open up the Indian economy and expand its participation in the global economy. There was also the hope that closer ties with the East Asian economies that had achieved enviably high growth rates would provide helpful insights for India.

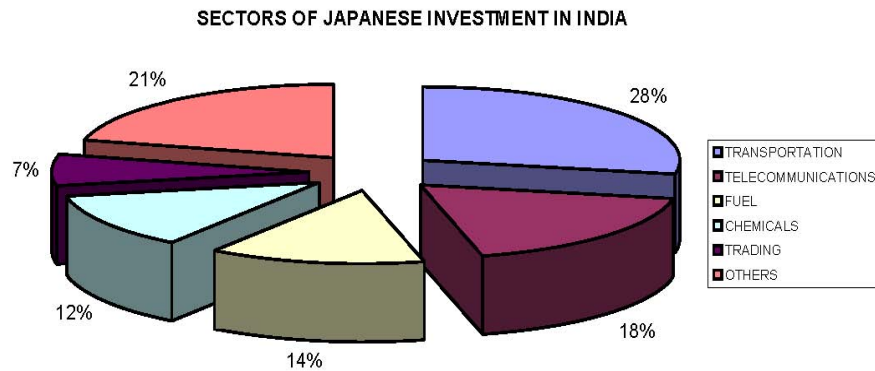
Unfortunately however, the 'Look East' policy did not capture Japan on its radar and failed to stimulate Japanese investment into India. Although in the beginning, there was a surge in Japanese companies arriving in India through joint ventures as shown in Table: 1, the flow did not gain momentum and actually hovered around US\$300 million. The sectors that attracted Japanese investment were automobiles, telecommunications, fuel, chemicals and



trading. Though the number of approvals steadily increased, the average investment was definitely low. The only silver lining was that the major approvals were technical collaborations (around 668 approvals), which meant that that Japanese companies were testing Indian business partners.

Honda in the automobile sector and Sony in the electronics sector were the two important Japanese brands that made their entry in 1991. Taking advantage of the movement of the zipper industry from being a small scale industry to becoming a large scale industry, a company like YKK made its entry too. By the end of the decade, important brands like Toyota, Toshiba and Panasonic had also entered the Indian market. There was also a proliferation of companies in auto parts, fuels and chemical and industrial goods.

**Figure 1: Share of Top Sectors Attracting FDI Inflow from Japan 1991-1999**

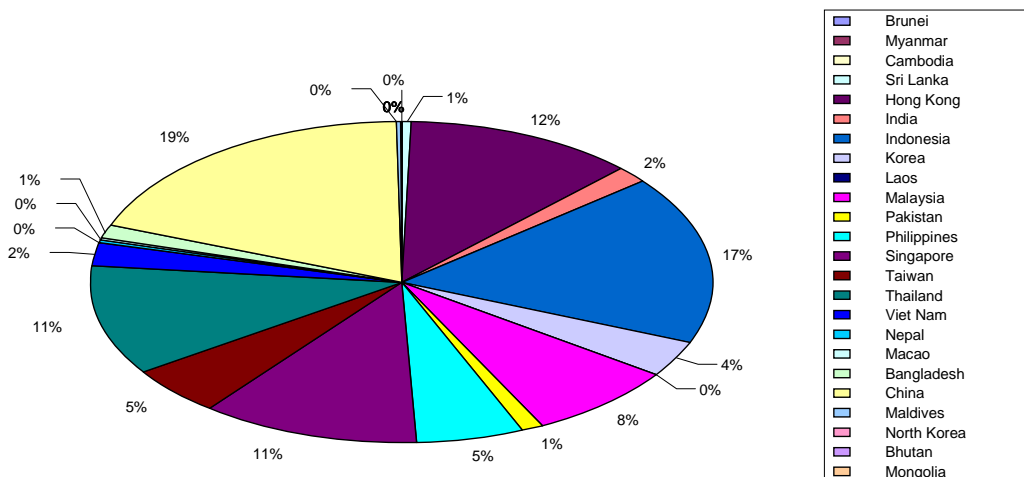


Source: Government of India Statistics

### 2.2 Comparison of Japanese FDI inflow into Asia and India in Phase-I

Statistically, Japan was positioned fourth among the countries that invested in India. However, if one were to compare Japanese investment in India with that in the South East Asia region, one would find that India had attracted only 2 per cent of the Japanese investment flow into Asia in the first phase (Fig: 2)

**Figure 2: Cumulative Outward Flows of Japanese FDI into Asia: 1990 -1999**



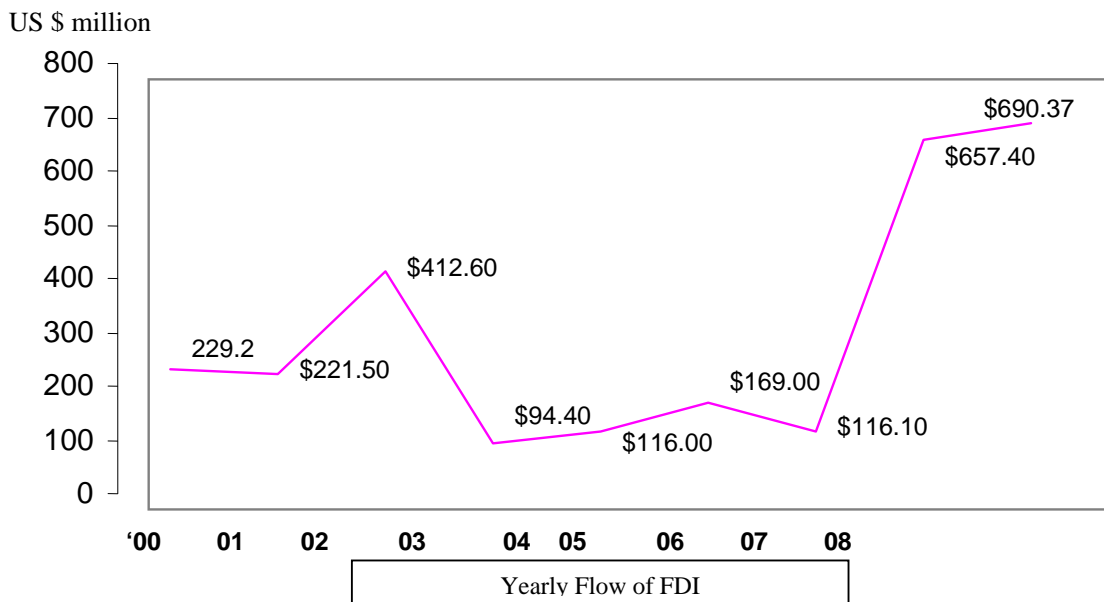
Source: JETRO, Statistics: Japan Outward / Inward Foreign Direct Investment Statistics

Overseas subsidiaries of Japanese firms in South East Asia and its neighbouring states were mainly in consumer durables manufacturing, industrial products and natural resources sector. In the 1980s, the Government of Japan had taken positive interest in developing this region with economic assistance. This had enticed Japanese FDI to this region, as among other reasons, labour here was cheap and disciplined. By the 1990s, this region was growing rapidly and providing greater opportunities. Moreover, the ease of operations due to Japan's long associations with these countries had generated a certain level of comfort. India, with a diverse culture and complex socio-economic factors was a challenge to Japan. This was reinforced by varying legal provisions, policies and regulations in different parts of India. The labour situation in India was considered volatile. All this made Japan a reluctant investor. On India's part, no image building exercise was carried out to project India as an industrial hub.

### 2.3 The Post Liberalisation Phase-II

In the second phase, 2000-2008, though there was a substantial increase in Japanese investment in 2002, it fell to a pathetic low of US\$94.4 million in the year 2003 (see Figure 3). There was some improvement between 2004 and 2006 though it was only in the last two years of this phase that there was a significant improvement to levels above US\$600 million. It is estimated that by 2010, the investment will reach US\$5.5 billion.

**Figure 3: Japanese Foreign Direct Investment in India**



*Sources: Compiled from data of Department of Industrial Policy and Planning, Govt. of India, Monthly FDI fact sheet 2008.*

If one looks at the country-wise flow of FDI into India, then one finds that Japan has slipped from the fourth position in the previous decade to the sixth position in this decade. It is noticeable that even with more liberal policy changes; Japan's percentage share has become 3.27 per cent, while a country like Singapore, which did not figure as an investor in India in the last decade, has taken second position to Mauritius. This shows that whereas the "look east" policy of India did find takers in countries like Singapore, it did not impact the mind set of Japanese investors.

**Table 3: Top Ten Investing Countries in India 2000-2009**

Rank	Country	% Share in FDI inflow
1	Mauritius	43.68
2	Singapore	8.94
3	U.S.A	7.67
4	U.K.	5.58
5	Netherlands	4.09
6	Japan	3.27
7	Cyprus	3.08
8	Germany	2.60
9	France	1.45
10	U.A.E	1.15

Source: Fact sheet on Foreign Direct investment (FDI) April 2000-July 2009, Department of Industrial Policy and Promotion

The year 2000 saw a major policy change with foreign participation being allowed up to 100 per cent in most sectors. Following this, the government rapidly relaxed conditions and enacted FEMA. In 2005, a significant change was brought about when foreign companies already operating in one sector were allowed to re-invest in another sector, through the automatic route. This permitted the foreign company to be treated as the equivalent of a domestic company, allowing it access to sectors that had so far been denied to it.

All this should have encouraged Japanese companies, especially those in retail and finance - which are major players in Japanese outward FDI. However, one finds little presence of such Japanese companies in India. According to the current publication<sup>1</sup> (2008) of the Japanese embassy in India, there are 550 Japanese companies operating in India through joint ventures/subsidiaries. The sectors in which Japanese companies are operating have not changed much from the previous decade (Table: 4). Japanese companies have made their presence felt in the services sector but its share is only 3 per cent. In telecommunications, Japan has dropped from the second position to the fifth position in this decade. The latest figures are given below:

**Table 4: Share of Top sectors Attracting FDI Inflow from Japan 2000 -2007**

Rank	Sector	% of FDI inflow from Japan
1	Automobile industry	40.58
2	Electrical equipment	18.36
3	Trading	6.82
4	Services sector	2.74
5	Telecommunication	2.74

Source: Department of Industrial Policy and Promotion, India: A brief note on foreign collaboration with Japan.

