

Responding to Globalisation

Japanese Investments in India

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**Centre for Studies in International Relations
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Responding to Globalisation: Japanese Investment in India

Indranil Ghosh*

Abstract: Foreign Direct Investment plays an important role for the economic development not only as a source of financial capital but also as a means of knowledge and technology transfer. Since 1991, the Government of India has been pursuing a programme of structural reforms aimed at stabilizing the economy and promoting reliance on market mechanisms. Economic reforms and sound macroeconomic policies in India have created an enabling environment for FDI from Japan. This paper shows that Japan can benefit from India's emergence in the global economy through FDI. One of the major conclusions of this paper is that there are opportunities for Japanese firms to invest in industrial sectors which are technologically advanced and also offer high export potentials.

1. Introduction

One of the major sources of development finance is private capital flows that allow countries to import more than they export and invest more than they save. Private capital flows are of two major types: (i) foreign direct investment (FDI), which is non-debt creating flows, and (ii) commercial bank lending, which creates debt.

In this paper, our main focus is on FDI. FDI is made by a foreign individual or company towards productive capacity of the host country. It is the movement of capital across national frontiers in a manner that grants the investor to control the acquired asset(s). FDI is, therefore, a long term international capital movement of a particular type. Here, capital movement does not imply physical movement of machines

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and equipments. It refers to investible funds or finance. In general, on the positive side, FDI brings following advantages to recipient countries:

- It raises the investment rate above the domestic savings rate, which is good for growth if nothing adverse happens to the productivity of the investment.
- It brings with it the knowledge, technology and managerial skills, which can have positive externalities on the rest of the economy.
- It acts as a catalyst for domestic investment in same or related fields. It requires training of labour, which is another positive externality. It is estimated that 20 million workers are employed directly or indirectly by multinational corporations in developing countries in the year 2000-2001.
- A great deal of FDI goes to the tradable goods sector of the recipient countries, which improves the export performance and competitiveness of these countries and earns for them valuable foreign exchange.

Let us turn to see some of the potential dangers of FDI. Investments by multinational corporations (MNCs) of developed countries involve not only a transfer of funds but also a whole package of physical capital, techniques of production, managerial and marketing expertise and business practices for the maximization of global profits. The question is whether such investment contributes to the broader aspects of development relating to the pattern of development and the distribution of income.

The activities of MNCs come under attack on a variety of grounds, and some are as follows:

- Being located in urban areas, investments made by MNCs often widen the income gap between the urban and rural sectors, thus perpetuating dualism.
- A second and more serious criticism is the way in which MNCs encourage and manipulate consumption. Not only do they tend to cater for the tastes of the already well-to-do but also they tend to encourage forms of consumption among the broad mass of people,

particularly in the urban areas, that are inappropriate to the stage of development and often nutritionally damaging.

- MNCs may introduce inappropriate technologies and retard the development of an indigenous capital-goods industry.
- Another aspect of multinationals is that because of their large size and the power they wield, the developing countries in which they operate lose aspects of their national sovereignty and control over economic policy.
- There is also the question of repatriation of profits. FDI has the potential disadvantage. Even compared with loan finance, that there may be an outflow of profits that lasts much longer than the outflow of debt-service payments on a loan of equivalent amount. While a loan only creates obligations for a definite number of years, FDI may involve an unending commitment.

In India, soon after opening of economic reforms in 1991, FDI has comparatively gained pace and acceptance across manufacturing and services sectors. Continuous attempts by successive governments to broaden economic policies and to integrate them to the global economy have helped India to attract higher FDI. Broadly speaking, the new economic policies help to increase the state of foreign investors in India, providing a bigger room for their entry, access to the procedural formalities, additive incentives for the import of technology, which all have created a congenial environment for inward FDI. The Government of India recognizes the key role of FDI in economic development not only as an addition to domestic capital but also as an important source of technology and global best practices. As part of the ongoing reform programme, the Government of India has taken various steps to facilitate the inflow of foreign capital. Except five sectors, FDI has now been fully and/or partly allowed to enter into India.¹

Over time, India has replaced the US as the second-most favoured destination FDI in the world after China, according to an AT Kearney's FDI Confidence Index that tracked investor confidence among global executives to determine their order of preferences.² India has attracted about US\$ 7.96 billion during the first half of 2005-06 fiscal, as against US\$ 2.38 billion FDI in the corresponding period of 2004-05.

In view of above, the main focus of this paper is to draw a broad overview of Japanese investments in India over time. The paper is divided in five sections. The first four sections are devoted to study the trends of Japanese investments in India. As a case study, Japanese investments in West Bengal with special reference to some large scale projects are dealt in the fifth section. Conclusions and policy implications are drawn in the last section.

