

Seminar

"How China Impacts Contemporary India-Japan Relations"

March 9, 2013

Organized by ICRIER
in collaboration with

Center for Asia Studies and Chennai Centre for China Studies

At The Raintree Hotel, Chennai



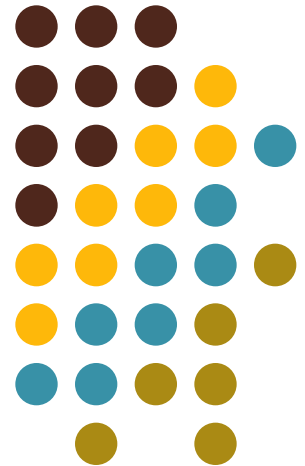
Session 2:

The China Factor

in Deepening India-Japan Economic Relations

***How Could We Interpret
JBIC's FDI Survey Results?***

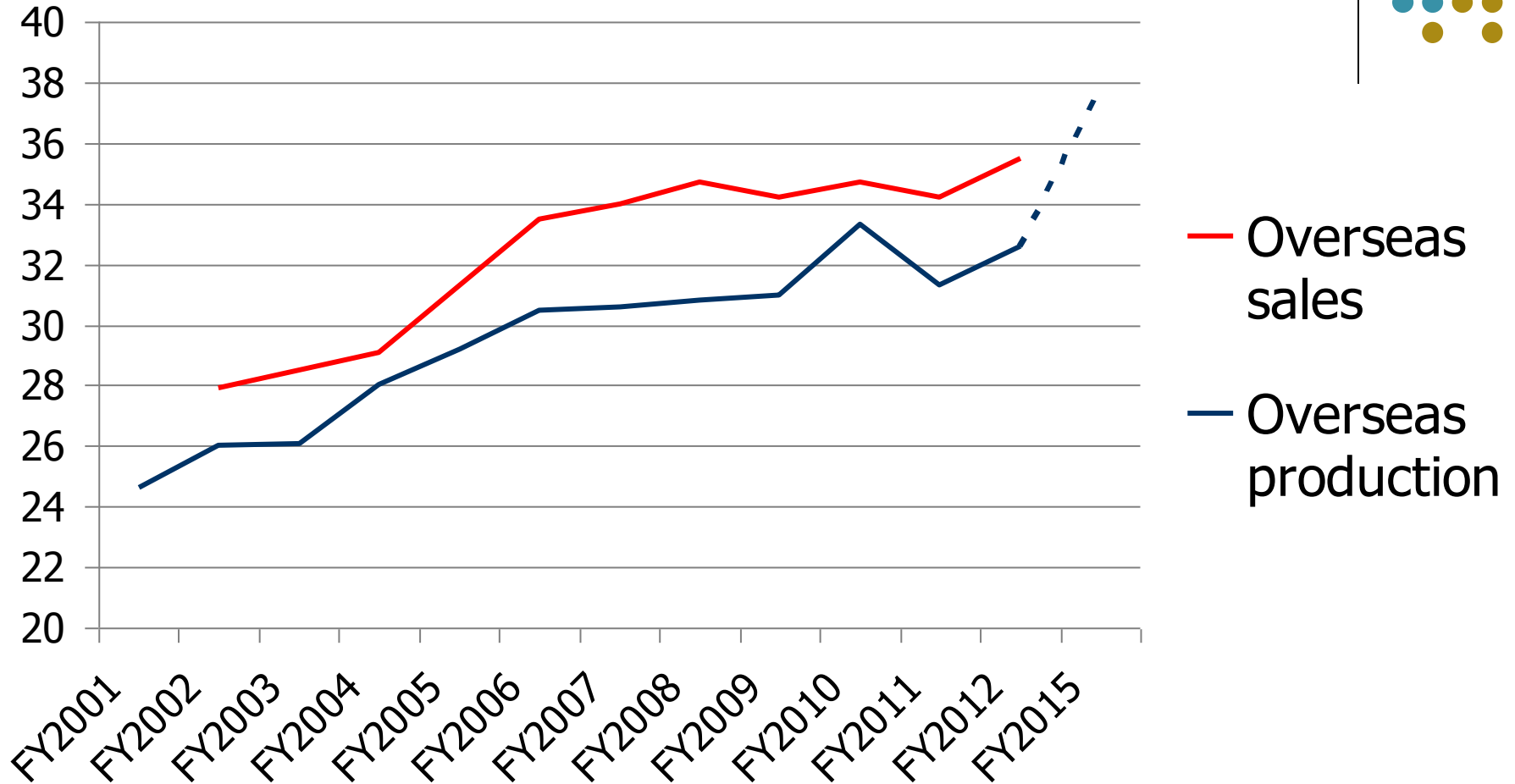
Toshiro Nishizawa
Director General, Country Credit Department
Japan Bank for International Cooperation (JBIC)



