

Japanese FDI in India: Experiences and Lessons

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Japanese View of Macro Investment Environment in India

- Market potential
- Growing recognition of India's importance as a trade and investment partner in Japan
- Continued flow of Japanese FDI

Why Japan's FDI has been consistently flowing into China !

Familiarity with China market and confidence in China realizing its vast economic potential

- Historic cultural linkage to China and Korea**
- A great deal of Japanese culture and technological skills have been introduced through these countries**

A large number of Japanese executives have an extensive understanding of China and her people

Negative Perspectives on China

- Having said, Chinese have strong animosity toward Japanese over their tragic World War II experience. There are still unsolved issues pending between two nations**
- China's uncertain future path to realize its sustainable economic growth in the coming years**

Negative Perspectives on China

- An excessive dependence on this large relatively local market is risk factor viewed from Japan's national interest

FDI in China

	2005	2006	2007	2008	Unit in UD\$ million
Aggregate FDI	60,330 (100.0%)	63,020 (100.0%)	74,770 (100.0%)	92,400 (100.0%)	
Hong Kong, Macau, Taiwan	20,700 (34.3%)	22,970 (36.5%)	30,110 (40.3%)	43,520 (47.1%)	
Japan	6,530 (10.8%)	4,600 (7.3%)	3,590 (4.8%)	3,660 (4.0%)	

Source: Japan Machinery Exporters Association,
China Monthly Report , March, 2009

Emerging Importance of India's Potential after the 2008 Financial Meltdown

- **Scale of market**
- **Renewed growth potential**
- **Excellent crisis management on the local banking industry**
- **Growing recognition of India's importance as a trade and investment partner among CEOs of Japan's major companies**
- **All in all, India's emerging importance as Japan's FDI investment destination is firmly established**

Experiences and Lessons of Japanese FDI in India

- Reliance Polyethylene and Reliance Polypropylene
- Maruti Udyog
- Delhi Metro
- Association for Overseas Technology Scholarship (AOTS)

Reliance Polyethylene and Reliance Polypropylene (I)

Joint Ventures of Reliance Industries and Itochu Corporation were established in 1992

- Itochu's investment policy had a short term perspective focused on trade merits
- Reliance was not comfortable with the corporate culture of foreign origin
- Macro investment environment was not firmly structured as yet and the both parties had concerns about the future direction of the central government FDI policy
- The JV agreements were dissolved in a friendly manner in 1994 and the two JVs were merged with Reliance Industries

Reliance Polyethylene and Reliance Polypropylene (II)

Lessons Learned

- Confidence in the partner and a firm commitment to participate in the country which are of paramount importance to the success of a Joint Venture
- Human resource development of Japanese executives to advance a better understanding of the Japanese perspectives on India

Maruti Udyog (I)

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50/50 Joint Venture of the Ministry of Industry (MOI) and Suzuki Motors

- JV partners' confidence on the CEO recommended by MOI
- Quality of the team in charge
- Suzuki's firm commitment to India

Maruti Udyog (II)

Lessons Learned

- ❑ Suzuki was convinced that the CEO recommended by the MOI made a major contribution to the success of the JV and he continually remained in his role even after Suzuki's majority shareholding was ensured.
- ❑ Patience and confidence in the partner are needed to explore what is the best approach to optimize mutual success of the JV.

Delhi Metro Railway Construction (I)

Successful joint work of India's excellent human resources and Japanese ODA

- Project management consulting service started in 1998 and the construction effort still continues in its 3rd phase.
- The value of the Managing Director whom Indian government provided to DMRC to lead the project, was extremely influential in the success of the project, and the Japanese team of project management consulting service and contractors worked hand in hand with DMRC to achieve the projected result.
- The project is highly acclaimed as one of the most successful public works in India, in terms of budget, work schedule and performance including the introduction of many advanced construction practices.

Delhi Metro Railway Construction (II)

Lessons Learned

- Excellent results can be achieved in an atmosphere of highest standards of corporate governance and ethics. It was fortunate that the managing director of DMRC possessed caliber equipped with commitment, knowledge and ethics
- Procurement was performed under international competitive bidding standards resulting in a less visible presence of Japanese contractors

Association for Overseas Technical Scholarship (AOTS) (I)

- AOTS links the world through human resource development and serves to promote technical cooperation for the industrialization and development of developing countries.
- 8,000 Indian executives and engineers have been trained at AOTS training facilities.
- In India, alumni associations have long been established in 8 metropolitan cities to promote collaboration among the AOTS-trained executives and engineers and serve the role of a catalyst enhancing the India-Japan cooperation.

Association for Overseas Technical Scholarship (AOTS) (II)

Lessons Learned

- Key challenge for AOTS is to support in a timely manner the increasing flow of Japanese investment to India in terms of training Japanese and Indian employees. A role of AOTS is slated to increase as a effective tool of human resource development in the two countries .

Recent Development of Japanese FDI in India

A few companies with relatively low debt and large cash reserves through years of restructuring, are becoming enthusiastic about acquisitions of Indian firms.

Taking a few examples;

- Daiichi Sankyo's purchase of Ranbaxy Laboratories
- NTT Docomo' 26% purchase of Tata Teleservice

Japan's Domestic Factors to Promote FDI Overseas

- Graying and shrinking population
- Japan has an FDI diversification strategy which makes Japan an even more compelling trade and investment partner
- Recent surge of Yen against other major currencies facilitates Japanese companies to explore overseas acquisitions

Move Forward (I)

Japan – India, the Indispensable Alliance

- Recognizing market and its growth potential, Japan and India have to build responsible matured relationship aimed at mutually beneficial commercial benefits
- To ensure the continued inflow of Japanese FDI into India, the accountability and disclosure are essential

Move Forward (II)

Key ingredients to challenge the goals

- To understand other people's culture and business practices
- To promote people to people exchange for better understanding of the country and her people
- Dispatch of Japanese businessmen to India's graduate school for higher education

Move Forward ☐

Key ingredients to challenge the goals

- ☐ Promotion of Indian executives to management positions in Japanese companies in India and abroad
- ☐ Longer stay of Japanese executives assigned to India

Thank you for your kind
attention