2. Role of FDI in Development

There has been a vast literature indicating increase in inward FDI going to developing countries in recent years, fuelled by three major reasons, namely, (i) the rise of multinational corporations and the search for global profits, (ii) the liberalization of global capital markets, and (iii) the economic liberalization within developing countries.³

Equally important are cost structures, differential returns, market growth and the institutional characteristics of the host country as determinants of FDI, noted in UNCTAD (2006). Much also depends on the capacity of the country to absorb the investments, which, in turn, depends on the country's growth prospects and ability to export.

The essence of FDI is that it is a package of capital, technology and managerial skills. This immediately suggests that an understanding of FDI requires a different orientation than that of the framework of traditional trade theory. The traditional trade theory is based on the assumptions that factors of production are internationally immobile and that technology is identical between trading partners. But trade theory does not explain the process of knowledge transfer nor does it explain the factors motivating the generation of new knowledge. So the question is why do firms prefer to export the package rather than exporting the products produced with the package.

- **The product-cycle hypothesis:** One of the earliest explanations of FDI which attempts to explain trade and investment flows together, is the product-cycle hypothesis advanced by Vernon (1979). The thesis explains that both demand and supply considerations favour the location of innovative new products in developed countries. On the demand side, high levels of income

and rising labour cost in developed countries generate a demand for differentiated products and labour-saving goods respectively. On the supply side, the skill and research intensity of new products endow the developed countries with a comparative advantage in the production of such goods. As a result, innovative new products emerge in high income developed countries for which they are designed and then gradually exported to other markets where the demand for them exists.

- **Explanation based on market imperfection:** This explanation was forwarded by Hymer (1960) and elaborated by Kindleberger (1969). Starting point of the explanation is that firms decide to undertake FDI in order to exploit the monopoly over rent yielding advantages that they possess in foreign markets. These advantages range from access to specific managerial skills, economies of scale and special marketing skills, to the possession of a brand name. FDI would be preferred to licensing the technology as it enables the firm to capture fully the rents accruing from its monopoly over advantages. Production abroad is preferred to production at home and export as it enables the firm to exploit differences in factor prices and overcome tariff barriers and transport cost. Nearness to market also enables the firm to adopt and modify the product to suit local tastes and market conditions.
- **Internalisation theory:** Another explanation of FDI and MNC, which also emphasizes market imperfection for intermediate inputs and technology, is explained by Buckley and Casson (1976). Markets for intermediate inputs and technology are imperfect in the sense that they are difficult to organize and pose serious problems uncertainty and often preclude pricing arrangements by which rent yielding advantages can be fully exploited. In order to by-pass these imperfections in the external markets, firms internalize their operations. In other words, firms resort to backward and forward integration to overcome market imperfection. The internalization of markets across national boundaries results in FDI.

Studies within the framework of new endogenous growth theory have revealed a positive relationship between FDI and GDP. Borensztein, de Gregorio and Lee (1995) have shown that one

percentage point increase in the ratio of FDI to GDP in developing countries over the period 1971-89 was associated with a 0.4-0.7 percentage point increase in the growth of per capita GDP. But there is also evidence of bi-directional causality. FDI affects growth positively, at least above a certain threshold, but growth also affects FDI positively. This bi-directional causality was further observed by Kholdy and Sohrabian (2005), and they concluded that initially in countries with low GDP per capita economic growth stimulate financial development; however, the direction of causality reverses for countries with higher GDP per-capita. However, their results suggest that FDI can not induce economic growth. In an another study, Liu *et al* (1997) argue that economic development, exports and FDI appear to be mutually reinforcing under the open-door policy. Johan *et al* (2001) examined the effect of FDI on output and total factor productivity (TFP) growth in the host economy. FDI-led growth hypothesis is investigated for Denmark, Finland, Norway, and Sweden by constructing a vector autoregression (VAR) model. On the basis of the new Granger non-causality procedure developed by Toda and Yamamoto (1995) and Yamada and Toda (1998), the results show that FDI and output are causally related in the long run for Norway and Sweden. Granger-causality is bi-directional in Sweden and uni-directional, running from FDI growth to economic growth, in Norway. Their findings could not offer support for the causality link for Finland and Denmark. The established bi-directional causality between variables reveals two policy implications. First, by stimulating economic growth, the recipient countries can encourage inflows of FDI. Second, FDI exerts a major influence on economic growth.

Therefore, FDI can play a catalytic role in economic development in the following way, provided the recipient country has the requisite institutional capacity and governance structure.