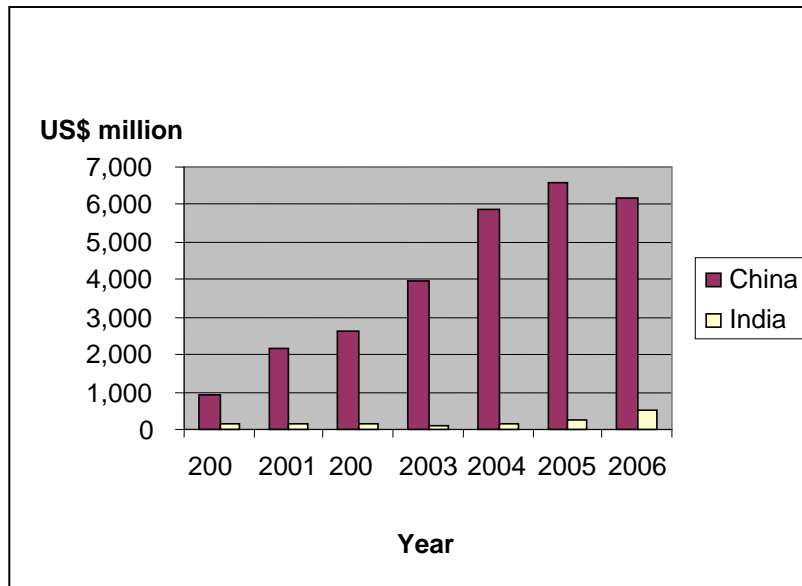
## 2.4 Comparison of Japanese FDI inflow into Asia and India in Phase-II

A comparison between India and the countries in Asia which attract FDI from Japan shows India in an even poorer light until 2005. As Fig: 4 and Fig: 5 show, India did not find favour

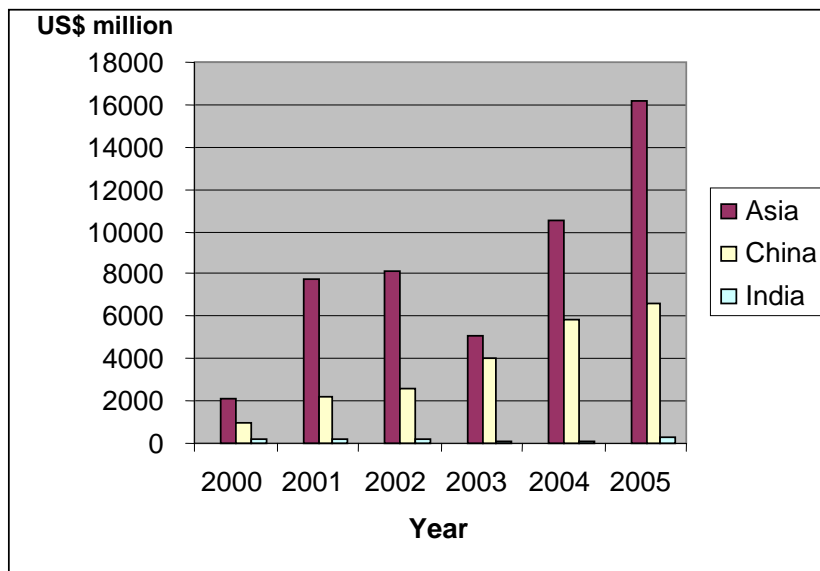
<sup>1</sup> Website of Japanese Embassy in India

with the Japanese investor. India lagged substantially behind China which was the most favoured destination for Japanese FDI. In 2005, India attracted only US \$266 million of Japanese investment against the investment of US\$6575 million in China. This was only 1.6 per cent of Japan's total FDI flow into Asia.

**Figure 4: Japanese FDI outflow into China and India**



**Figure 5: Comparison of Japanese FDI outflow into Asia, China and India**



Source: JETRO, Statistics: Japan Outward / Inward Foreign Direct Investment Statistics

After 2005, however, the picture is quite different (Table: 5). India's share in FDI flows from Japan has increased from 1 per cent in 2006 to 2 per cent in 2007 and to 4.2 per cent in 2008. It now ranks second among the Asian countries. The more popular destinations like Malaysia, Hong Kong, Thailand and the Republic of Korea have slipped considerably.

**Table 5: Japan's Outward FDI by Country/ Region 2007-2008**

Country	% share 2006	% share 2007 <sup>^</sup>	% share 2008
China	12.3	8.5	5.0
India	1.0	2.0	4.2
Korea	3.0	1.8	1.8
Thailand	4.0	3.5	1.5
Hong Kong	3.0	1.5	1.0
Vietnam	0.9	0.6	0.8
Singapore	0.7	1.4	0.8
Taiwan	1.0	1.9	0.8
Indonesia	1.5	1.4	0.6
Philippines	0.7	1.4	0.5
Malaysia	5.9	0.4	0.5

Source: JETRO, *Statistics: Japan Outward / Inward Foreign Direct Investment Statistics*

Since Japanese firms are showing some interest in India for the first time, the focus of this study is to highlight the experiences of Japanese firms which have successfully operated in India. By doing so, some myths that shroud the Indian investment environment may be dispelled and participation of Japanese foreign direct investment may be encouraged. Further, it could also perhaps direct Indian policy makers to areas which need more attention.

### 3. Research Objectives and Methodology

#### 3.1 Objectives

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

To achieve these objectives, the study undertook a survey of eight Japanese companies at various stages of operation, gathered information and inferred lessons from their experiences. The companies were selected on the basis of their sector of operation and the background of the Japanese partner<sup>2</sup>. An objective location distribution was also considered to provide a better spectrum for analysis. To incorporate the new sectors that have opened up for FDI after 2000, two out of the eight companies chosen are from the pharmaceutical and telecommunications industries. Since only eight companies have been surveyed, the findings will inherently be limited. However, since the companies are representative of the major sectors of Japanese investment, the findings should be helpful in giving some direction to Japanese investors.

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<sup>2</sup> See Appendix II

**Table 6: Profiles of the Selected Firms**

<b>Name of Firms</b>	<b>Year of Establishment of Japanese Company</b>	<b>Product</b>	<b>Nature of Operations</b>	<b>Location</b>	<b>Plant Location</b>	<b>Year of Establishment of Indian Entity</b>
YKK	1934	Zippers	Subsidiary	Delhi	Haryana	1997
Honda Siel Pvt. Ltd	1948	Light vehicle	Joint venture	Greater Noida, Uttar Pradesh	Greater Noida, Uttar Pradesh	1995
Sona Koyo Steering	1929	Auto components	Technical collaboration/Joint venture	Gurgaon, Haryana	Gurgaon, Haryana	1985 1995
Satake India Engineering Ltd	1896	Rice mill equipment	Subsidiary	Delhi	Not applicable	1996
Kyocera Wireless India ltd	2000	Mobile system	Subsidiary	Bangalore, Karnataka	Not applicable	2003
Mitsubishi Chemical Corporation PTA India	1950	PTA Chemical	Joint venture	Kolkata, West Bengal	Haldia, West Bengal	1997
Toyota Kirloskar Motor Ltd	1934	Light vehicle	Subsidiary	Bangalore, Karnataka	Bangalore district	1997
Eisai Pharmaceuticals Pvt. Ltd	1936	Drugs	Subsidiary	Mumbai, Maharashtra	Vizag, Andhra Pradesh	2004

### **3.2 Methodology**

The study was conducted on the basis of a questionnaire<sup>3</sup> circulated to the organisations concerned, prior to the setting up of interviews with key personnel. The questionnaire used open-ended questions since the main objective was to get the opinion of the respondents. Before the visit, some guidelines were drawn up to provide direction to the interviews with select managers, of whom at least one was Japanese. Since the top management of these companies was the target group, the interviews were conducted in a conversational manner in order to gather more information. A recording facility was used wherever permitted. In most of the companies, a plant visit was also arranged. The companies sent the completed questionnaires through electronic mail, at a later date.

### **4. Entry Strategy of Japanese Firms into India**

As India emerged as a market with a strong potential for growth, some Japanese companies took the initiative to invest in India. For most investing companies, competitors had already set foot in India. Moreover, the central and state government policies were encouraging enough to make India a natural choice for them.

However, among the firms studied, Toyota Kirloskar Motors (TKM), Satake and Koyo had come to India in the past and tested Indian waters but their experiences had not been rewarding. Toyota had partnered a joint venture with DCM to build light commercial vehicles branded 'DCM Toyota'. They found the outing very tiring, as DCM's approach to the partnership was very high-handed. This resulted in a lot of friction. Thus, when DCM decided to tie up with Daewoo, Toyota called off the partnership. Koyo had a joint venture partnership with a state unit in Andhra Pradesh and incurred huge losses due to operational inefficiencies and bureaucratic indifference. Satake, too, had a poor experience in India. To test the Indian market, it had sent 25 units of rice processing mill machinery in knocked-down form to the Government of India under open bidding. Of the 25 units shipped through a shipping agency of Indian origin, only 12 units were supplied. The others went unaccounted. Furthermore, in a year's time, a product of an inferior quality with the same name as that used by Satake to market its product hit the Indian market. Satake reacted by turning away from the Indian market. When India opened its doors to FDI investment in 1991, these companies stayed away because their past experiences had made them hesitant and apprehensive about the possibility of sustained operations in India. It is the operations of their competitors and their success stories which prompted these companies to come to India at a later date.

As a step to enter India, each of these firms conducted detailed feasibility surveys. Most of them used McKinsey or Ernest & Young for evaluation of some parameters. Satake was the only company that had used the Japanese trading company Marubeni and Mitsubishi. The locations identified by the survey teams considered factors such as proximity to a national highway, port or airport, as the need might be, as well as the available infrastructure – from land to telephone connectivity, water supply, internal roads, sewage system, tax holidays, specific requirements and availability of low cost labour as well as skilled manpower. For the automobile and chemical companies, the promises made by the state governments also played a crucial role.

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<sup>3</sup> Appendix:1

Companies like Honda and Toyota took the route of using joint ventures with Indian business houses to operate in India. They spent considerable time in identifying compatible business partners. Compatibility was sought not only in the financial capacity of the partners but also in their philosophy towards business, their attitude towards work and their interest in Japan and Japanese management. Further, the individual personality of the Indian partner also played a role in the signing of the joint venture document. They then used their partners to establish links with the bureaucracy and state political outfits.

MCC and Eisai followed a more conventional entry strategy. MCC started to export PTA into India from 1993 and Eisai got into a licensing agreement with Glaxo Smith Kline and Unichem for the sale of two of its most popular drugs. It was considered too risky to set up a distribution channel for a drug that would be sold as an over the counter drug by chemists. By resorting to this option, both companies feel that they profited by understanding both the market and the nuances of administrative issues, albeit indirectly.

Despite having other options for locations, Mitsubishi Chemical Corporation's decision to locate in West Bengal has always intrigued observers, since the state has a communist government – a factor that is perceived as a deterrent to attracting FDI. It is for this very reason that it was chosen for the study. The various project teams from Mitsubishi Chemical Corporation (MCC), which visited India during 1994-96, essentially looked at coastal states, which had port facilities. In Haldia, they found Hindustan Petroleum Corporation Limited (HPCL), an Indian public sector company, already in a similar field of operation. They also found that George Soros held some shares of HPCL. Moreover, Haldia was close to their Thailand operation. Besides, the proximity of West Bengal to the textile industry in Eastern India and Bangladesh was an important consideration. Since its major competitors were based in western India, MCC felt that an operation in the east would help them gain the markets in the north and north-east as well. The lush green environment with large water bodies in Haldia was an added attraction. All these factors played a role in finalising Haldia as a preferred location.

The clinching point was the keen interest shown by the Government of West Bengal in attracting MCC. During negotiations with the government, MCC found them to be cordial, sympathetic to MCC's needs and eager to provide external support to make the Japanese giant's Indian operations a success. Indeed, the issue of labour was a major concern, but the Government of West Bengal repeatedly assured MCC that it would extend all possible help to establish congenial labour relations. It was the state Communist government's strong cadre base in Haldia that boosted MCC's confidence in setting up base in Haldia since it was felt that this provided it some insurance against sabotage or opposition from the local population. MCC PTA India decided to have the West Bengal Industrial Development Corporation among its minor shareholders with a 5 per cent stake. Through this strategy, it was assumed that MCC PTA India would be able to iron out operational bottlenecks with respect to dedicated oil pipelines and human resources.

All the manufacturing companies under study chose greenfield areas for their operations in India because this gave them certain advantages. First, since all of them were major investors, the respective state governments were more cordial to their demands, giving them the advantage in negotiations. Second, greenfield areas have the advantage of raw talent, which helped the firms promote the Japanese method of management. Third, all of them positioned themselves in locations earmarked for industrial development or special economic zones, which helped them to take advantage of taxation and land utilisation policies.