Japanese Manufacturing Sector



% of total



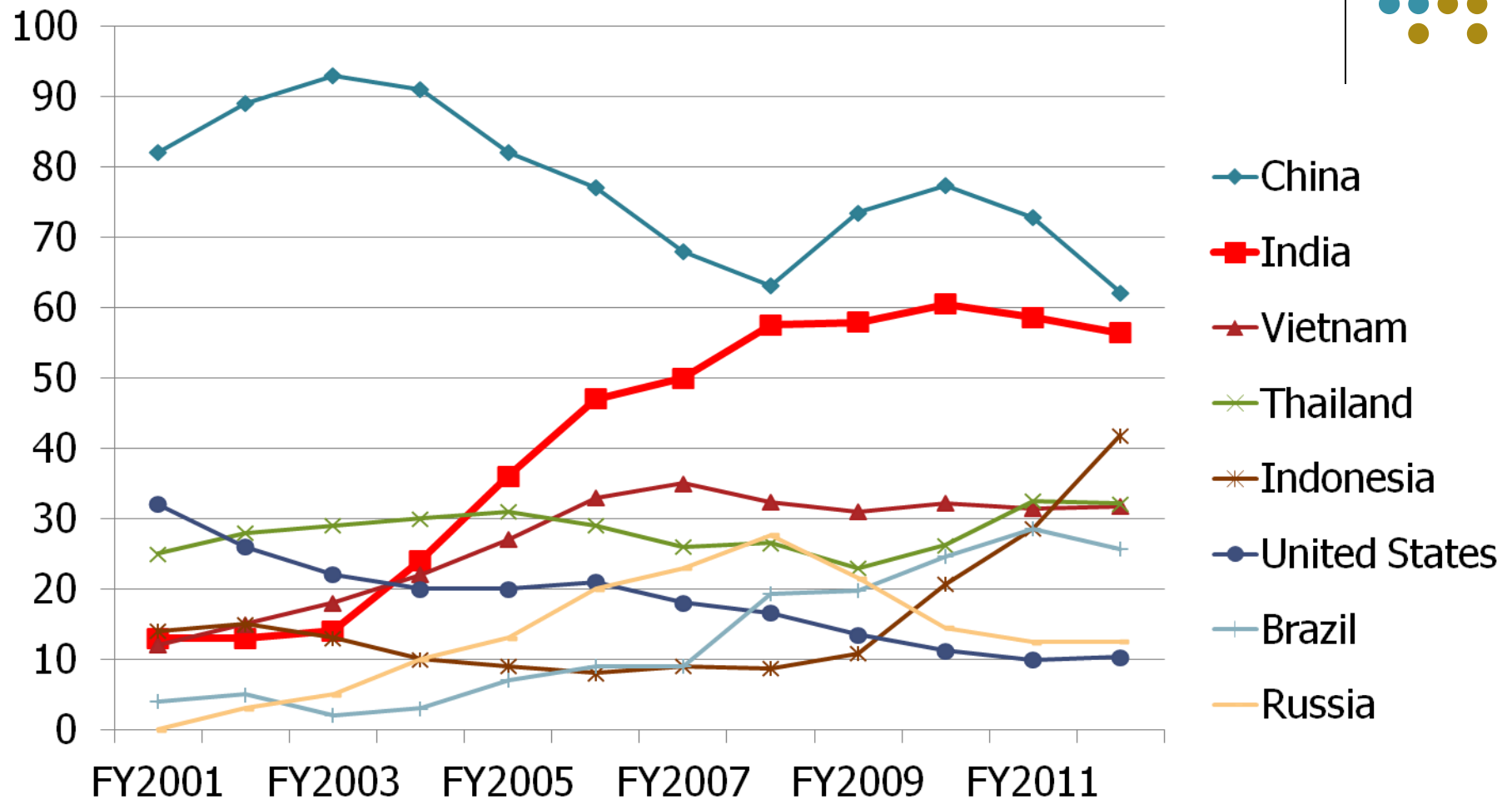
Source: JBIC's Survey Report on Overseas Business Operations by Japanese Manufacturing Companies, December 2012 *613 (out of 1,011) companies returned responses.