- They help to increase the investment level and thereby income and employment to the host country.
- They enable the host country to increase their exports and decrease their import requirements.
- They bring an efficient Research and Development (R&D) system that is contributing to inventions and innovations.

3. Trends of Japanese FDI in India

Japanese FDI in India was never been substantial. During August 1991 to June 2006, an inflow of 26,631 foreign collaborations (FC), both technical and financial, with an aggregate FDI of US\$ 67.65 billion came to India, out of which, Japan shared 6.18% in terms of total approvals of FC (1,645) and 4.77% in terms of equity participation (US\$ 3.23 billion), ranking third next to Mauritius, and USA. However, Japanese FDI in India has started declining from the beginning of the ongoing decade. In 2000, actual FDI from Japan was only US\$ 229.2 million, which became US\$ 116 million only in 2004 and then US\$ 128 in 2005. The actual FDI from Japan during January to March 2006 is US\$64.5 million. Table 1 shows this trend clearly.

Table 1: Year-wise Actual Foreign Direct Investment

Year	From Japan (US \$)	From Rest of the World (US \$)	Percentage of Japan in Total Inflows*
1991	2.3	144.4	2.92
1992	27.4	264.1	13.63
1993	26.4	607.5	6.61
1994	87.9	992.1	14.8
1995	72.3	2065.4	5.16
1996	87.5	2545	4.72
1997	164.8	3621.3	5.38
1998	197.6	3359.3	8.82
1999	151.3	2420.6	9.15
2000	229.2	2873	9.77
2001	221.5	3728.4	6.29
2002	412.6	3790.7	12.28
2003	94.4	2525.5	4.54
2004	116	3753.4	3.61
2005	128	4360.2	3.86
2006***	64.5	1853.3	3.48
Total (1991-2006)	2123.7	38904.2	6.59

Notes: * January to December ** August to December 20, 2006 *** January to March. Percentage figures do not take into account the amount of FDI inflows for the RBIs-NRI Schemes, acquisition of existing shares (upto 1999), stock swapped & advance pending for the allotment of shares, as these are not categorised country-wise.

Source: FDI Synopsis on Japan, SIA Newsletter, Ministry of Commerce and Industry, Government of India.

Japanese FDI in India came through either joint ventures or wholly-owned subsidiaries mostly in automobiles and consumer goods sectors. In terms of total volume, Japanese FDI in India is insignificant, compared to its total FDI, and also very low, compared to Japanese FDI in China. Japanese investments in India account for only 0.1% of Japan's total global investment and 0.7% of its investment in Asia for the period 1991 to 1998. Japanese investments in India rose to 0.27% of Japan's total global investment in 2004. Table 2 shows the year-wise Japanese FDI abroad and its corresponding share in India.

Among the top countries investing in India, Japan is ranked third,

Table 2: Year-wise Japanese Total FDI Abroad and Its corresponding Share in India

Year	Japanese Total Outward FDI (Million US \$)	Japanese FDI in India (Million US \$)	Percentage of India in total Japanese Outward FDI (%)
1986-1991 (AA)	44790	20	0.04
1992-1997 (AA)	44101	172	0.39
1998	41228	259	0.62
1999	67502	208	0.3
2000	49034	168	0.34
2001	32297	145	0.44
2002	36858	310	0.84
2003	36092	87	0.24
2004	35548	97	0.27

Notes: * January to December. AA stands for annual average.

Sources: JETRO based on Ministry of Finance (MOF) statistics for Japan's inward and outward FDI.

next to Mauritius and USA, as per as the percentage with inflow is concerned. This can be observed clearly from Table 3.

India's country-wise FDI statistics (provided by the Ministry of Commerce and Industry) shows gradual decline of Japan's FDI to India from its peak US\$ 531 million in 1997 to its bottom US\$ 75 million in 2003. This declining trend is in line with general trend of

Table 3: Share of Top 10 Countries in FDI Inflows in India (Financial year-wise)

Ranks	Country	Aug-91 to March 2003	2003-04 (April- March)	2004-05 (April- March)	2005-06 (April- March)	2006-07 (April- July)	Cumulative Inflows (from Aug, 1991 to July 2006)	Percentage with inflow	
		(US\$ million)							%
1	Mauritius	6731	567	1129	2570	1506	12290	38.49	
2	U.S.A	3188	360	669	502	263	5302	14.71	
3	Japan	1299	78	126	208	29	2153	6.1	
4	Netherlands	986	489	267	76	77	207 ¹	5.95	
5	U.K	1106	167	101	266	79	2058	5.81	
6	Germany	908	81	145	303	28	1610	4.47	
7	Singapore	515	37	184	275	432	1483	4.26	
8	France	492	38	117	18	36	815	2.31	
9	Korea	594	24	35	60	20	771	2.02	
10	Switzerland	325	45	77	96	19	654	1.82	
	Total FDI inflows*	23829	2634	3754	4549	2896	41798		