While business considerations were the primary factors in the choice of location, the local climate also played a part in some cases. Toyota, for instance, had a choice between Chennai and Bangalore; it was the climate of Bangalore that tilted the decision in its favour. Besides, many companies also factored in expatriate lifestyles to select their locations.

From the above discussion, one can conclude that Japanese companies have entered India after a thorough investigation for which they have taken the help of renowned consultant companies. While some companies have used the strategy of exporting to India before starting a business operation, others have chosen the option of joint ventures. Once the Indian government allowed wholly-owned subsidiaries, few others used these means. Strategically, all of them located themselves in greenfield areas to take advantage of the facilities. Further, they believed that by locating their companies in greenfield areas, they could promote the philosophy of Japanese management into their operations.

**5. Obstacles Faced and Responses**

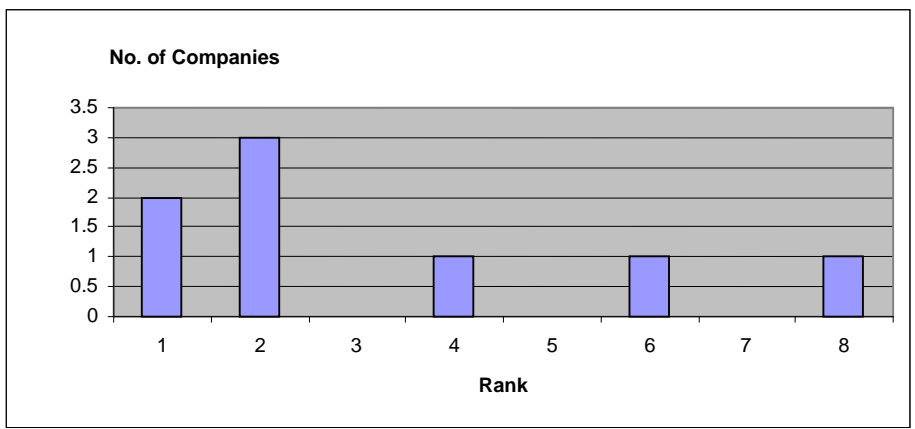
The obstacles faced by the companies in their operations are not very different from those often listed in the literature on this subject. The concern in this study was to see and understand how these companies responded to these obstacles. For this, the companies were asked to rank the following obstacles (question no. 12 in the questionnaire) – the central government, state governments, local authorities, human resources, legal framework, underdeveloped infrastructure, land acquisition procedures and obtaining approvals – in order of the highest to the lowest, in terms of their perception of the obstacle (a rank of 1 being the highest and 10 being the lowest). This helped understand each company’s perception of these obstacles. During the interactions, each obstacle was discussed and inferences were drawn. This section highlights how the eight companies perceived the obstacles and tackled them.

**5.1 Infrastructure, Institutional Hurdles, Regulations and Legal**

*5.1.1 Land Acquisition*

The process of acquiring land continues to be extremely complicated and is not a transparent process in India. Japanese companies, while deciding upon location, do place a premium on the issue of acquiring land. The companies under study had all located themselves in green field areas and in locations earmarked for industrial development to minimise land acquisition problems.

**Figure 6: Perceptions of Companies: Land Acquisition as an Obstacle**



Of the eight companies, the five companies that ranked it as high as number one or number two were manufacturing companies. The automobile sector that required a large area for its operation was obviously the most affected. Kyocera and Satake did not have any issues simply because Kyocera operated from a technology park and Satake was a marketing unit that did not require a large tract of land.

State governments, in consultation with the company usually allocate a plot of the required size. While arriving at a decision about the location of the plant, the foreign company employs a real estate agent or a law firm or depends on their joint venture partner to help identify a plot keeping in mind the approach road, water and power requirements and any other specific needs that may be essential for its operations. Once the plot is identified, the unwieldy process of paper work begins. The papers have to go through various government departments to get the requisite approvals. Once these formalities are taken care of, the land deed is signed. All this takes considerable time and is conditioned by state laws. In addition, in greenfield areas, if the land identified happens to be agricultural land, then converting it into an industrial plot is a cumbersome process. Often there are controversies about the rightful owner since many claimants do not possess the land deed. In addition to this, some of the companies had to fight against the illegal possession of land given to them. For instance, Honda faced the problem of a temple in one corner of the plot of land allocated to them. When they started building the plant, they continued to pursue the local government to get the land evacuated. However, they soon realised that this would create a bad image and could become an issue with the local community. So they relinquished the area possessed by the temple authority.

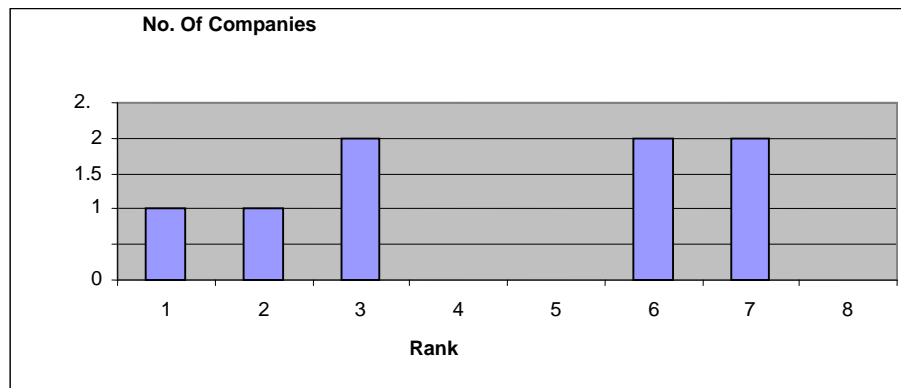
Honda and YKK have had many years of operation in India and they still ranked this obstacle as number one. Both of them had established themselves in the first phase of the opening up of the Indian economy, had played safe, and acquired as much land as was necessary for its project. However, when they went in for expansion in 2006-07, they had to go through the same exercise again. Honda's identified location was Tarapur in Rajasthan. But this time, Honda's experience was relatively better because the State of Rajasthan had in the meantime, made amendments and created systems that were more transparent and agreeable. YKK, on the other hand, faced many administrative bottlenecks while setting up its plant in Rewari district. The respondent felt that YKK operates in the zipper industry that is governed by a far greater number of compliance requirements as compared to other industries and the problem could have arisen from this factor.

TKM and MCC PTA India were companies that came in after 1995. They had gathered some understanding from the experiences of other Japanese firms. Wisely and at the very outset, they acquired large tracts of land to provide for future expansion operations. They were able to avoid problems related to land acquisition later through this strategy.

### *5.1.2 Infrastructure*

The issue of infrastructure is two-faceted. One is the conventional infrastructure of roads, ports, airports, power and water. The other is the soft infrastructure – telecommunications, internet facilities, connectivity, etc.

**Figure 7: Perceptions of Companies: Underdeveloped Infrastructure as an Obstacle**



Infrastructure as an obstacle is a major concern among FDI players. However, in this study, only MCC PTA India ranked infrastructure as the most important bottleneck. The companies Satake, Kyocera, Sona Steering Power and YKK did not consider infrastructure to be an obstacle and ranked it at number six and seven. It is interesting to note that Sona Steering and YKK, both operating in the state of Haryana, did not find infrastructure a problem. Questioning revealed that this was because some of the infrastructural obstacles had been taken care of by in-house arrangements. Besides, the road network was relatively better developed in the state.

Among the infrastructural obstacles, power and water were rated as vital. Power is an essential requirement for operations and when land is acquired, promises are made about uninterrupted power and water supply. However, in reality, uninterrupted power supply is a major impediment. Similarly, often uninterrupted flow of water is a rarity as pipelines and water connectivity is poor in green field locations. All this added to the overall cost to the company.

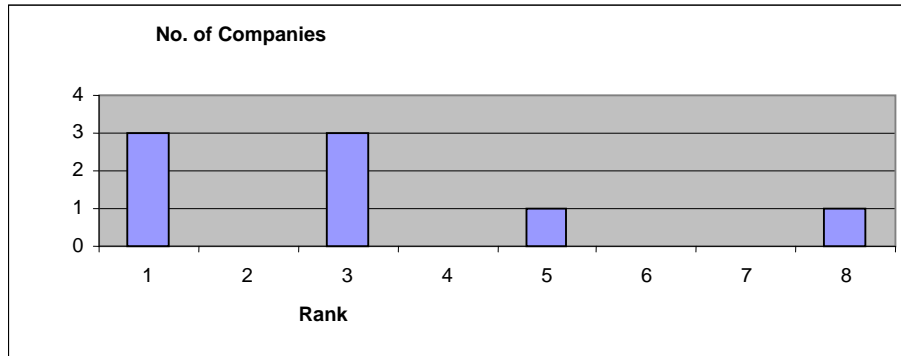
Roadways, seaways and airways are yet another important infrastructural requirement. MCC PTA India has been hard hit on the infrastructure front. As a chemical unit, it requires efficient movement of goods by port as well as by road. This unfortunately has been hampered at their location. The arterial road leading to the Haldia plant is yet to meet the specifications of a standard highway road. Attempts have been made to improve the condition of the roads, but the project has been marred by disputes and one noticed incomplete work along the drive to the plant. The port also faces a problem of silting and requires regular dredging which, however, is not done. With respect to roads, ports and airports, the companies are in no position to take independent initiatives and can only draw attention to these issues at various forums.

For a company like Kyocera, because of the sector in which it operates, soft infrastructure was a major problem. Irregular connectivity and the slow speed of the internet service often came in the way of dealing efficiently with their clients. While they were happy with the way the government has responded to the industry demand, their only submission was that the government should have anticipated the demand and taken timely measures.

### *5.1.3 Institution*

Obtaining compliance for manufacturing units continues to cause inconvenience to the Japanese companies. Often, Indian policies have contradictions or there is administrative overlap, resulting in companies having to liaison with several government departments simultaneously.

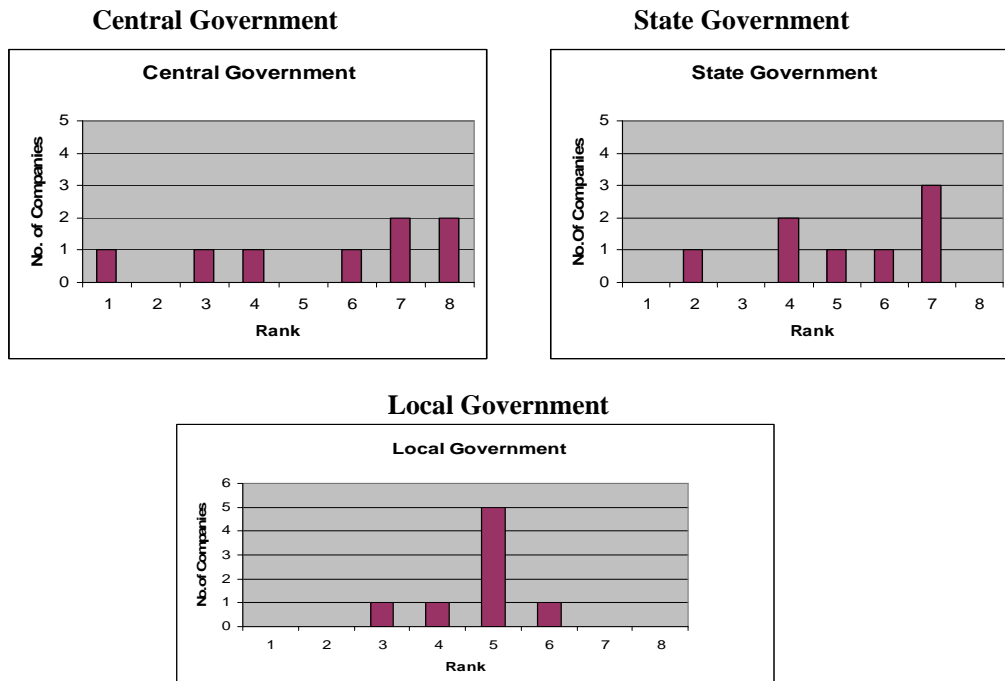
**Figure 8: Perceptions of Companies: Obtaining Approvals as an Obstacle**



The process of obtaining approvals continues to be one of the major obstacles faced by the companies. The survey showed that six companies gave “obtaining approvals as obstacles”, a rank of one or three. One reason is the lack of co-ordination between various departments. As TKM pointed out, approvals are often given and subsequently withdrawn, causing a lot of avoidable confusion and delay. Moreover, the problems faced have more to do with the overbearingly bureaucratic attitude of the agents handling various approvals. Often, officials are unaware of the changes in requirements and are rarely proactive. This results in delays and causes setbacks in project deadlines or production targets. Interestingly, when the companies were asked whether there was an improvement in the way approvals are being handled as compared to the manner in which it was done during the 1990s, there was near-consensus that the process of seeking compliance for manufacturing units had been made relatively easy.