March 9, 2013

Japanese Investors' Perception



% of total Promising Countries for Overseas Business (**Next 3 Years**)



Source: JBIC's Survey Report, December 2012

March 9, 2013

Japanese Investors' Perception of India

Promising Countries for Overseas Business (**Next 3 Years**)



REASONS (out of 279 companies)

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

Source: JBIC's Survey Report, December 2012

Japanese Investors' Perception of India

Promising Countries for Overseas Business (**Next 3 Years**)



CHALLENGES (out of 255 companies)

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

Source: JBIC's Survey Report, December 2012

Japanese Investors' Perception

Promising Countries for Overseas Business (**Next 10 Years**)



| | | Out of 387 | % of total |
|----|---------------|-------------------|-------------------|
| 1 | India | 251 | 64.9 |
| 2 | China | 218 | 56.3 |
| 3 | Indonesia | 149 | 38.5 |
| 4 | Brazil | 140 | 36.2 |
| 5 | Vietnam | 110 | 28.4 |
| 6 | Thailand | 103 | 26.6 |
| 7 | Russia | 78 | 20.2 |
| 8 | Myanmar | 65 | 16.8 |
| 9 | Mexico | 46 | 11.9 |
| 10 | United States | 34 | 8.8 |

Source: JBIC's Survey Report, December 2012

Japanese Investors' Perception of India



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

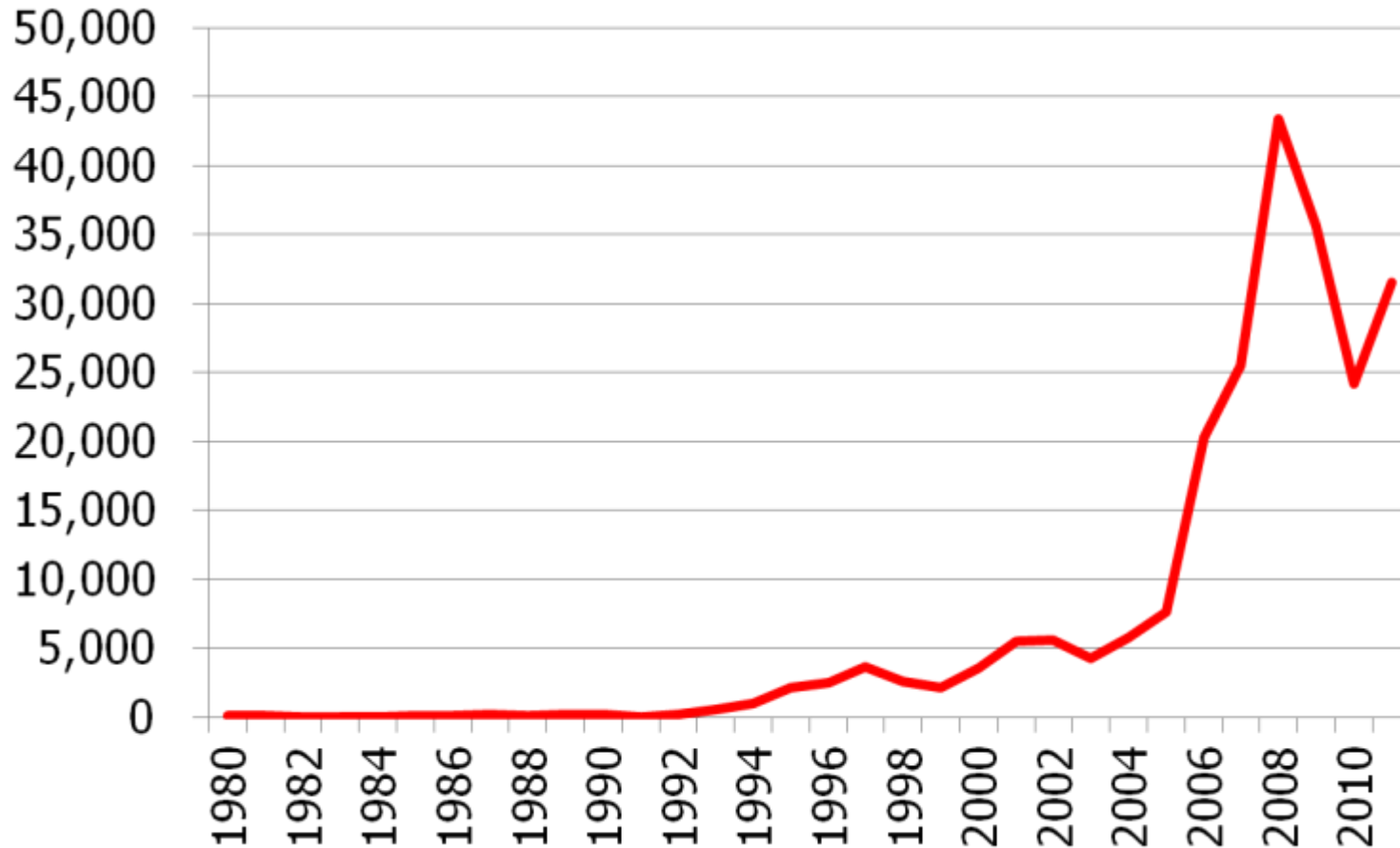
| | | |
|--------------|-------------------------------------|-----|
| 1 | Tamil Nadu | 84 |
| 2 | Maharashtra | 78 |
| 3 | Karnataka | 63 |
| 4 | Haryana | 56 |
| 5 | National Capital Territory of Delhi | 53 |
| 6 | Gujarat | 24 |
| 7 | Andhra Pradesh | 16 |
| 8 | Uttar Pradesh | 15 |
| 8 | Rajasthan | 15 |
| 9 | West Bengal | 11 |
| 10 | Madhya Pradesh | 1 |
| Others | | 5 |
| Total voting | | 187 |