Notes: *Includes inflows under NRI Schemes of RBI, stock swapped and advances pending issue of shares. Country-wise cumulative FDI inflows (from August 1991 to November 2005)

Source: Ministry of Finance, Government of India

the World FDI to India over the same period. These statistics, however, do not reflect correctly the reality of dynamic FDI activities in India, because of discrepancy of FDI's definition between the total FDI and country-wise FDI to India.⁴

4. Japanese FDI in India vis-à-vis Other Countries

Since the mid-1980s, Japan has been one of the largest sources of FDI in the world. Japanese corporations actively pursued investment overseas in response to yen appreciation, protectionism, higher labour costs, slower domestic growth and the need to secure natural resources and markets. Foreign investment also facilitated Japan's adjustment to its changing comparative advantages as its domestic economy evolved from light manufacturing towards more advanced industries. During this period a large number of different host countries and industries attracted Japanese investors. Being world's second largest economy, Japan established extensive trade and investment linkages with rest of the world—linkages that have significantly affected trade and industrial development in many host economies as explained by Farrell *et al* (2000). Table 4 shows trends of Japanese FDI in India vis-a-vis other countries and regions.

From the Table 4 it can be easily observed that the share of Japanese FDI to India, although increasing, was never been substantial when compared with Japanese FDI to countries like China, USA, and UK. Amount of Japanese FDI to India is very low and is even less than that to countries like Thailand, Malaysia and Singapore.

According to JETRO Survey 2005/06 (JETRO, 2006), some plausible reasons for such low Japanese FDI to India are as follows.

- **Problems in labour and employment:** This involves Restrictive labour practices and Low rate of worker retention.
- **Problems in investment environment:** This involves Troublesome and complicated tax practices, Insufficient conditions and maintenance of infrastructures and Troublesome and complicated administrative procedures (authorities' permission, etc.).
- **Problems in foreign trade system:** This involves uncertain and

Table 4: Japan's Total Outward FDI by Country/Region (International Investment Position)

	FDI Outward Stock (US\$ million)									
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
China	8,098	21,248	17,912	7,340	8,699	10,043	12,408	15,296	20,208	24,414
Korea	3,464	8,831	4,120	2,941	4,192	4,391	5,245	5,074	6,602	8,171
Singapore	11,410	11,000	9,495	8,375	8,853	10,190	10,428	9,826	11,175	11,695
ASEAN	41,558	20,446	24,106	14,618	15,568	17,546	18,782	21,507	23,806	27,386
Thailand	15,752	5,723	5,718	4,616	4,767	6,113	6,287	7,650	9,909	11,563
Malaysia	5,750	4,709	4,439	3,618	4,003	4,316	3,936	3,959	4,080	4,756
India	785	785	989	913	1,171	1,149	1,311	1,507	1,756	1,785
U.S.A.	94,336	102,336	111,108	118,435	132,222	140,651	136,190	139,195	142,302	148,684
Brazil	3,756	5,494	5,299	4,692	3,985	4,628	3,974	4,920	4,560	5,942
Germany	4,217	5,412	4,711	3,431	4,130	3,940	4,689	6,871	6,990	6,136
U.K.	20,320	28,796	24,801	17,999	21,765	33,199	26,299	24,429	26,845	24,027
France	1,515	2,788	3,061	3,019	3,071	2,909	5,411	7,279	12,937	11,214
Netherlands	8,440	8,106	9,283	17,482	16,667	19,543	22,916	33,698	36,499	34,253
Switzerland	2,967	2,479	2,208	1,102	978	1,142	1,265	1,173	1,035	861
Russia	53	939	725	18	28	18	50	14	87	155,3497
Africa	441	671	901	889	758	625	1,232	2,052	1,628	1,319

Sources: Prepared by JETRO from Ministry of Finance and Bank of Japan balance of payment and cross-border investment statistics and Bank of Japan foreign exchange rates

unclear inspection system, complicated customs clearance procedures, time – consuming customs procedures and insufficient development and maintenance of logistics infrastructures.