*5.1.3a Regulations*

**Figure 9: Perceptions of Companies: Central Government, State Government and Local Government as an Obstacle**



The companies felt that regulatory and procedural obstacles existed in all three tiers of governance. However, the cause of dissatisfaction varied. A major issue between the companies and the centre was taxation and custom duties. Apart from finding the tax system complicated, prompt disclosure and explanations about changes brought about in custom duties and taxation was found wanting. For Kyocera, the Telecom Regulatory Authority of India posed problems because of procedural delays and repeated queries.

For all companies, the state government was the main approving authority. Bureaucratic red tape and consequent delays that resulted was one major issue. Though, a single window system has come into being, over time, often the implementing agents have little knowledge and cause delays. Honda Siel, and Toyota have ranked it seventh and they attribute this to their liaising capability with the state bureaucracy.

At the local level, where companies have to deal with authorities on a day-to-day basis, the main complaint was that there was a lack of transparency in the guidelines for approvals, leaving room for subjective interpretation by the person handling it at a particular point in time. This, companies felt, resulted in avoidable scrutiny of papers on irrelevant issues. A local authority as an obstacle was ranked fifth by Honda Siel, Sona Steering, MCC PTA, Kyocera and Eisai.

During the discussions, specific reference was made to a few obstacles that were not categorised separately in the list of obstacles in the questionnaire. Since they surfaced during discussions with all the companies, they have been discussed below.

#### *5.1.3b Taxation and Subsidies*

Indian taxation is complex and thus difficult to understand. Many components of taxation change every year, and this is not immediately notified through proper channels. Supplementary taxes like education cess, 5 per cent R&D cess on technology transfer, IT software duty of 8.24 per cent etc. add to operating costs, for which no justification is found.

As for custom duties, the system is complicated by additional duties and countervailing duties. The process of getting refunds for special additional duty is cumbersome and often the cost incurred is more than the amount to be refunded, rendering the concept of refund meaningless. The corporate tax policy of differentiating between domestic companies (30 per cent) and foreign companies (40 per cent) is viewed as being discriminatory. Customs clearance is complicated because of certain procedures that have to be followed. For instance, there is a stipulation that the invoice of goods has to be registered twenty-four hours in advance of the arrival of goods. In case of emergencies, this is difficult, especially if the customs office is located at a distance. This clause causes additional problems when there is a contingency and urgent movement of goods is required between a plant located in an Asian country and the plant based in India. Due to the proximity of the dispatching plant, it is well impossible to meet the twenty-four hour registration requirement, as often the goods arrive before the twenty-four hour condition is fulfilled.

Satake felt that the subsidy given by the Indian government for buying post-harvest equipment to facilitate better yield can not be put to good use by the consumers of their product because of administrative bottlenecks. The subsidies given for purchasing of equipments is often given to those who have political clouts within the administration.

Further, the delays caused in sanctioning and disbursing the amount caused hardship. These were some of the major grievances against the centre.

### 5.1.3c Procedural Delays

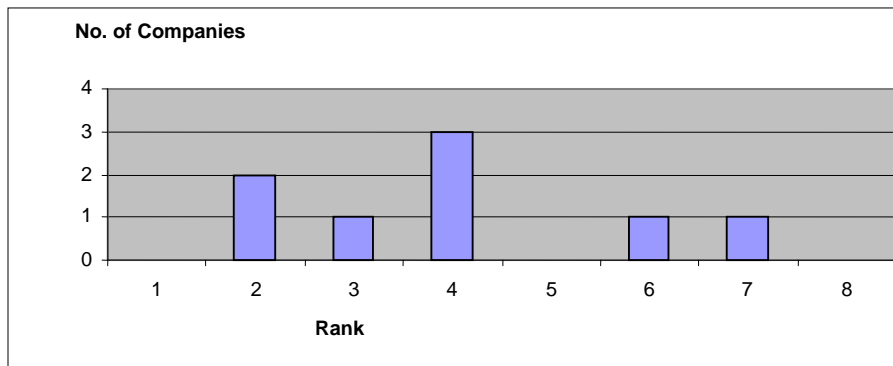
By and large, the major complaint is that the decisions announced by the authorities are not acted upon with speed and clarity. As many initiatives are not announced through proper channels, the implementing agency often refuses to act. Bureaucratic delays invariably inhibit effective communication, and it rests on the companies to deal with technical issues that are, again, subject to interpretation.

### 5.1.3d Political Instability

The frequency with which political leadership changes at the centre and states are of concern but what causes greater concern is the way the administrative machinery always slows down before elections. It is also known that many policies are reversed when a different political party is elected to run the government. Given these uncertainties, the companies find it difficult to make long-term strategic decisions.

### 5.1.4 Legal

**Figure 10: Perceptions of Companies: Legal Issues as an Obstacle**



In matters of the law and legal issues, India more or less follows western practice and this is perceived as an advantage by the companies. However, problems arise because there are far too many laws that are subjected to varying interpretations. The two courts that these companies have to face are the civil court and the labour court. Apart from the fact that hearings in these courts tend to take a long time to complete, cases often move up to the High Court and the Supreme Court where the verdict may vary.

The politicisation of the legal system also adds to the problems faced by these companies. There is no indication that a longer stay in India has reduced this perception because Honda gives this obstacle the fourth rank. Sona Steering and Kyocera ranked legal obstacles as the second most important obstacle. However, the factors that lead to this perception are different in the two cases. Sona Steering considers labour commissions and labour courts as rigid with case settlements pending for several years. This creates additional pressure on the company. Kyocera on the other hand, considered legality from the point of view of the regulations that the telecom industry is subjected to by the central government.

### *5.1.5 Responses*

The companies surveyed have the advantage of being large and thus had the resources to overcome the obstacles faced. Because of their stature, they could also absorb the costs incurred due to project delays caused by these obstacles. Their resilient approach along with certain individual strategies has helped them succeed in India. This section throws some light on how the companies dealt with the problems of infrastructure, regulations and institutional hurdles.

The companies that have Indian partners in joint ventures rely on their partners to take care of regulatory and legal obstacles. They have wisely divided the operational responsibilities between the Japanese and Indian partners in the following manner: the Japanese partner concentrates on production, technical know-how and management of the plant while the Indian partner is responsible for liaising with the local, state and central government authorities, procurement, developing the goodwill of the local community, and industrial relations.

Companies operating as subsidiaries have similarly divided responsibilities, with the Indian managers handling administrators, bureaucrats and the media. The more recent entrants like Satake, Kyocera and Eisai have appointed Indians at the helm of their affairs. Satake markets rice mill machinery and their business dealings are in the rural sector. The decision to place an Indian at the top was made on the recommendation of Japanese expatriates, who felt that during business deals, an Indian was better equipped to understand the nuances of local business culture. In Kyocera and Eisai, the preference for an Indian managing director was because the business required interacting with knowledge workers. In addition, most of these companies have dedicated personnel whose job is to take care of issues at the ground level.

To overcome the lack of infrastructural facilities in developing countries, Japan had been following a two-pronged strategy of investing in a country while giving Overseas Development Assistance, in the form of tied-aid. In the first phase of the opening up of the economy for FDI, some Japanese Overseas Development Assistance had been disbursed to India as tied-aid. For example, in the period 1996-1997, a bridge was built to connect Delhi to the Noida export processing zone to facilitate movement of both men and material. This bridge (Nizamuddin Bridge) was built with the help of Japanese technology and the participation of Japanese construction firms because there were a sizable number of Japanese companies operating in the Noida export zone. However, as tied-aid is frowned upon by the Indian government, such deals have no longer taken place.

Currently, the companies handle the infrastructural deficiencies in a different way. They accept whatever is available and then use their resources to fill the gaps. Consistent power supply as an infrastructural input is not taken for granted in India; these companies have therefore, chosen to generate power on their own at their operational locations. Water is privately sourced in case there is a need. Companies like TKM are unhappy that they have not been able to resolve water issues by digging wells within their premises. This is because of a blanket ban on digging wells as a result of the sharp depletion of ground water resources in the country. According to the plant officials interviewed, depletion of the ground water table was not an issue where their plants are located and they could have been given sanction by the local authorities had the local authority evaluated and performed the necessary tests required for establishing ground water level. Often, a blanket policy decision, rather than a case-by-case approach taken by the local authorities hinders operations in India.

To handle legal obstacles, companies have legal consultants who are consulted on a regular basis, especially before striking any deal. Before signing a vendor/dealer partnership, they follow a rigorous process of scrutiny and document all commitments made by either party to ensure a hassle-free relationship. Often, well-known consultant companies are engaged to do independent studies of the feasibility of a project or on other concerns of the organisation so that an objective view from an outside expert can be used to take decisions.

## **5.2 Market**

Understanding the Indian market has been one of the most difficult tasks for the companies. As one of the interviewees remarked, “It is misleading to think that as India is an Asian country, we know India well.” Some companies faced problems when they initially launched their products. Honda for instance, had through a survey in the auto expo held in Delhi in 1996, zeroed in on red as the most popular colour among car consumers. However, when they launched their car, white turned out to be the most popular colour. Such stories are in abundance among the Japanese business community.

Specific to Eisai, Kyocera, Satake and Sona Steering is the proliferation of a large number of duplicate products of low price and poor quality in the market. These companies feel that Indian consumers are price sensitive and look for cheap products. The companies on the other hand are conscious of the quality of their products and thus cannot compromise with it to lower their prices.

### **5.2.1 Responses**

As mentioned in the previous section, Honda, having faltered in their assessment of Indian colour preferences had even gone to the extent of consulting designer Ritu Beri for advice. Toyota was able to avoid a similar experience by an in-house consumer survey as a result of which they were able to identify the niche market segment for SUVs and launch ‘Innova’ successfully. In fact, their marketing strategy has been applauded for its correct assessment of the Indian consumer. Japanese investment forums<sup>4</sup> have impressed upon Japanese companies seeking a share of the Indian market, the importance of making use of market surveys conducted by reputed market research agencies to understand consumer behaviour in India.

Companies facing competition from spurious products have responded by keeping vigil on the market. They are constantly at work to detect such activity and try and take legal action against manufacturers of counterfeit products. However, the interviewees admitted that while this is both costly and time consuming, it often did not bear fruit.