Source: JBIC's Survey Report, December 2012

World FDI Inflows into India



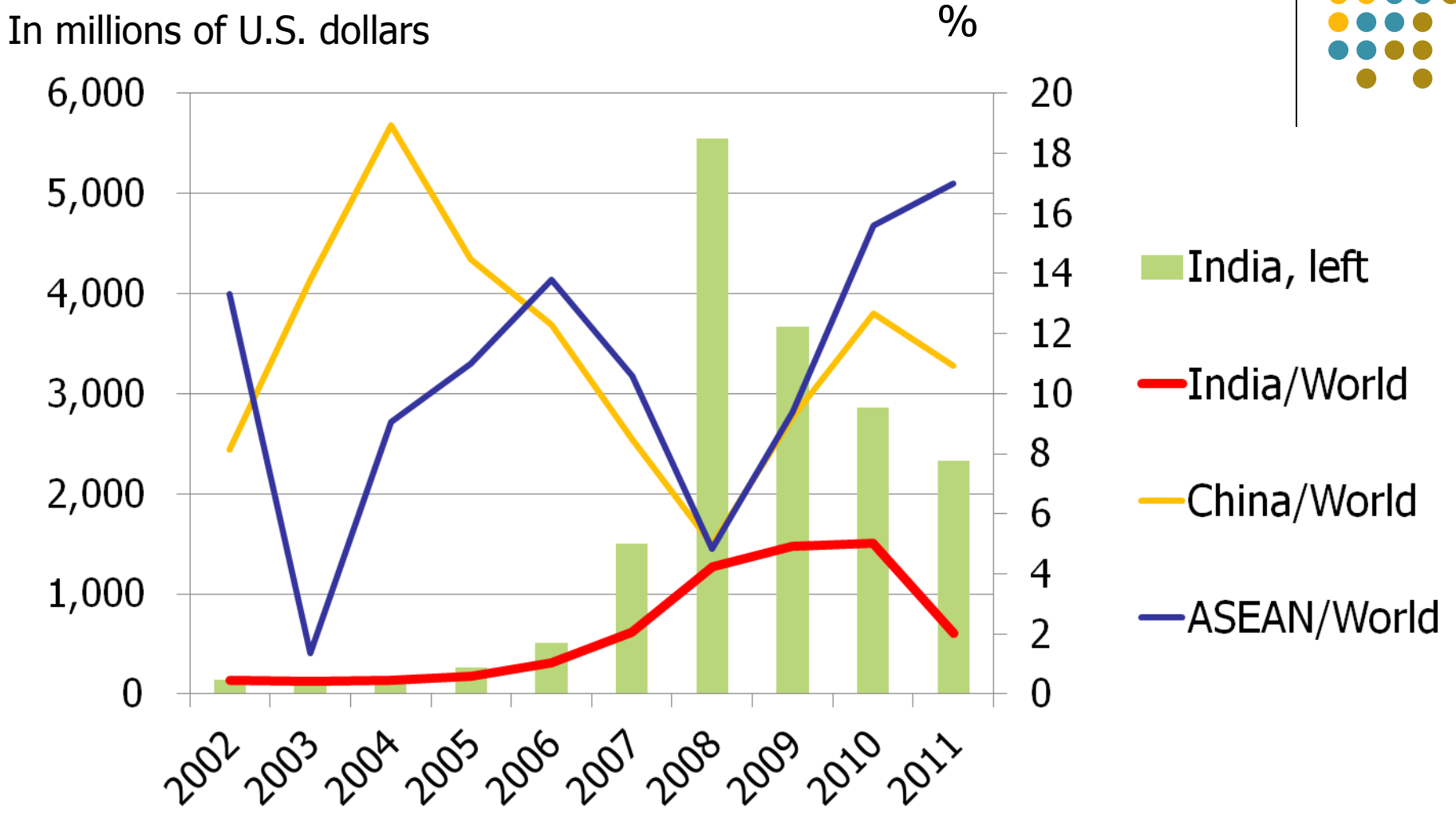
In millions of U.S. dollars



Source: UNCTAD database

March 9, 2013

Japanese FDI Inflows into India



Source: JETRO

March 9, 2013

Japanese Investors' Perception of China

Promising Countries for Overseas Business (**Next 3 Years**)