To attract FDI and promote exports, the Government of India is aggressively pursuing Special Economic Zones (SEZ). There are 14 functional SEZs and 61 approved SEZs. These SEZs provides business friendly regulatory environment, modern infrastructures and fiscal incentives like tax exemptions, total repatriation of profits and 100% foreign ownership for setting up manufacturing facilities. India has also amended its laws for protection and enforcement of intellectual property rights to attract technology and FDI. A number of policies has been formulated to promote Information Technology (IT) and IT enabled services, manufacturing and services. The “India Everywhere” campaign at the World Economic Forum at Davos, to raise awareness of the opportunities in India both from FDI and emerging market perspectives, reflects India’s current philosophy. This had led to boost up the confidence of Japanese investors on India, and results have started appearing.

The number of Japanese companies in India has increased from 238 in 2003 to 328 in 2006 and Japan remains a major supplier of technology to India with 837 collaborations. Japanese FDI to India has increased significantly to US\$ 1.8 billion for 2005-2007.⁵ Considering the growing Indian upper and middle-income population, rising disposable incomes and the expanding markets for consumer goods (14.3% in 2004-2005), there are several potential sectors for investment. The Government of India has planned US\$ 150 billion in infrastructure related investments. This will also further strengthen industrial activities and increase domestic and international trade. India is at the inflection point in growth and Japanese firms can significantly benefit from this upside potential.

5. Sector-wise Japanese FDI in India

Japan’s FDI has mostly flown into automotive and petrochemical industries, which together constitute 80% share of the total Japanese FDI. These were initially made in the late 1990’s except the case of Suzuki’s investment in the Maruti Udyog in the early

1980s. Even though these FDIs are entering into India towards expansion of existing manufacturing capacities to cope with robust increase of market demand, major part of Japanese FDI is undertaking in a form of reinvestment by effectively using their internal reserve of profits.

Japanese investors feel that availability of skilled manpower is a major advantage enjoyed by India in attracting FDI into India but at the same time a healthy market growth is also equally important. Between 2000 and March 2005, the major sectors that have been attracting Japanese FDI include Transportation (58.07%), followed by Electrical equipments including computer software and electronics (6.83%), Telecommunications (4.08%), Earth moving machinery (3.43%) and Service sector (3.3%). (see Table 5).

Some of the Japanese companies investing in India are Nippon Telegraph and Telephone Corporation, Toyota Motors, Mitsubishi

Table 5: Share of Top Sectors in Actual FDI Inflows From Japan (From January 2000 to March 2006)

Rank	Sector	Amount of FDI Inflows (US \$ million)	Percentage of FDI Inflows from Japan (%)
1	Transportation Industries	714.7	58.07
2	Electrical equipments (including computer software and electronics)	89	6.83
3	Telecommunications	54.7	4.08
4	Earth moving machinery	44.7	3.43
5	Service sector (financial & non-financial)	43.2	3.3
	Total of the above	946.3	75.71

Notes: (i) Amount includes the inflows received through FIPB/SIA route, acquisition of existing shares & RBI'S automatic route only. (ii) The amount of FDI inflows in respect of the Country & Sector specific data is not provided by RBI, Mumbai prior to January 2000.

Source: FDI Synopsis on Japan, SIA Newsletter, Ministry of Commerce and Industry, Government of India.

Chemicals, Mitsui, Fujitsu, C. Itoh & Co., Merubeni, Denso, Honda, Suzuki, etc (see, Table 6). Top FDI inflows received (from January 2000 to March 2006) from Japan through Indian companies are Maruti Udyog Ltd., Escorts Yamaha Motor Ltd., Yamaha Motor India Pvt. Ltd., Yamaha Motor Escorts Ltd., TELCO Constructions Equipments Co., Birla NGK Insulators Pvt. Ltd., Welspen Productions Pvt. Ltd., Toyota Kirloskar Motors Ltd., Toyota Kirloskar Auto Parts Ltd., Toyota Kirloskar Motors Pvt. Ltd., Denso Haryana Pvt. Ltd., Telco Construction Equipment Co. Pvt. Ltd., etc.

There have been overall 7682 technical collaboration between Indian and Japanese companies since 1991. The priority sectors attracting technology from Japan include transportation industry (233), electrical equipments (including computer software and electronics) (195), miscellaneous industry (52) and industrial machinery (47) (see, Table 7).

Japanese TNCs have earned more from manufacturing than services and therefore, traditionally the thrust has been towards this sector. However, in the recent past, the focus towards the service sector has been quite prominent. As is already seen, telecommunications and transportation are among the top sectors attracting FDI. However, a few major areas that can attract Japanese FDI in future include banking, information and communication technology (ICT) including IT enabled services (ITES) and construction, R&D (biotechnology), medical tourism and environment. The main reason behind future Japanese investment in ICT and ITES is the Complementarity between India's lead software on the one hand and Japanese hardware on the other. Similarly, housing and real estate is quite a throbbing area. With 100% FDI being allowed here, Japanese investors are looking forward to work for a township that would enable them to cater to the housing as well as the cultural, educational, entertainment, social and culinary needs of the community.