## **5.3 Human Resource**

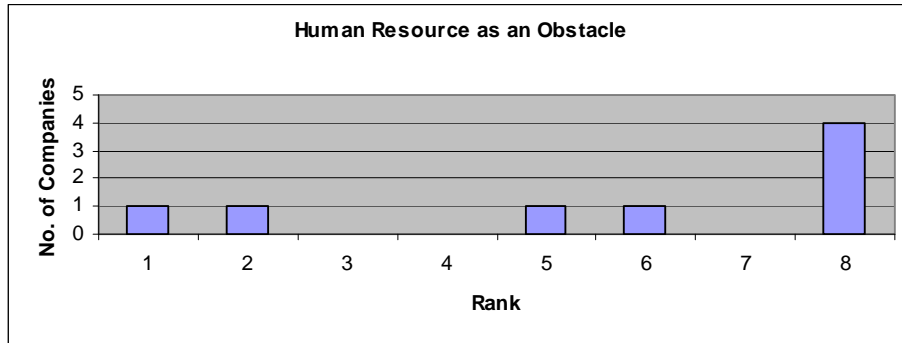
There has been a perception that the quality of human resource and existing labour laws has been important factors that have deterred many Japanese firms from investing in India.

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<sup>4</sup> Japan External Trade Organisation, Mitsubishi General Trading Cooperation



**Figure 11: Perceptions of Companies: Human Resource as an Obstacle**



Most Japanese firms think that India has a smart and intelligent workforce but also feel that it is casual, lacks discipline and is argumentative. It is also felt that controlling them and getting work out of them is difficult. Therefore, it was surprising that four companies gave it the eighth rank. Eisai and Kyocera gave this obstacle the eighth rank essentially because both of them deal with knowledge workers who are better skilled. Sona Steering, which also gave it the eighth rank, explained that, though it has a joint venture today,<sup>5</sup> the management has been Indian and the leadership of the chairman had given importance to responsive labour-management relations. MCC PTA India, which ranked human resource as an obstacle at position eight, clarified that by involving all level of employees in the decision-making process of the company, a favourable environment is created. Further, from time to time, the local political parties are appraised about the happenings in the plant. On the other hand, TKM considered human resource as the most important obstacle and ranked it at number one. The reason however, was not tied to the labour unrest that it had faced intermittently from the time it started its operations; rather the company felt that the right skill sets and progressive attitude was what was missing in the available human resource. In addition, both TKM and YKK felt that it took a long time to groom manpower to operate efficiently.

The interactions revealed that most of the manpower problems the companies faced were directly related to the sectors in which they operate. Thus, the companies in automobiles, auto components and processing sectors had similar issues. The pharmaceutical company and the IT infrastructure firm had different problems to contend with. Satake, a marketing company, had issues quite similar to those of the IT sector. Thus, for convenience, in the following section that discusses labour problems the automobile companies, auto component companies and the processing company have been clubbed under the manufacturing sector. The pharmaceutical company, the rice mill machinery company and the IT company have been dealt with separately.

### *5.3.1 Labour in the Manufacturing Sector*

This sector has two types of labour – shop-floor workers who form the majority of the workforce and managerial workers. Both groups have distinct sets of issues that need to be understood in order to comprehend the reasons for confrontation between the employees from Japan and those from India.

<sup>5</sup> Sona Steering moved from technical collaboration with Koyo to a joint venture with them. For more details, look up Appendix II.

Shop-floor workers are recruited at the entry level from the ITIs.<sup>6</sup> During the start-up period, supervisors with some industry experience are recruited in order to meet the large manpower requirement. All the companies however, have also intentionally kept the level of experience below five years to avoid the rigidity of attitude that is often seen among more experienced workers. Perhaps because of this, the skill set of this group has been found wanting and is way below the expectation of the companies. Concern about attrition was absent till around the year 2000 but has slowly surfaced since then.

### *5.3.2 Labour and Unions*

During the initial days, labour unions were looked upon with suspicion. Thus early entrants like Honda Siel took precautions like avoiding local recruitments, not allowing relatives to work in the company and discouraging union formation. Once workers imbibed the Honda way of life through various training programmes and showed maturity and an understanding of being result-oriented, Honda encouraged them to form an in-house union. The union was given information about the company's long-term goals and was encouraged to help define and promote them among the workers. Over time, this cordial relationship has been enhanced by the management to allow deserving shop-floor level supervisors to move up to managerial posts.

MCC PTA India, YKK and Sona Steering also have in-house unions and encourage open dialogue between the workers and management. Following the principle of "consensus decision-making", these companies have many platforms through which workers participate and involve themselves in company affairs. A suggestion system, quality circles, weekly meetings and mentoring are used concurrently, resulting in an egalitarian environment within the organisations and cordial industrial relations.

TKM, however, has faced union problems ever since its operations began in India. As early as in 2001, it faced two strikes. Then, in 2002, a strike was followed by a 53-day lock-out. The major issue was shift-duty timings. TKM worked in two shifts: one shift from 8 a.m. to 4 p.m. and another shift from 8 p.m. up to 4 a.m. As the demand increased, the four-hour gap between the two shifts was utilised as overtime. This was not approved of by the workers and it led to a strike and lock-out. During the conciliatory meeting, TKM not only changed its shift timings but also hiked the salaries of the workers. However, confrontations with the CITU-affiliated union continued. The company did not favour the union's political association and showed its displeasure. It did not give in to the demand of the union for a separate office within the factory premises. These early confrontation with the labour union did not lead to much change in the approach towards dealing with labour.

The next major incident happened in January 2006. TKM management had dismissed three workers and suspended ten employees as they were found guilty of misconduct, which included an assault on the supervisors, violent behaviour and disruption of work. The employees' union went on a snap strike demanding that TKM reinstate three dismissed employees, ten suspended employees and improve the working conditions at the plant. The TKM management thought it best to declare an indefinite lock-out as the workers were getting unruly. What followed were three rounds of conciliatory talks between the union, the company and the labour commissioner. The company stood firm about not reinstating the

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<sup>6</sup> ITIs are vocational technical training institutes which train students to handle industrial equipments and earn a diploma in engineering.

dismissed workers, while the union refused to talk before the dismissed workers were taken back. The labour commission's proposal of lifting the lock-out, calling off the strike and keeping the issue of dismissal order in abeyance did not get approval either from the management or the union. Sensing an impasse, the matter was placed in the Karnataka High Court. Legally speaking, this ensured that the workers could not be on strike as the matter had been placed before the court. The strike was declared as illegal. It is believed that TKM was coached to move the negotiation in this direction by the concerned authorities.

In the meantime, anxious about the negative image that the state was getting internationally, Karnataka's industries minister, along with the labour minister, stepped in to talk to both parties. TKM was advised by the ministry of industry to resume operations and was promised help in case of violence. TKM resumed operations after nearly sixteen days of deadlock under heavy security arrangements. In an advertisement published in a local newspaper, TKM declared the plant open and stated its position that it was a proactive step taken by the company at the behest of their loyal employees and their families. However, the employees were required to sign a 'good conduct undertaking'.

Since then, there has been a significant change in the company's approach towards labour. Japanese managers have taken over the management of labour. While discussing this issue, the Japanese managers acknowledged that they had relied on their Indian counterparts who had a strong sense of hierarchy and had driven the management-labour relations on the principle of the "iron fist". This, the Japanese realised, had created a rift and brought about a confrontationalist response from the workers.

Today, the company's human resource policy has strong humanitarian concerns and it is implemented through an open-door policy which is encouraged among Japanese expatriates. The Japanese HR managers confirmed that one-to-one communication between supervisors, production managers and workers is encouraged and this has helped in both understanding problems faced by the workers and finding solutions to labour issues. This had not been easy because gaining the trust of the workers was the most difficult task. But with a strong commitment towards an egalitarian environment, TKM has put together many training programmes where the participants are a mix of managers and senior workers, thus breaking hierarchical barriers.

### *5.3.3 Managers in the Manufacturing Sector*

The Indian managers in this sector come from two kinds of backgrounds. One section consists of engineers or engineers with management degrees who are absorbed in production and marketing. The other consists of managers from different backgrounds but with management degrees; they look after human resource management, procurement and public relations. Unlike the labour pool where skill-sets are often found wanting, these managers are smart and knowledgeable with a strong capacity to deliver. However, a major issue of contention was their rigid approach to work and consequently, their difficulty in imbibing the Japanese work culture. Further, they often approached problems with less focus and expected problems to sort themselves out. Some of them were individualistic, competitive and also had an attitude of superiority. Staff at the junior level was found to have a very short-term perspective and was prone to high attrition.

#### *5.3.4 Workforce and Eisai (Pharmaceutical)*

The only company that was studied in the pharmaceutical sector is Eisai as, at present, this is the only Japanese company in this sector that is operating in India as a wholly-owned subsidiary. Sharing their experience is important, as this sector has a future in India and one expects more FDI participation from Japan. Since Eisai has yet to start operating its plant, they have so far recruited manpower only for their sales operations. This search for recruits in sales has exposed personnel from the head quarters in Japan to the talent pool available in India. Their main targets were the universities offering a Bachelor's degree in Pharmacology and experienced persons from this sector. As far as the skill specifications of the organisation are concerned, Eisai found their expectations were well-matched and the cost of employment in India less when compared to the cost in other subsidiaries.

#### *5.3.5 Workforce and Satake (Rice Mill Machinery)*

Satake India, being a marketing and customer servicing company, faces a major problem in finding suitable talent for its operations. The company ideally requires a skill-set of at least a Master's in agricultural engineering. Unfortunately, Indian agricultural institutes are not geared to meet their requirement, since their curriculum and even the machines they use for training are quite obsolete. Thus, the company is constantly seeking out students from other engineering streams and retraining them to suit the needs of the company.

#### *5.3.6 Workforce and Kyocera (Mobile System)*

Kyocera is the only company that was studied in this sector. The talent pool for this sector has a Bachelor's or Master's degrees in information technology. With the Indian government allowing private institutes to offer these courses, there is no skill shortage. However, managers of Kyocera were concerned that while the knowledge level of the talent pool was very high, they were not application oriented and thus took longer to become fully efficient. In addition, this sector faced a high attrition rate, which not only added to cost but also made comprehensive training futile.

#### *5.3.7 Responses*

All the companies follow the practice of apprenticeship/management trainees before inducting employees in permanent roles. In the large manufacturing sector, this helps companies to get labour at a low cost and gives the organisations additional scope to evaluate individual attitudes and compatibility. In the IT sector, this becomes an alternative to full employment and helps the organisations develop firm-specific talent. All this is supplemented by dedicated campus recruitment. The interactions revealed a lot of commonality in the skill-set issue and the approach of the companies to solve this.

Honda Siel, Sona Steering and YKK have adopted ITIs to help bridge the skill gap. Not only have they encouraged the ITIs to upgrade their curriculum but have also supported them with new equipment for training and provided additional faculty from their own managerial pools to help build human resource capability.

TKM's answer to the skill gap was to open a training institute within the factory premises. This training institute is on the lines of an ITI. The duration of the course is three years of which one year is in the factory. An applicant to this course is required to have graduated the

10th standard with 60 per cent marks and must be below 18 years of age. Each batch has a capacity of 64 seats. Apart from technical papers, the course also educates students on economics, politics and housekeeping skills. Two languages – English and Japanese – are also taught. A stipend of Rs.1800 is given to all students and a fellowship of Rs.7000 is given to students who score over 70 per cent and have also acquired stars for good attitude and behaviour. The students are evaluated throughout the day on attitude and behaviour, right from how the bed is made to personal neatness and cleanliness. A student's discipline in class and outside and his eye for continuous improvement are also taken into account. All this helps the student to build character, which is what is desired by TKM. Through this programme, TKM hopes to create disciplined, committed and quality-conscious employees who would prove to be highly efficient at the workplace. This programme of TKM is also seen as an answer to the union problems that they had faced intermittently.