REASONS (out of 312 companies)

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

Source: JBIC's Survey Report, December 2012

Japanese Investors' Perception of China

Promising Countries for Overseas Business (**Next 3 Years**)

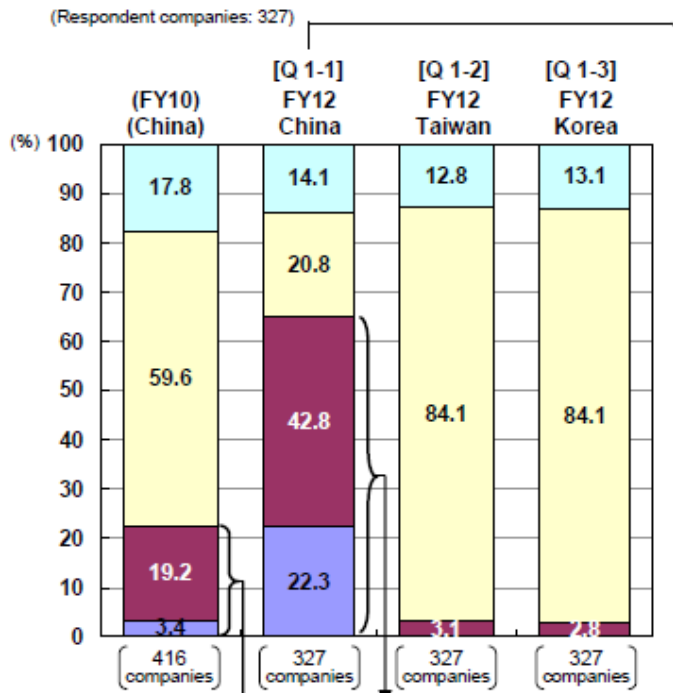


CHALLENGES (out of 312 companies)

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

Source: JBIC's Survey Report, December 2012

“Do you feel that your business operations in China have been adversely affected by the anti-Japanese demonstrations?”



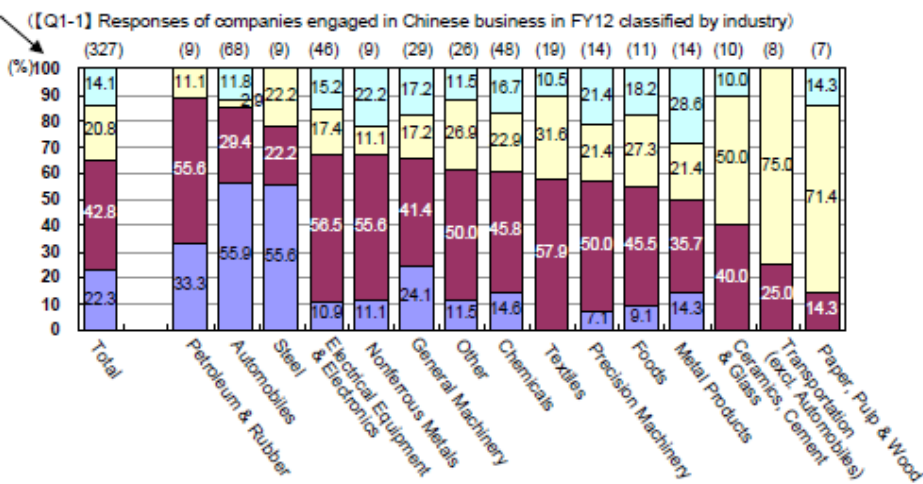
Total: 22.6%
 Total: 65.1%
 Q 1-1- [Requery] (page 76)

