



Japan Project Newsletter

2008 - 09



Dear Reader,

High-level political contacts between India and Japan, since the year 2000, have ushered in a new era of partnership. Today, Indo-Japan engagement incorporates political, strategic and economic issues and is a crucial element in the dynamics of contemporary international political economy. The Japan Project at ICRIER was launched in 2007 with funding from the Sasakawa Peace Foundation, Japan, as a forum for research initiatives and studies on Japan and Indo-Japanese relations.

The endeavor is to track contemporary economic, political and security issues from the perspective of both India and Japan to contribute effectively to the strengthening of bilateral ties and enhance the role of the two countries in the Asian and global economy. We hope that this initiative will stimulate fresh thinking on India-Japan engagement with both a near to medium-term as well as long-term focus. To this end, the Japan Project at ICRIER attempts to foster vibrant academic engagement and networking among individuals and institutions with an interest in the evolution of Indo-Japan relations. We also hope that this will fill the existing research gap on Japan in India.

The global economy currently is in the midst of a severe downturn. The myth that some regions or individual economies were decoupled from others has well and truly been exploded. On the other hand as the saying goes – every cloud has a silver lining. And a general consensus is emerging that the road to the future lies in coordinating a long-term regional growth model based on Asian savings and demand. In this context, the need for comprehensive economic cooperation between India and Japan is more evident than ever before. In Asia, economic integration is evolving in an environment of considerable strategic complexity with first the economic rise of the two large economies and the emergence of production networks in different sub-regions. The most visible manifestation of this strategic complexity has been the emergence of competing conceptions of regionalism. India and Japan have a crucial role to play in ensuring that economic cooperation is fostered and makes the needed progress towards the objective of establishing an Asian Economic Community.

The year 2008-09 has been extremely fruitful. The Japan Project at ICRIER is now well recognized as an active contributor to research initiatives involving Japan in India. It is our aim that this project becomes an even more substantive part of ICRIER's research and other activities and it will be our sincere endeavour to accomplish this in the near future.

Dr. Rajiv Kumar
Director & CE
ICRIER

Working Papers:

(1). India-Japan Investment Relations: Trends and Prospects

By

Geethanjali Nataraj

India and Japan are two leading economies in Asia. The robust economic growth of the Indian economy in recent years has not gone un-noticed on the Japanese investment radar. Japan is now the sixth-largest contributor to FDI inflows to India. Although, Japan's contribution to India's FDI inflow is only 4.29 per cent from 1991-2007 the quantum of investment is rising steadily. The two countries are increasingly recognizing their multi-faceted complementarities and the urgency of wide-ranging cooperative measures to exploit this long under-utilized potential. In the backdrop of the global financial crisis and subsequent economic downturn this study attempts to highlight the problems being faced by both the economies and suggest measures to help boost investment and exports in both the countries. For instance, several industries in Japan are now in a sunset phase because the current economic compulsions render them non-competitive. Such industries have a future in relocating elsewhere and India is a first class option. In particular, consumer durables and food processing industries can be repositioned in India where there is ample availability of skilled labour at a reasonable cost. Once set up in India, these industries would not only be able to take advantage of the huge market which India offers but will also be able to export to other countries from India, even catering to Japanese domestic needs. In addition to analyzing the investment barriers to Japanese FDI inflows into India, the study provides suggestions to policy makers in both the countries to ease and facilitate the investment norms so as to enhance investment relations between the two countries. An attempt is also made to examine the effect of India-Japan FDI inflows/outflows on bilateral trade between the two countries.

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

By

Srabani Roy Choudhury

The main objective of the study has been to gain insights into the actual experiences of Japanese firms operating through their subsidiaries or with Indian partners in India, and draw understanding of (1). What needs to be done by Indian policy makers to improve the investment climate, at the level of both the Centre and the State; (2). How a labour pool compatible with the requirements of Japanese firms may be created; and (3). How the myths and misnomers widely prevalent in the minds of Japanese investors about operational conditions in India may be dispelled. In terms of methodology the case study approach has been used. Eight firms were selected on the basis of sectoral importance, the choice being a mix between the old and the new entrants into the Indian market. The study was conducted by giving a detailed questionnaire to the firms, followed by interactions with key managers, of whom at least one of them was Japanese. The key finding of this study is that Japanese firms enter India with a long term orientation as no company has complained about the exit policy. In fact the five big companies surveyed in this study are in their second phase of expansion. Apart from transparent taxation, friendlier policies and more competent implementing agents, the Japanese firms feel that it is important to grade technology through independent technical committees so that they could help get bank loans. Policing is considered imperative, to stop the infiltration of spurious low quality products, at low prices. On the whole the Japanese firms under study have had a productive journey in India. The firms that had entered in the first phase of the opening of the Indian economy had first-hand experience of the positive changes in the investment climate of India and feel encouraged to expand and grow. The new entrants have relatively lesser issues because they are dealing with knowledge workers and a more open economy. The problems lie with the policies specific to their respective sectors.