The TKM experiment is of larger interest to the industry. When a student graduates from this training institute, in addition to an up-gradation of his skill set, the "Toyota Way" has been inculcated in him. Such a student would prove more productive in any firm, particularly those with a Japanese partnership.

The discussion on the obstacles faced and the ways in which the firms responded firmly points out that many of them had reacted in a similar manner. However, for some of the obstacles, some companies differed in their response because of their circumstances. Lessons that can be drawn from their experiences are dealt with, in the following section.

## **6. Lessons Learnt**

India has become increasingly important to the Japanese firms that had established themselves in the country in the 1990s. A little over a decade-long stay in India has given them the confidence to operate in the local environment. All of them have therefore strategically gone for expansion by setting up a second plant. The journey for them has been a learning experience, as India is very different from any other Asian country. The new entrants, Eisai (pharmaceuticals) and Kyocera (mobile systems), also have big plans for India. Both Eisai and Kyocera realise that the sectors in which they operate offer great market potential. The easy availability of an inexpensive workforce only adds to India's attractiveness.

The experiences of the Japanese companies under study give directions to three stakeholders who can draw lessons from it. They are: the Japanese business houses interested in India, the Indian business houses interested in Japanese collaborations and the Indian government.

### ***6.1 Japanese Business Community***

#### ***6.1.1. India - a high-end, low cost economy***

Japanese investors had often neglected their Indian operations and given their Indian outfits run-of- the-mill projects assuming that the Indian operations would not be able to handle high-end projects. A case in point is Kyocera. Kyocera, India had little importance till 2007. The breakthrough came and the relationship changed when Kyocera India delivered a product on time, which its European counterpart had failed to do. Not only did the product meet customer requirement, it was done at one-eighth the cost of the European unit. This prompted Kyocera, Japan to take a direct interest in its Indian operations. Subsequently, Kyocera India has become the major sourcing agent for the parent company's products in the

Japanese market. The product line of Kyocera India includes industrial designs - both mechanical and electrical, hardware, software, product test (regulatory test), and manufacturing support. It has also become the innovation hub of Kyocera, Japan. .Kyocera's experience thus shows that the Japanese perception about Indian knowledge workers is unfounded.

### *6.1.2 Labour Union – A Non-Issue*

The threat of labour unrest provoked by trade unionism was considered to be one of the main reasons for the hesitation displayed by Japanese industry to invest in India. However, interactions with Honda Siel, Sona Steering, YKK and MCC PTA India revealed that this threat was marginal and not as major as had been believed. Apart from TKM, none of the other companies have a history of confrontation with their labour unions. Five companies had taken pre-emptive steps to negate any possibility of confrontation by adopting a multi-faceted approach. A strategic recruitment policy, a rigorous induction programme and creation of platforms for continuous dialogue with the employees ensured a congenial environment. These companies created communication channels through suggestion schemes, quality circles, group meetings and morning assembly. These forums helped reduce the 'distance' between the supervisor and the shop-floor workers, as well as between workers and managers. Once a comfort level between them had been established, workplace stress, grievances and other issues were shared in an informal manner. This helped the organisations take corrective measures and nip potential conflicts in the bud. In a show of confidence about its shop-floor workers, Honda Siel has started the policy of promoting deserving shop-floor workers to managerial level.

TKM had followed the Indian style of functioning of industry and had allowed trade unions to exist in their unit. As discussed under the section 'Labour and Unions', they learnt a few lessons. Initially TKM was led by its Indian HR managers to believe that workers in India do not understand sympathetic treatment and were used to being dealt with, with an iron-fist. A "we-versus-them" approach to industrial relations had been prevalent among Indian managers. Having faced conflicts with the union, today TKM practices a more humane approach towards labour issues. They have created many communication channels through which they can reach the workers. The individual worker is given importance and the supervisors are responsible for addressing and bringing to notice problems that a worker may face at work. All this has ensured the establishment of trust between workers and management. There is also a strong belief that synergy has been established as well.

From the experience of these companies, one can suggest that Japanese business houses looking at India should not adopt the conventional Indian approach of 'we vs. them' but instead, ensure an egalitarian environment with several communication channels as practiced in Japan.

### *6.1.3 Build Partnership*

During the incidents in January 2006, TKM had been very cautious in its approach and had kept open its communication channels with the state labour department. It had made its position clear at the beginning and did not give in to the union's demands. This approach sent a strong signal to TKM's labour union and also the national level unions. TKM also showed considerable patience in the dialogues that it had with the concerned ministries and took their advice seriously. All this helped them build a good reputation in Bangalore. Thus, working in

partnership with the state government proved fruitful for TKM. The lessons drawn from TKM's experience is one, it is important to take a firm position when there is a dispute and two, that it is vital to establish a relationship with the local and state government in India and keep them updated when there are conflicts with the union.

#### *6.1.4 India as an R&D Centre*

Among the eight companies that were surveyed, three companies - MCC PTA India, Kyocera and Eisai - are looking at India for their R&D activity. While Kyocera India is already an innovation hub, the other two will be opening their R&D centre by the 2010-2011. The primary reason for this is the availability of a cheap, talented labour pool with world class knowledge.<sup>7</sup> Further, technocrats and scientists have been trained to have an eye for quality and to understand the importance of diligence. The capacity to absorb technology is very strong in this talent pool and its creativity can help adapt technology to the local environment. A second reason is that, according to the three companies mentioned above, the cost of establishing an R&D centre is one-fourth of the cost required in Japan and one-third of that required in the U.K. A third reason is that, India is geographically located almost halfway between Japan and Europe. It has a blend of Asian and western cultures. The image makeover of India, during the past decade, has contributed to making India a favoured destination for multinationals. With an international lifestyle available at a relatively low cost, expatriate workers have little to grumble about. All this puts India at an advantage in terms of attracting talent from the east as well as the west.

### **6.2 Indian Business Community**

#### *6.2.1 Strong Influence of Japanese Style Management*

Japanese firms are very concerned about the quality of their products and the customer. They believe these concerns are embedded in their management practices. Thus, there is a strong influence of Japanese management ideas not only in subsidiaries but in joint ventures too. All the manufacturing units are laid out in the same manner as their Japanese counterparts. Quality circles, suggestion schemes, an egalitarian system and consensus decision making are all part of the Indian operations in companies that were visited. The Indian employees in all the companies undergo regular training to help them imbibe the Japanese way. Thus, the Japanese partners prefer the full involvement of workers at the plant level. They also require Indian managers to bring a strong sense of commitment to the workplace.

#### *6.2.2 Matching Philosophy and Work Culture*

While seeking partnerships with Indian business houses, the Japanese companies had given a lot of importance to the philosophy and spirit of the organisation they sought to collaborate with. Most of them looked at two or three potential partners, and made extensive studies of the profiles of these partners, followed by visits. The final choice was often because of the comfort level that the senior management of the Japanese company enjoyed with their Indian counterpart. The story of Sona Steering elucidates this point. From being a technical collaborator in which Koyo had little interest, Sona Steering was able to gain Koyo's trust and become a lifelong partner. Sona Steering could achieve this by persuasion, diligence, quality compliance, and by showing a keen interest in learning the Japanese factory system.

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<sup>7</sup> The talent pool for R&D activity originates from A-class engineering/technical institutes

This effort was implemented by the visionary leadership of its chairman. Thus for any Indian business seeking Japanese partnership, not only is the business consideration important, it is also essential to develop trust, understand the company's philosophy and endure patiently the long-drawn period of acceptance.

### *6.2.3 Driving Quality through Employees*

As mentioned earlier, all these companies put quality and customer care as the two most important driving forces. To achieve this, they require employees to follow instructions and show discipline and diligence. Thus, apart from the skill set, a major requirement for anyone seeking employment in a Japanese company is the right attitude of diligence, conformity and obedience. Managers bred by Indian business schools are taught to be individualistic, creative and competitive. But these qualities are contrary to the needs of the Japanese companies. Moreover, Indian culture promotes power and hierarchy, whereas Japanese companies prefer an egalitarian approach. This often leads to tension between Indian and Japanese managers. Thus, any Indian manager seeking opportunities in Japanese companies have to match not only their skill sets requirement but also their cultural fit.

## **6.3 Indian Government**

### *6.3.1 Gap between the Education System and Industry Needs*

As mentioned above, India has the potential to become an R&D hub. During interactions, it also became evident that if the move to set up R&D centres in India proved successful, it might encourage these companies to use the Indian manufacturing base for high-end products for export to the rest of the world. This development is a very encouraging sign as it will help India move up the value chain. In view of this, the skill set gap needs to be addressed by the education system. There is an urgent need to upgrade the course curricula of the ITIs with subjects more relevant to industry needs. In the Bachelor's and the Master's degree of engineering courses too, the need is to develop curricula by inviting industry feedback. For instance, Satake does not recruit from the department of agricultural engineering of agricultural universities as the students from these institutes have little knowledge of the products that the company deals with. The company prefers to recruit mechanical engineers and train them to meet the company's needs because the company finds that they are bright and have the familiarity with machines needed to help them grasp rice mill technology easily. The other problem encountered by these companies is that though private technical institutes have accreditation from the government, they do not produce students who are anywhere near desirable standards. Thus, the companies often lose valuable time and money during campus recruitment.

### *6.3.2 Inadequate Hard Infrastructure*

As discussed earlier, the central government, which is in charge of national highways, has overlooked the requirement of MCC PTA India's need for an arterial road that connects the highway to the Haldia plant. A similar problem exists with respect to access to Haldia port. The solution probably lies in shifting some of the infrastructural development work to the state government, as they can assess basic infrastructure requirements better.

Manufacturing companies require fast movement of goods between ports and between the factory and the airport. During the first two phases of FDI inflows, most companies have



located around these infrastructure facilities. Many states today are encouraging industrial bases in second-tier cities but these are usually poorly connected by air or rail. The HSIIDC in Bawal (Rewari district of Haryana) and Tarapur in Rajasthan are examples of an attempt to develop second-tier industrial locations. These two locations need to concentrate on providing unencumbered and smooth movement of goods between manufacturing units, dry docks, railways and the airport.

### *6.3.3 Uncertain Political Climate*

It is known that most foreign investors look at continuity and stability as the two imperatives for doing business in any country. India has often puzzled the Japanese investor by the degree to which political considerations can cause shifts in policies. Most of the surveyed companies expressed concern about the general elections of April- May 2009.

### *6.3.4 Need to Assess Technology*

Though bank loans have become easy and compliance requirements are now minimal, Satake and Sona Steering were of the opinion that a useful measure would be to have independent technical committees to assess the technology used in the companies and grade them accordingly. This would help these companies to authenticate their superiority over their competitors and get loans on more favourable terms and conditions.

### *6.3.5 Abundance of Spurious Product Markets*

The inventor or the innovator of a product should be given leverage as well as protection against poor quality, low-priced fakes that are pushed into the market. Eisai strongly felt that stringent policies as well as policing of their implementation are important measures that would help to control the spurious product market.

### *6.3.6 Inadequate Indian Patent Law*

Eisai's learnt that their R&D activity for incremental innovation to increase the safety and efficacy of drugs was not allowed to be patented in India. Further, the laws do not protect data exclusivity for the trials conducted. All this hampers R&D activity. Though all other factors, especially the skill sets of workers are conducive for the pharmaceutical industry, the patent laws need to meet international standards.

## **7. Recommendations**

Since the BRIC<sup>8</sup> report, there has been growing interest in India. India's image makeover has only furthered this cause. The current international economic recession, which India seems to have handled much better than many other countries, has contributed to its attractiveness. However, the study also indicates the steps that need to be taken in the following areas to make India a more appealing investment destination. The first four recommendations are directed at policy makers and the fifth one addresses the Indian business community seeking Japanese partnership.