Can't tell at this point

No real effects

Affected somewhat

Affected substantially

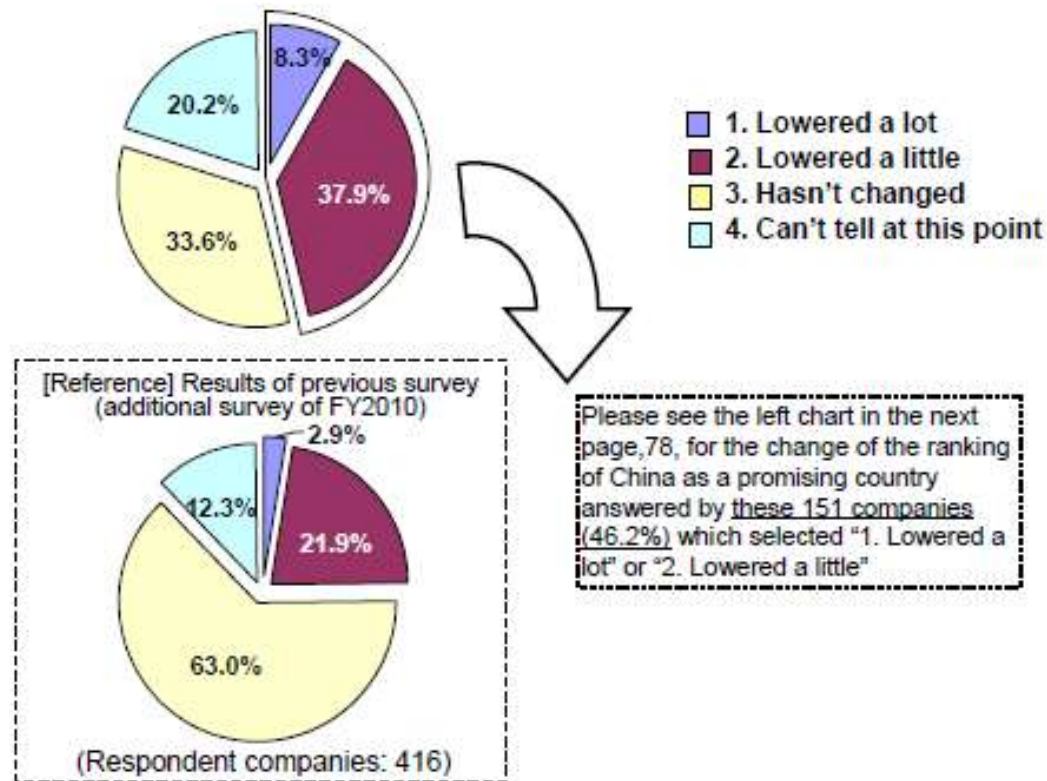


- Two (65.1%) out of every three respondent companies recognize that their business operations in China have been negatively impacted. The number of companies affected was approximately twice as high as that in the previous survey.
- The companies responding to the additional survey were asked about the negative influence of issues over the Senkaku Islands on their business operations in China, and 73 companies (22.3%) selected "1. Affected substantially" for their answers, 140 companies (42.8%) selected "2. Affected somewhat". That is, 213 companies (65.1%) were more or less influenced. At the time of a similar additional survey conducted in fiscal 2010, a total of 94 companies (22.6%) answered that they were affected somewhat. This means the number of companies affected increased by approximately 2.3 times.
- Companies selecting "1. Affected substantially" or "2. Affected somewhat" for their answers about their business operations in China were classified by industry to obtain the respective response ratios. Many companies in the petroleum and rubber industry (88.9%), automobile (including automobile assembly and auto parts) industry (85.3%), and steel industry (77.8%) feel that they have been affected substantially. Companies in the paper, pulp, and wood industry (14.3%), transportation industry (25.0%), and ceramics, cement, and glass industry (40.0%) feel that they have had no real effects.
- On the other hand, 10 companies (3.1%) answered that their business operations in Taiwan have been affected somewhat while nine companies (2.8%) answered that their business operations in Korea have been affected somewhat, 80% of the companies selected "3. No real effects" for their answers about their business operations.