Majority of the Japanese companies surveyed said that they are making profits and are positively considering further expansion of their operations. To many of them, the inhibiting factors are differences in business practices, environment and culture, etc. But at the same

Table 6: Details of Top Ten Investing Companies of Japan in India

No	Name of Collaborator	Sector	State	Amount of FDI approved (US\$ million)
1	Nippon Telegraph and Telephone Corporation	Telecommunications (cellular mobile/basic telephone services)	Delhi	374.5
2	Toyota Motor Corporation	Transportation Industry	Karnataka	148.1
3	Mitsubishi Chemicals Corporation	Chemicals (other than fertilizer)	West Bengal	148.3
4	Mitsui & Company Ltd.	Trading	State not Indicated	134.7
5	Toyota Motor Corporation	Transportation Industry	Karnataka	87.1
6	Fujitso Ltd.	Telecommunications	Delhi	145.4
7	C. Itoh & Co.	Fuels (oil refinery)	State not Indicated	134
8	Toyota Motor Corporation	Transportation Industry	Karnataka	123.8
9	Honda Motor Corporation	Transportation Industry	Delhi	78.2
10	Yamaha Motor Co. Ltd.	Transportation Industry (motor cycles)	Uttar Pradesh	77.8

Source: FDI Synopsis on Japan, SIA Newsletter, Ministry of Commerce and Industry, Government of India.

**Table 7: Share of Top Five Sectors Attracting
Technology Transfer from Japan
(August 1991 to March 2006)**

Rank	Sector	No. of Technical Collaboration Approved	Percentage of technical collaboration with Japan (%)
1	Transportation Industries	238	28.13
2	Electrical equipments (including computer software and electronics)	197	23.29
3	Chemicals (other than fertilizers)	76	8.98
4	Misc. Mechanical Engg.	52	6.15
5	Industrial Machinery	48	5.67

Source: FDI Synopsis on Japan, SIA Newsletter, Ministry of Commerce and Industry, Government of India.

time, they are aware of India's huge market potential, especially in IT and IT-related. Also, most of Japanese investors feel that ground level hassles like labour laws, taxes, legal and regulatory framework are high in India. The infrastructure forms the backbone of development of any country. According to the majority of the Japanese investors, overall infrastructure facilities are lacking in India. To attract Japanese investment, Indian transport infrastructure needs improvement. The telecommunication facilities are however rated as "average".

Although investments in IT and automobile industries are increasing, further economic reforms and deregulation are required to attract foreign investment into India. It is absolutely necessary for India to take steps to strengthen the competitiveness of Indian products and to improve the comprehensive productivity through revision of the Labour Act, improvement of infrastructure and individual private companies of self-help improvement.

6. Japanese ODA in Indian States

Let us have a brief sketch of Japanese ODA⁶ in the different states of India. The ongoing projects in the state of Andhra Pradesh include the

Simhadri Thermal Power Project, the KC Canal Modernization Project (IDP 155) and the Restoration and Management of Hussain Sagar Lake at Hyderabad, with an ODA package of Rs. 270 crores. The Simhadri Thermal Power Project has been sanctioned in four phases, the first under IDP 120, and the second, third and fourth under IDP 138, 140 and 144 respectively. The year of signing of the first phase was 1997 with the period of completion being ten years. Similarly the corresponding years for the phase IV have been 2003 and 2009 respectively. The Simhadri Vizag Transmission System Phase II Project was signed under IDP 142 in May 2002. Another project, which was implemented by the Central Silk Board of Bangalore under the Japanese Grant and Technical Assistance, is the Project for Strengthening the Extension System for Bivoltine Sericulture in India (Phase-III) signed in April 30, 2002 for a year. A JICA-NGO Partnership Programme has been undertaken for the creation of a new type of producer-consumer relationship and common property resources through the linkage of urban-rural women Self Help Groups.

Similarly, projects in Rajasthan include Rajasthan Forestry and Biodiversity Project (IDP 148), Bilaspur-Jaipur Water Supply Project (IDP 157) and Rajasthan Minor Irrigation Improvement Project (IDP 161). The approximate grant amounts for each of the above projects have been JY 9054 million, 8881 million and 11555 million respectively. Some of the projects in the state of Orissa comprise of the Rengali Irrigation Project (IDP-154), Orissa Forest Sector Development Project and the project for the improvement of the Sewerage, Infrastructure services in the towns of Bhubaneswar, Cuttack, Sambalpur and Behrampur in Orissa. The total loan amounts for each of these plans are respectively Japanese Yen 6342 million, Rs. 450 crore and Rs. 1213 crores respectively. The prospective projects for the year 2006-07 has been the conservation and wise use of natural resources of Chilka Lagoon and improvement of the livelihood of the local community estimates to be costing around Rs. 20 crores. In case of Orissa, the Sardar Vallabhbai Patel Post Graduate Institute of Paediatrics is also undergoing improvements, aided by Japanese grant and technical assistance. Some of the Japanese projects in India are given in Table 8.