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<sup>8</sup> BRIC is an acronym for Brazil, Russia, India and China. This was coined by Goldman Sachs in 2001. The thesis proposed by Jim O' Neill was that by 2050, these four fast growing developing economies together will eclipse the current richest countries of the world.

### ***7.1 Attention to R&D Activity***

The first relates to the field of research and development. One of the positive indications received from this study is that Japanese companies are looking at India for R&D activity. To make India an attractive destination, a two-pronged approach should be followed. One area that the policy makers need to concentrate on is to bring patent laws up to international standards. They should provide guidelines that help build an environment that is conducive to R&D activity. The area of patent laws and the Intellectual Property Act requires careful scrutiny, as it is very complex. In India, the concern is that the incremental innovations done to a product<sup>9</sup> to increase efficacy and safety cannot be patented. The other problem is that there is no guarantee of data exclusivity, either before or after the grant of patents.

Another related area in R&D is providing the right kind of skill set. Though India is recognised for highly-skilled scientists and technocrats, it is important for policy makers to reform the education system to ensure a better match with industry requirements. Courses that lead to R&D talent pools should be made more rigorous and they should be benchmarked to international standards. The up-gradation of curricula should be on a continuous basis so that a synergy is established between the courses offered and the demands of the market.

### ***7.2 Competent Administration***

It is encouraging to see that companies that entered in the first phase applaud the changes in foreign direct investment policies made over the past two decades. It is also evident from their response to the ranking of obstacles, that for the majority of the companies, discontentment with the dealings of central, state and local authorities was low. The issue is more in the administrative structure and its operating methods. Administration requires working at two levels. It needs to create transparency and become more e-enabled to facilitate faster operations. Though single-window approvals have become the norm, there is a lot to be achieved in ensuring smooth approvals. All this necessarily requires a more efficient functioning of the implementing agencies. Tax administration and custom duties in particular have to be reviewed to make them simpler. Further, refunding should be made easier and the onus should be placed on the administration. Creating transparency in its procedures and empowering local authorities to deal with each project on the basis of merit is crucial. Giving assistance to new investors in the form of easy availability of information, office space and hand-holding of new entrant into India with respect to identifying location, setting up distribution channel etc. can help attract investment. Training ground level administrators to become sensitive and proactive to companies needs would help matters

### ***7.3 Infrastructure development through Centre-State-Private Partnership***

Though this has often been repeated, it is imperative that steps are taken to improve vitally needed infrastructure. This includes measures to improve roads, ports and airports. One initiative that can be taken could be to allow a greater role in infrastructural development for states in areas in which the central government has so far been given sole responsibility. Most of the companies recommended a private- public partnership model.

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<sup>9</sup> Eisai pointed out this issue during the interaction

#### ***7.4 Vigil on Spurious Product Market***

It is necessary to have a vigilant regulatory body to check cheap and spurious products from entering the market. This will give a fillip to Japanese investors because Japanese companies play on quality rather than price to gain entry into the market.

#### ***7.5 Patience, Trust and Quality***

Indian companies looking at partnerships with Japanese companies should understand that Japanese investors are long-term players and go about the process of negotiation slowly. In a partnership, the Japanese seek not only business, but also commitment and trustworthiness. Thus, they might insist on several meetings before arriving at decisions. Often, there are minor setbacks as they test the waters by giving limited work or setting unachievable targets. In such situations, when the demands of the Japanese investor may often seem unreasonable, it is important to seek clarifications and endure their information seeking mind-set. Indian business houses intending to collaborate with Japanese companies need to develop the quality of patience and fortitude. Above all, Indian business should take utmost care to imbibe quality and detailing within the organisation to meet Japanese requirement in products delivered as well as its functioning.

### **8. Conclusion**

The study highlights the fact that as India has taken steps to integrate more fully with the world economy, its foreign investment policies have become more investor friendly. A larger number of sectors have been opened up to foreign investment, making entry relatively simple. The Indian government and other bodies involved in policy making have become active in addressing the needs of foreign companies. Issues regarding bureaucratic delays, infrastructural improvement and labour issues are finally being addressed, a fact testified to by the fact that newer entrants have had far fewer issues to contend with as compared to earlier entrants. Earlier entrants have also been witness to positive changes in policy aimed at improving investment in the country and have, hence, been encouraged to expand and grow.

The success stories of these companies also show that many of the perceptions about investing in India are either unfounded or outdated, including those regarding the quality and attitude of the workforce and Indian partners.

Clearly, since the first days of liberalisation, Japanese companies operating in India have acquired a greater understanding of the Indian market while the Indian government has simultaneously moved towards creating a more investor friendly policy environment. Over a period of time, this should translate into greater investment interest and a greater flow of foreign direct investment from Japanese companies into India.

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Kyocera wireless India Ltd., available at <http://www.kyocera-wireless.com>

Mitsubishi Chemical Corporation PTA, India, available at <http://www.mitsubishi-chemical.com>

Satake India Engineering Ltd., available at <http://www.satakeindia.com/index.asp>

## **Appendix: 1**

Dear Participants

This questionnaire is part of a research project which is trying to understand firm level experience in India with respect to Japanese companies.

The idea behind this questionnaire is the gather information of your company from its inception in India to your current operations.

The questionnaire is open ended to enable you to give information beyond the direct question asked.

This will be used as a supplement to the interviews of some top management executives.

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## Questionnaire

Name of the Company:

Year of Establishment in India:

Nature of Business:

Equity Participation:

Organizational Structure (please attach):

Name of the Respondent:

Designation:

### **Firm Entry Strategy:**

1. How did you make your choice of location and what were the reasons for your company to choose India as its destination?

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2. Did you take help/legal assistance of any legal firm? Yes/No. If yes, please name the firm which provided Legal Assistance \_\_\_\_\_

3. Did you use the General Trading Corporation of Japan to find out investment opportunity? Yes/No. \_\_\_\_\_

4. Did you use official Japanese Governmental wing to find out about investment opportunity? Yes/No. If yes, name please, \_\_\_\_\_

5. Did the investment policy of the Central/State play a role in determining investment and location? How did it influence the decision making process?

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**Relevant for Partnership Company:**

6. Did investment policy influence partnership with Indian counterpart? How do you find Foreign Investment Implementation Authority (FIIA) of India in assisting Japanese investors?

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7. What criteria shaped your choice of partner? What were the key areas of negotiation with your partner?

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8. What is your relationship with your business partner?

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9. What is the role of either of you in your decision making process?

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10. How often does the partnership come up for a review?

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11. In the past was there any change in terms and condition of the partnership?

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**Establishment and Commencement of Operations:**

12. Rank in order of highest level of obstacle

- 1. Central government of India -----
- 2. State government -----
- 3. Local Authority -----
- 4. Human Resource -----

- 5. Legality -----
- 6. Under Developed Infrastructure -----
- 7. Land Acquisition -----
- 8. Obtaining Approvals ( e.g. Environmental, Investment)

13. How did you go about recruiting your work force?

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14. If you used an Employment Agency, then how was the choice made?

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15. Was the skill set of employees to your requirement?

a. Manager:

b. Labour:

16. Did the company face problem with Local Community? Yes/No. If yes, please explain. How did you solve it?

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17. What was your experience with local authority?

a). Labour Department:

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b). Environment Department:

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c). Safety Department:

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d). Labour Union:

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e). Excise/Sales/ Income Tax:

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f) Law and Order:

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18. Did the organization have problem between the Japanese Mangers and the Indian counterpart? Yes/No\_\_\_\_\_.

19. Was it a problem of understanding different working styles? Yes/No. If yes, then what steps were taken to resolve it?

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20. How many Japanese worked in the Indian operations? Pleas do indicate their designation and level year-wise:

S. No.	Year	No. of Japanese in Top Management	No. of Japanese in Middle Management	No. of Japanese in Lower Management	No. of Japanese in the Supervisory role

**Operation Beyond 5 Years:**

21. What are the kinds of challenges that continue to affect Indian operations?

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22. Do you find the political environment more conducive for Foreign Investment? Yes/No. If yes, then what have been the changes?

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If no, then what changes could you suggest?

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23. Do you find the Tax/ Incentive laws to be stable and consistent?

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24. Given the recent global financial meltdown with falling demand, how is the company viewing its Indian operations? Is there any time frame for turn around in case, the company is facing losses? If yes, Please specify:

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(Signature of Respondent)

Date:

Place:

**Thank you for taking out time and going through the Questionnaire.**

## Appendix II

### Background of the Companies

#### Toyota Motor Corporation

Toyota Motor Corporation is a Japanese multinational headquartered in Toyota city and Nagoya (both in Aichi prefecture) and in Tokyo. The beginning of the Toyota story can be traced to 1934. As a department of Toyota Industries, it created its first product – Type A engines – and in 1936, its first passenger car – the Toyota AA. Kiichiro Toyoda in 1937 made the move of separating this automobile company from the Toyota group of industries.

The journey of Toyota has been a story of growth – through the domestic market, followed by expansion into the USA and then to the rest of the world. Currently, the company owns and operates Lexus and Scion and has the majority shareholding stake in Daihatsu Motors, and a minority stake-holding in Fuji Heavy Industries, Yamaha Motors and Isuzu Motors. The company includes 522 subsidiaries. Toyota’s major expansion has been through its subsidiaries, though it has used the joint venture mode wherever it found entry restrictive. Toyota has manufacturing or assembly plants in Japan, China, Malaysia, Thailand, Vietnam, Philippines, Indonesia, Pakistan and India in Asia, South Africa and Egypt in Africa, the United Kingdom, Poland, Turkey, France, Portugal and the Czech Republic in Europe, the United States, Mexico, Brazil, Argentina, Venezuela and Canada in the Americas, Australia and Russia.

#### Toyota Kirloskar Motor Pvt. Limited (TKM)

The Indian operations of Toyota were established in 1997 as a joint venture with the Kirloskar group of industries. Toyota Motor Corporation has 89% equity in TKM, with the Kirloskar group having the balance. The enterprise is engaged in producing the four-wheelers Corolla and Innova on the outskirts of Bangalore. By 2010, TKM will start operations in a second plant adjacent to the first, to produce a compact car. Toyota Kirloskar Auto Parts Pvt. Ltd. was set up by TKM in 2002 to supply auto parts.

The philosophy of ‘**Putting the Customer First**’ forms the core of TKM’s business operations. Thus, the commitment to provide quality products at a reasonable price has been central focus. Maintaining the traditions of the parent company, Toyota employees in India, too, are expected to embody these values, including those of environmental protection activities, in their daily work To “respect” the environment, says TKM, “we go to the source to identify and analyze the problems (*Genchi Genbutsu*), move forward to challenge conventional ideas and old habits and to improve further (*kaizen*) through teamwork.”<sup>10</sup>

A study of Japanese firms is never complete without studying Toyota’s experience, as its management style has been portrayed internationally as *the* Japanese style of management. However, the question that would be most pertinent to this company is why it delayed its entry.

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<sup>10</sup> Cited in [www.toyotabharat.com](http://www.toyotabharat.com)

## **Honda Motor Co. Ltd.**

The Honda story began in 1948 with a single factory in the city of Hamamatsu in Japan. In 50 years' time, Honda was a global corporation selling automobiles, motorcycles and power products, posing a threat to the well-established companies of the West. The credit for Honda's success today goes to the efforts put in by its founder Sichiho Honda and his partner Takeo Fujisawa. These entrepreneurs believed in seeking opportunities and creating value. 'Challenging the limits' - a phrase commonly heard across the length and breadth of Honda, was made popular by Soichiro Honda, who knew that in order to survive, his fledgling company had to out-think and out-perform its competitors every step of the way. This caused Honda to look towards changes as growth opportunities, be it in the product line or in management. The company has 397 subsidiaries across the world.