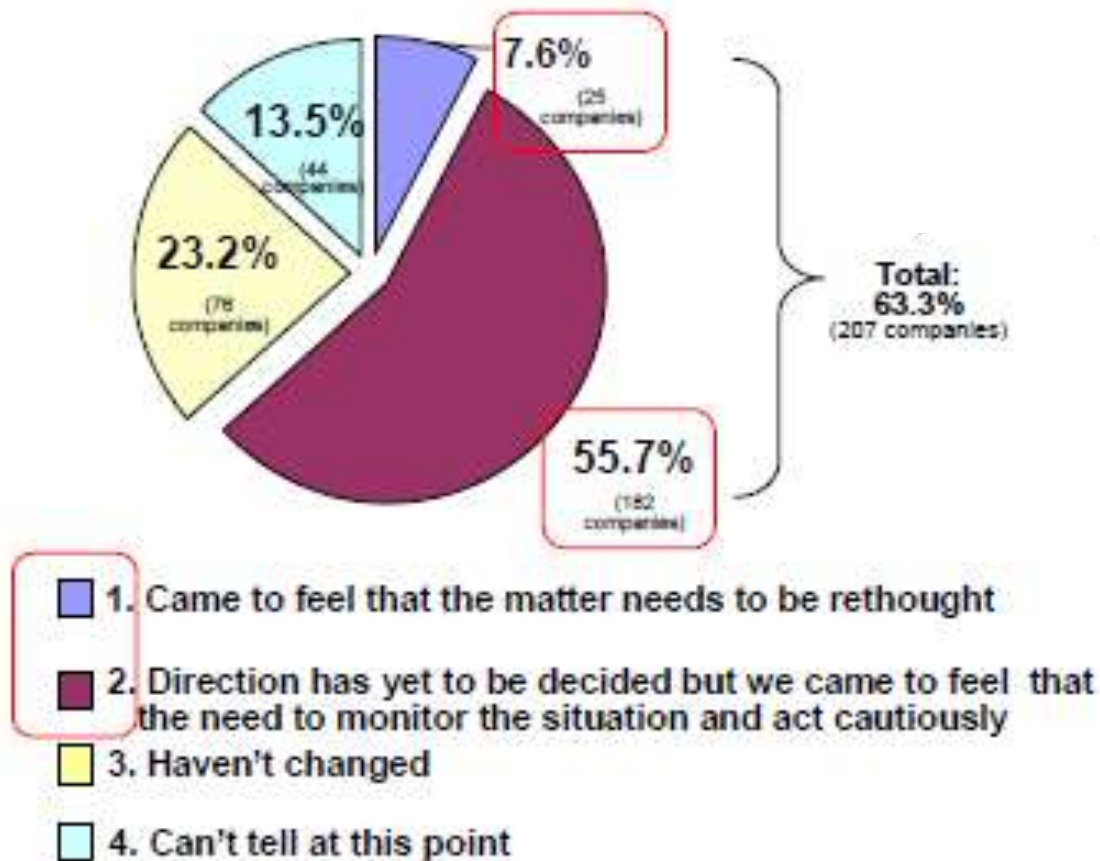
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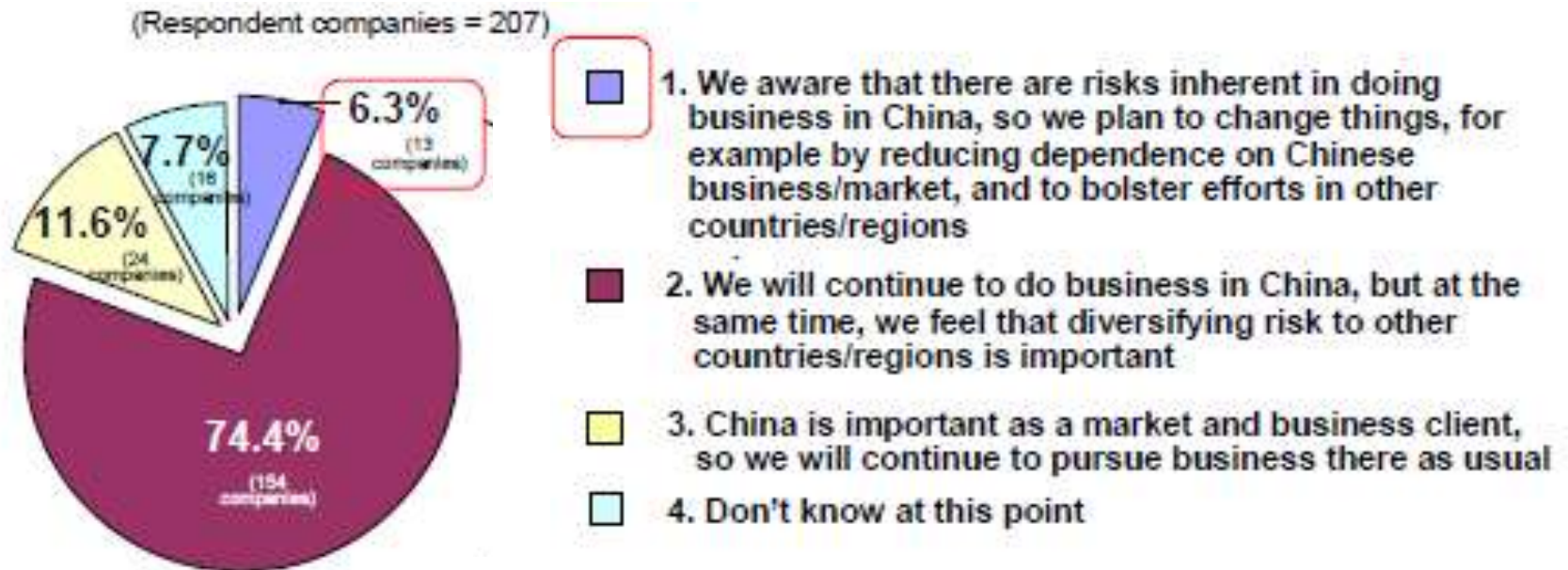
“Has your assessment of China changed since the recent situation change regardless of your answer to the promising countries/regions for overseas business over the medium term?”