7. Japanese ODA and FDI in West Bengal

West Bengal has been a favourite destination for Japanese investors in the recent past. We find that a good amount of Japanese ODA went into West Bengal, which also helped a number of Japanese firms to invest in the state. The different projects that are presently in the construction phase include the West Bengal Transmission System Project phase II (IDP-143), incurring having a total grant amount of Japanese Yen 3127 million; the Bakreswar Thermal Power Station Unit Extension Project (IDP-147), with grant of JY 36771 million; the Purulia Pumped Storage Project Phases II and III (grant amounts of JY 23578 million and Rs.581 crores respectively). Others include the Calcutta Transport System Project (IDP-122), having Japanese assistance amounting to JY 10679 million; the Distribution Up gradation in Kolkata (Rs.127 crores) and the Solid Waste Management Project in Kolkata Metropolitan Area (Rs.300 crores). The projects that are under the rolling plans for the year 2006-07 are the Kolkata Metro, the Elevated Mass rapid Transport System for Kolkata (Rs.2385 crores) and the Raichak-Kukrahati Bridge Project (Rs.1361 crores).

7.1 Examples of Some Successful Japanese ODA and FDI in West Bengal

(a) Purulia Pumped Storage Project (ODA)

The Purulia Pumped Storage Project, with an installed capacity of 900 MW (4X225 MW) is being set up in the Ayodhya hills in the Purulia district of West Bengal with the loan assistance of Japan Bank of International Cooperation (JBIC), erstwhile Overseas Economic Cooperation Fund (OECF). The estimated cost of the project is Rs. 32 billion (JY 1, 07,150 million). Of the total amount approved, JBIC had sanctioned JY 20,520 million, i.e., Rs. 6.12 billion in the first phase. The corresponding loan agreement number IDP 98 was signed on the February 28, 1995, with date of effect being 12 April 1995 and final date of disbursement as December 12, 2004. The second Phase Loan Agreement No. IDP 152, dated 31 March 2004 was effectuated on and from 18 June 2004. The final date of disbursement of the sanctioned amount of JY 23,578 million (Rs. 9 billion) has been fixed as 18 June 2009. In the joint venture

Table 8: Japanese Projects (ODA) in Various Indian States

No.	IDP No. and Name of the Project	(Amount in Million Yen)		
		Location	Loan Amount	Date of signing/closing
1	Purulia Pumped Storage Project	West Bengal	20520	28-02-1995/12-12-2004
2	Bakreswar TPS Unit Extension Project	West Bengal	36771	31-03-2003/22-08-2009
3	West Bengal Transport System Project II	West Bengal	3127	10-05-2002/02-08-2009
4	Purulia Pumped Storage Project II	West Bengal	23578	31-03-2004/18-06-2009
5	Calcutta Transport System Project	West Bengal	10679	25-02-1997/29-12-2005
6	Simhadri Thermal Power Project	Andhra Pradesh	19817	25-02-1997/24-06-2007
7	Simhadri Thermal Power Project II	Andhra Pradesh	12194	30-03-2001/07-06-2008
8	Simhadri Thermal Power Project III	Andhra Pradesh	27473	13-02-2002/26-03-2009
9	Simhadri Thermal Power Project IV	Andhra Pradesh	5684	31-03-2003/22-08-2009
10	Simhadri and Vizag Transmission System Project-II	Andhra Pradesh	6400	10-05-2002/02-08-2009
11	KC Canal Project	Andhra Pradesh	16049	25-01-1996/26-02-2005
12	KC Canal Modernisation Project II	Andhra Pradesh	4773	31-03-2004/18-06-2012
13	Rajasthan Forestry of Biodiversity Project	Rajasthan	9054	31-03-2003/31-07-2010
14	Bilaspur-Jaipur Water Supply Project	Rajasthan	8881	31-03-2004/19-10-2013
15	Rengali irrigation Project	Orissa	7760	12-12-1997/31-12-2004