Honda Motor Co. Ltd. operates under the basic principles of 'Respect for the Individual' and 'The Three Joys' - commonly expressed as The Joy of Buying, The Joy of Selling and The Joy of Creating. 'Respect for the Individual' reflects Honda's desire to honour the unique character and abilities of each individual person, trusting each other as equal partners in order to do their best in every situation. Based on this, 'The Three Joys' expresses their belief and desire that each person working in, or coming into contact with, their company, directly or through or their products, should share a sense of joy through that experience.<sup>11</sup>

## **Honda Siel India Pvt. Limited**

Honda Siel Cars India Ltd. (HSCI) was incorporated in December 1995 as a joint venture between Honda Motor Co. Ltd., Japan and Siel Ltd., a Siddharth Shriram group company, with a commitment to providing Honda's latest passenger car models and technologies to Indian customers. HSCI's state-of-the-art manufacturing unit was set up in 1997 at Greater Noida, UP with an investment of Rs.450 crore. With the Indian market welcoming its products, Honda has expanded its operations to yet another manufacturing unit in Tarapur, Rajasthan.

The foreign equity participation began with a 60:40 partnership. As the FDI policy changed in the automobile sector, Honda continued to increase its stake. At present, 97.4percent equity in the joint venture is with Honda Motor Company Ltd., with Siel Ltd possessing only 2.6percent. In Japan, Honda is often thought of as a maverick company which has changed its policies very fast in order to gain global leadership. Thus its experience in India can provide useful lessons for future entrants.

## **Mitsubishi Chemical Corporation**

Mitsubishi Chemical Corporation (MCC) is among Japan's largest chemical companies. It was established in 1950 as a separate company. One of the three core business companies of the Mitsubishi Chemical Holdings group, MCC is the leader of the Japanese chemical industry. The country's largest diversified chemical company, with a list of subsidiaries and affiliates longer than a complex chemical formula, is a major player in petrochemicals, specialty chemicals, carbon and pharmaceuticals. Roughly a third of its sales come from petrochemicals such as ethylene, vinyl chloride, and raw materials for synthetic fibres. Its functional materials segment produces plastics and films. The company also makes

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<sup>11</sup> [www.world.honda.com](http://www.world.honda.com)

chemicals for semiconductor manufacturing as well as for data storage products such as CDs and DVDs. MCC also has a healthcare division that makes advanced pharmaceutical intermediates.

### **Mitsubishi Chemical Corporation PTA (India) (MCPI)**

Due to the vast growth potential of polyester products in the South Asian region, MCPI set up its own Purified Terephthalic Acid (PTA) operations in India in 1997, with the Government of West Bengal Toyota Tsuho Corporation and Marubeni Corporation each having a stake of 5%, Sumikin Bussan Corporation 2%, Sojitz Corporation 8 percent, Mitsubishi Corporation 9% and MCC 66%. The sprawling plant is located near the Haldia port. It also has two housing complexes and is modeled on the Japanese concept of an industrial city. The MCPI plant became operational for commercial use in April 2000 and has been achieving 100 percent capacity utilization since then. Currently, it is in expansion mode and is setting up another plant adjacent to the existing plant.

MCPI's motto, 'Good Chemistry for Tomorrow' expresses its philosophy that the company's mission, vision and objectives should correspond to the needs of the industry and society. The growth of MCPI is spearheaded by its vision of becoming a leading manufacturer of PTA in South Asia, backed by advanced technology. Further, it also envisions creating downstream industries in Haldia and West Bengal. The partnership of MCC with the West Bengal government has not only brought leading-edge technology into India, it is also one of the largest FDIs in India due to the nature of the sector. Given its political environment, Mitsubishi's choice of West Bengal seems intriguing. All these considerations make this company an interesting case to study.

### **Eisai Co. Ltd.**

This company was started by Toiji Naita in 1936 as Sakuragaoka Research Laboratory, an organization with a vision to produce drugs through research. In 1941, Nihon Eisai Co. Ltd. was established in Saitama prefecture of Japan in an industrial estate. In 1944, Sakuragaoka joined hands with Nihon Eisai on equal terms. The cardiogenic drug Neophyllin followed by the contraceptive drug Sampo and the vitamin Juleva, established this company's growth path. In 1951, the company changed its name to Eisai Co. Ltd. and has since spread its wings across the world. Starting from a marketing office in Indonesia, this company today has both manufacturing outfits and R&D centre in USA, Europe and Asia. Today, the most important product line for this company is Methycobal, Pariet, Aricept and Humira.

### **Eisai Pharmaceuticals India Pvt. Ltd. (Eisai India)**

Eisai Co. Ltd. established its 100% subsidiary in Mumbai in the year 2004. Eisai entered the Indian market by using the licensing mode to sell two drugs through Glaxo Smith Kline and Unichem. The two important products Aricept and Zonogran are now marketed by its own sales force. Eisai India has set up a manufacturing unit in Vizag, Andhra Pradesh with a schedule to test its operations by July 2009 and start manufacturing Aricept for commercial use by December 2009. The drug will be sold in India as well as in the US. In addition to this, the company has its global clinical trial unit and global data management operations in India. Eisai India, which is in its first phase of establishment, provides understanding of the entry issues confronted in the post-2000 period.

## **Kyocera Wireless Corporate<sup>12</sup>**

Kyocera Wireless Corporate located in San Diego, California, was established in 2000 after Kyocera, Japan had acquired the American company Qualcomm. Following the acquisition, Kyocera Japan allowed the company to function independently. Since the company did not do well financially, Kyocera, Japan intervened by sending across expatriates from Japan to the top and middle management levels. During its expansion mode, it started giving offshore assignments to a company called Sascom Telecom. The product line for Kyocera Wireless Corporation and Kyocera, Japan was of two types – the mobile phone and infrastructure with R&D activity in both the functions. Today Kyocera has divided itself into three functions – engineering, manufacturing and sales – and Kyocera India has positioned itself within the engineering and manufacturing divisions.

### **Kyocera Wireless India**

In 2003, Kyocera Wireless India was established in Bangalore as a boot-up operation. Though it was a subsidiary for all operational purposes, it was treated as a third party getting directions from the USA. Interest in Kyocera India was because of cost effectiveness. Man month cost in India was one-third of that in the USA and one-fourth that in Japan. Further, the software specialist had the capability of delivering quality products.

The breakthrough in getting importance came to Kyocera India in 2007. Kyocera India, gained recognition within its international operation, when, it delivered a product on time which its European counterpart had failed to do. Not only did the product meet customer requirement, it was done at one- eighth the cost of European unit. This initiated Kyocera, Japan to take direct interest in its Indian operations. Subsequently, Kyocera India has become the major sourcing agent of the parent company's products for the Japanese market. The product line of Kyocera India includes industrial designs – mechanical and electrical, hardware, software, product test (regulatory test), and manufacturing support. It has also become the innovation hub of Kyocera, Japan.

Among the many Japanese IT companies stationed in India, the choice of this company was made essentially to learn about the reasons for which the company has moved its innovation hub to India. This move is encouraging, as one can perceive the possibility of many others following suit.

### **YKK**

The initials YKK stand for Yoshida Kogyo Co. Ltd., started by Tadao Yoshida as Sanesu Shokai in 1934 and renamed as Yoshida Kogyosho in 1938. Going through ups and downs in 1946, it emerged as the corporate house that one prefers to associate with. The YKK group is famous for manufacturing zippers and other fastening products, architectural items and industrial machinery. It has 118 affiliates across 70 countries in the world. Tadao Yoshida's philosophy that 'No one prospers unless he renders benefit to others' continues to drive this global organisation in spirit.. YKK "seeks corporate value of higher significance" by pursuing innovative quality in production, marketing and human resource management.

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<sup>12</sup> Though the Kyocera group is a diversified conglomerate, for this study only KWC is relevant



### **YKK India Pvt. Ltd.**

The entry of YKK into India was facilitated by the change in government regulations that elevated the zipper industry from small scale to large scale manufacturing. Thus in 1995, with FDI norms allowing for a 100% subsidiary, YKK India Pvt. Ltd. was established. The company with offices in New Delhi and its factory in HSIDC Investate Bawal (Rewari district, Haryana), started production in March 1997 of a range of popular zippers such as No. 3 & 5 Polyester Coil, No. 3 & 5 Vision and No. 3 & 5 Metal zippers. Subsequently, the range has been expanded with the addition of No. 2 & 3 invisible coil zippers. Metal zippers are produced in aluminum, golden brass, antique brass and antique silver finishes. Production of No. 7 metal zippers has also been started. YKK India also produces non-metallic slide fasteners.

The plant has expanded its operations in phases. With completion of the expansion of the fourth phase in 2008, the production capacities of most of the items in its product basket have made a quantum jump. YKK India uses strong updated technology for its products and its quality orientation is at par with Japan. This company was a natural choice for a study of this kind because it has a long standing in Japanese industry.

### **Koyo Seiko Co. / JTEKT**

Koyo Seiko Co. was established in 1921 to produce bearings. In the post-World War II period it moved to steering systems and expanded its operations into the USA in 1973. Koyo Seiko Co. and Toyoda Machine Works Ltd. merged on January 1, 2006, and made a new start as JTEKT Corporation. The company's strength is centered on the automotive parts business and it possesses a strong technological base cultivated through long years of bearing and machine tool manufacturing. The corporate philosophy – 'Seek to contribute to the happiness of people and the abundance of society through manufacturing that wins the trust of society' – drives the organization to look at technology and products which generate the goodwill of its customers.

### **Sona Koyo Steering Limited (SKSSL)**

SKSSL with its plant in Gurgaon, Haryana is part of the Sona group of companies. The relationship with Koyo was born out of a technical collaboration in 1985 to produce manual steering gear and columns that the Sona Company was already into. The collaboration had its teething problems with respect to technology transfer. But its joint venture with Maruti along with the boom in the automobile sector helped SKSSL establish not only its product line but also to successfully diversify and started innovating independent technology and producing a variety of new products. SKSSL had the choice of remaining only as a vendor to Maruti; however it decided to opt to grow independently.

In 1995, following a visit by the then Koyo president, a technical collaboration with Koyo power steering gear was finalized and a joint venture company was formed in which Koyo had a nominal stake. Within two years, with growing trust, Koyo raised its stake to 20.5%. Today, JTEKT and Sona Automotive India Ltd are joint venture partners looking at producing electronic steering gear by locating a plant in Bawal, Haryana. This company started its relationship with Koyo with a technical collaboration and today stands as a trusted partner. This is a good example for any Indian firm seeking Japanese partnership.

## **Satake Group**

Satake was formed when Riichi Satake invented Japan's first power driven rice mill in 1896. In 1940, its then president, Toshihiko, published the 'theory of rice milling' which became the basis of rice processing in Japan and later in the world. From a humble start, this company is one of the frontrunners in this sector today with a strong R&D support. Satake produces a comprehensive range of individual machines.

### **Satake India Engineering Pvt. Ltd.**

Though Satake India started its operations in 1996, it set up its branch office only in 1999. Satake India provides machinery, installs them and takes care of their maintenance as well. It also undertakes the marketing of its products. Though the size of its presence is small with only around 17 employees, the company has a turnover of Rs. 180 crore. The choice of this company is rooted in the fact that it is in the agricultural machinery sector – with a huge potential.

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