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





“Select the answer that is the closest to your company’s response regarding your vision for future business operations in China and the Chinese market.”





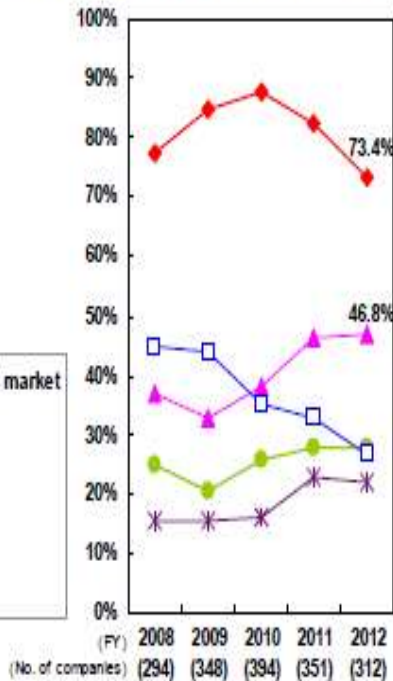
Why promising?

 **No.1: China**

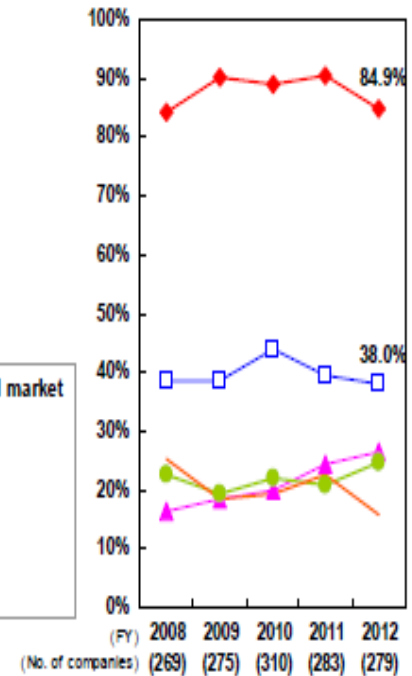
 **No.2: India**



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





- ◆ 1.Future growth potential of local market
- 2.Inexpensive source of labor
- ▲ 3.Current size of local market
- 4.Supply base for assemblers
- 5.Qualified human resources





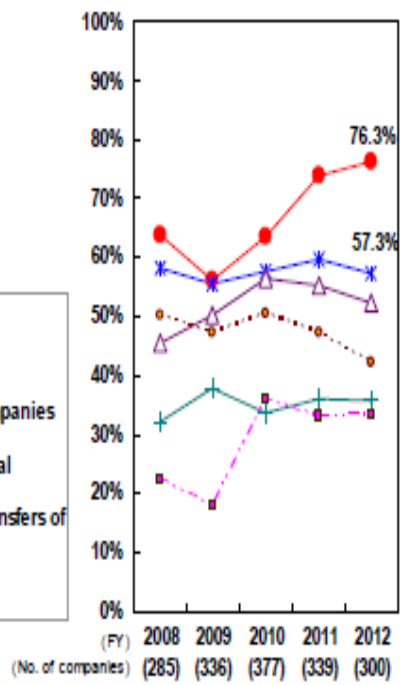
Still what challenges?

 **No.1: China**

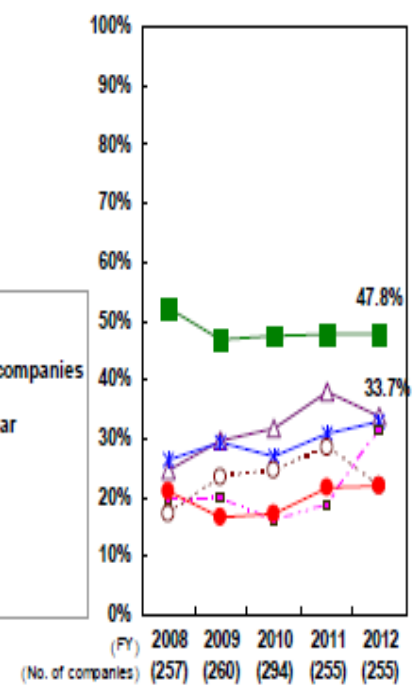
 **No.2: India**



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



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



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Session 2:

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How Could We Interpret JBIC's FDI Survey Results?

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