Conferences / Seminars:

(1) International Conference on Global Economic Downturn: Lessons and Way Forward



States, Europe, Japan, China and India) on in response.

The Japan project at ICRIER along with Konrad Adenauer Stiftung, Germany, organized an international conference Global Economic Downturn: Lessons and Way Forward on **February 9-10, 2009**, at New Delhi. The conference deliberations were structured into five sessions including the inaugural session and a special session on India and Japan. The objectives of this conference were:

- To provide a platform for sharing different national and regional perspectives on the global financial crisis and the subsequent global economic downturn.
- To attain assessments from the major global economic players (the United States, Europe, Japan, China and India) on the impact of the crisis on the real economy and the policies being adopted in response.
- To support global economic cooperation and foster common positions in view of the G-20 declaration.

After the opening comments by Ambassador Bernd Mutzelburg, Head of Mission, German Embassy in New Delhi the inaugural address was delivered by Ashok Chawla, Secretary, Dept. of Economic Affairs, Govt. of India. Mr. Chawla outlined the immediate causes of the global economic downturn and the short term as well as long term measures required to tackle the downturn. He emphasized the need for an effective role of the G-20 grouping in tackling the current global economic downturn.

The first session, Global Economic Downturn: Where Are We?, was chaired by Joerg Wolff, Resident Representative, Konard Adenauer Stiftung, India. The guest speakers were: Heribert Dieter, Senior Fellow, German Institute for International and Security Affairs, Berlin; Takatoshi Ito, Professor, Graduate School of Economics, University of Tokyo; and Krishna Srinivasan, Advisor and Head of the Multilateral Surveillance Unit, IMF. The second session Emerging Strategies to Tackle Economic Downturn was chaired by Richard Higgott, Pro-Vice Chancellor for Research and Professor of International Political Economy, University of Warwick. The guest speakers included Takeo Hoshi, Pacific Economic Cooperation Professor in International Economic Relations at Graduate School of International Relations & Pacific Studies, University of California; Ramgopal Agarwala, Senior Advisor, RIS, and Rajiv Kumar, Director & CE, ICRIER. The third session, G 20 Initiative and Way Forward, was chaired by Hardeep Puri, Secretary (ER), Ministry of External Affairs, Govt. of India. The guest speakers at the session were Richard Higgott, Pro-Vice Chancellor for Research and Professor of International Political Economy, University of Warwick; Shigeo Kashawagi, Senior Fellow, Policy Research Institute, Ministry of Finance, Japan; and Alok Sheel, Joint Secretary, Dept. of Economic Affairs, Govt. of India.

The special session, Impact of Global Economic Downturn on India and Japan, was chaired by Dr. Rakesh Mohan, Deputy Governor of the Reserve Bank of India. The key guest speakers were Takeo Hoshi, Pacific Economic Cooperation Professor in International Economic Relations at Graduate School of International Relations & Pacific Studies, University of California, Takatoshi Ito, Professor, Graduate School of Economics, University of Tokyo, Jahangir Aziz, Chief Economist South Asia, JP Morgan Chase, and Mathew Joseph, Senior Consultant, ICRIER.

(2) Seminar on Japanese FDI in India: Experiences and Lessons

The Japan Project at ICRIER organized a one day seminar on Japanese FDI in India: Experiences and Lessons on **March 18, 2009** at New Delhi. The objectives of this seminar were:

1. To provide a platform for Indian and Japanese perspectives on India as a destination for FDI from Japan.
2. To attain assessments from Japanese companies on their individual experiences in India and the strategies they have adopted in response.
3. To support comprehensive economic cooperation between India and Japan.



In the inaugural session Masashi Mizukami, DCM, Embassy of Japan, New Delhi read out a statement by the Japanese Ambassador Hideaki Domichi. Ambassador Domichi was extremely appreciative of the ICRIER initiative to organize a seminar on the theme of Japanese FDI in India. According to the statement the upward trend in Japanese FDI in India, despite recent incidents of terrorism, and the growing number of JETRO members in India are clear examples that there is a strong interest in India among Japanese companies. Ambassador Domichi stressed the importance of India-Japan economic ties and highlighted the Delhi-Mumbai industrial corridor as example of resurgence in bilateral relations. He emphasized that India should improve the business environment to increase the investment flow from Japan. In his inaugural address Masayuki Yamamoto, President

Japan Chamber of Commerce and Industry in India (JCCII) pointed out that despite the global economic downturn business with India continues to be important for Japan. However progress in resolving issues relating to land acquisition and utilization, taxation, infrastructure, labour, logistics, intellectual property rights, foreign capital regulation, visas, and administrative transparency has not been satisfactory. According to Mr. Yamamoto tackling these problems is essential for India's economic growth. He drew attention to the "Suggestions for Government of India" that have been compiled by JCCII and recently submitted for consideration. Mr. Yamamoto was of the opinion that the seminar provided an ideal opportunity for dialogue among the relevant stakeholders on these suggestions.

The seminar included three working sessions - Overview of Japanese FDI in India, Japanese Firm Level Experiences and Strategies in India, and Future Prospects. The key guest speakers at this seminar were Rajiv Kumar, Director and Chief Executive ICRIER, Naoyoshi Noguchi, Director General of JETRO at New Delhi, Masanori Kondo, Senior Associate Professor, International Christian University, Japan, Geethanjali Nataraj, Senior Economist, National Council of Applied Economic Research, New Delhi, Arjun Asrani, Former Indian Ambassador to Japan, Kenasaku Konishi, President & CEO Canon India, Takao Sato, General Manager, Mizuho Corporate Bank, New Delhi, Srabani Roy Chowdhury, Associate Professor, Jawaharlal Nehru University, Vishnu R. Dusad, MD, Nuclear Software Exports Ltd., Yuichi Sagawa, Representative for Sagawa Yuichi Consultants, and Rajat Kumar, Director, Department of Industrial Policy & Promotion, Govt. of India.

(3) Seminar on The Third Oil Crisis and its Impact on Japan's Financial Innovation



A special seminar by Naoki Tanaka, President, Center for International Public Policy Studies, Tokyo, was held on **September 1, 2008** at New Delhi. Member of Parliament and Member of Board of Governors, ICRIER, N.K. Singh chaired the Seminar. Dr. Tanaka pointed out how each oil crisis resulted in restructuring by the Japanese entrepreneurs to accommodate the costs accentuated by such a crisis. He asserted that the third oil crisis led to the consolidation of the Japanese financial sector with the merger of twenty-one major banks into three large entities. Innovation accelerated when R & D expanded to RDDD, with demonstration and deployment of resources added and given priority. This led to more industrial deepening in Japan and greater emphasis on the services sector compared to manufacturing sector of the economy. The liberalization in the financial sector was undertaken to harness this knowledge enterprise better. However, due to ineffective monetary policy in Japan more emphasis was witnessed on the micro side of the economy to bring the desired equilibrium.

(4) Seminar on India-Japan Economic Cooperation



The seminar, India-Japan Economic Cooperation, was held on **July 14, 2008** at New Delhi. The objective of the seminar was to spell out the opportunities and challenges for Indo-Japanese Economic Cooperation in today's rapidly globalizing world. The seminar brought together several eminent policy makers, academics, and corporate executives working in the broad area of Indo-Japanese economic cooperation. Masahiro Kawai, Dean, ADBI, Tokyo was the main speaker. The other guest speakers were Rajiv Kumar, Director & CE, ICRIER, Jaimini Bhagwati, AS (Economic Relations), Ministry of External Affairs, Govt. of India, Shyam S. Agarwal, Add. DG of Foreign Trade, Govt. of India, Toshiro Nishizawa, Dep.DG, JBIC Institute, Japan, Aftab Seth, Director, Global Security Research Institute, Keio University, Brij Tankha, Professor, Dept. of East Asian Studies, University of Delhi, Shrawan Nigam, Senior Consultant, ICRIER and Amit Singh, Research Associate, ICRIER.

Others:

The Japan Project at ICRIER is now an active contributor to research initiatives involving Japan in India. Some recent examples listed below are noteworthy in this context:

- May 2008 - Rajiv Kumar, Director and Chief Executive ICRIER, invited as a guest panelist at the Nikkei Inc 14th International Conference on The Future of Asia at Tokyo.
- September 2008 - Agreement of Cooperation has been signed between ICRIER and the Japan-India Partnership Forum, established by Aftab Seth, Former Indian Ambassador to Japan.
- November 2008 - Interaction with Yoshiji Nogami, Special Envoy of the Prime Minister of Japan and Toyoo Gyohten, President, Institute for International Monetary Affairs, Tokyo.
- December 2008 - Masato Takaoka, Deputy General of the Economic Bureau, Ministry of Foreign Affairs, Japan, visited ICRIER to discuss the issues in the India-Japan Comprehensive Economic Partnership Agreement under negotiation.
- January 2009 - Hirabayashi Hiroshi, Former Japanese Ambassador to India and currently President of Indo-Japanese Association, Tokyo visited ICRIER to discuss India-Japan economic and political cooperation.
- March 2009 - Masaaki Kimura, Professor Emeritus of Kyoto University visited ICRIER.

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