Table 8 continued

Table 8 continued

No.	IDP No. and Name of the Project	(Amount in Million Yen)		Date of signing/closing
		Location	Loan Amount	
16	Rengali irrigation Project II	Orissa	6342	31-03-2004/18-06-2011
17	NH-5 Improvement Project	Orissa	5836	28-02-1995/12-01-2005
18	Delhi Mass Rapid Transport System Project	Delhi	14760	25-02-1997/21-10-2007
19	Delhi Mass Rapid Transport System Project II	Delhi	6732	30-03-2001/07-06-2008
20	Delhi Mass Rapid Transport System Project III	Delhi	28659	13-02-2002/27-03-2009
21	Delhi Mass Rapid Transport System Project IV	Delhi	34012	31-03-2003/31-07-2009
22	Delhi Mass Rapid Transport System Project V	Delhi	59296	31-03-2004/18-06-2008
23	Northern India Transport System Project	Centre	8497	25-02-1997/03-06-2006
24	Eastern Karnataka Afforestation Project	Karnataka	15968	25-02-1997/29-05-2005
25	Bangalore Water Supply Project	Karnataka	28452	25-01-1996/31-12-2004
26	Kerala Water Supply Project	Kerala	11997	25-02-1997/03-06-2006
27	Attapaddy Wasteland Project	Kerala	5112	25-01-1996/26-03-2005
28	Rajghat Canal Irrigation Project	Madhya Pradesh	13222	25-02-1997/29-05-2006
30	Chattisgarh Pradesh Sericulture Project	Madhya Pradesh	2212	12-12-1997/05-02-2005
31	Tamil Nadu Afforestation Project	Tamil Nadu	133324	25-02-1997/29-05-2005

Source: Ministry of Finance, Government of India

Purulia, consisting of EPDC, Japan and WAPCOS, India was appointed as the main consultant for Detailed Design and Construction Supervision. The Main Civil Works (Lot-4) was placed to L & T as a subcontractor of the Taisei Corporation on the 27 June 2001. Hydro Mechanical Equipment (Lot-5) was given to Mitsubishi Heavy Industries Ltd. (MHI) on March 30, 2001. The construction of Electromechanical Equipment, i.e., Pump-Turbine, Generator-motor and other Power House Auxiliaries (Lot-6, Sub-Lot 6.2) was given to Mitsui and C. Ltd on July 28 2000. Letter of Award for Gas Insulated Sub-Station and Generator Transformer (Lot-6, Sub-Lot 6.2) was placed with Marubeni Corporation. Cumulative expenditure that has been made so far (November 2004 figures) for the project is Rs. 8.85 billion. Revised Budget Estimate (RB) of Rs. 3.38 billion was allocated for the financial year of 2004-05 as per Revised Annual Plan of DOP, GOWB and out of that an amount of Rs. 2.09 billion has been used till 30 November 2004.

(b) Mitsubishi Chemicals (FDI)

The Japanese conglomerate Mitsubishi Chemical Corporation (MCC) is about to set up its second unit at Haldia. At this phase, the company would be investing roughly around Rs. 17 billion, making it the largest investment in West Bengal. Consequently, the capacity of the unit will be increased by 800,000 tonnes, going up from 470,000 tonnes to 1.3 million tonnes. The plant will come up adjacent to the unit already existing in Haldia.

With an investment of about Rs. 15 billion made in the first phase, Mitsubishi's will be the largest Japanese investment in the country. The Haldia unit makes PTA (purified terephthalic acid), the main raw material for polyester fibre and Pet resins and films. The PTA market is said to be growing at 7 to 8 percent per annum in India. The company, which bagged a Rs. 18 billion turnover last year, plans to start construction of the new unit in 2006. Production is targeted to begin by the middle of 2008. Initially, the company was skeptical about the infrastructure at Haldia. However, an expanding market along with the proposed chemical hub there acted as the key deciding factors. Once the chemical hub as planned by the Government of India comes up, Mitsubishi will get a ready market at its doorstep.

(c) Kolkata Flyovers (ODA)

Between September 1991 and September 1992, Japan International Co-operative Agency (JICA) conducted a feasibility study for the Transport Infrastructure Development Project in Kolkata on the request of the Government of India and Government of West Bengal. Based on the study, a comprehensive project package consisting of four flyovers at important crossings and three numbers of at-grade intersections came out for implementation. Thereafter, a loan agreement was entered into in February 1997 between the Overseas Economic Co-operation Fund (OECF) and the President of India. The project consists of the following components:

- Esplanade (at-grade improvement)
- Gariahat Flyover
- Shayambazar (at-grade improvement)
- Rabindra Sadan Flyover & Beckbagan Flyover
- Maniktala (at-grade improvement)
- Park Street Flyover
- Lock Gate Road Flyover at Kashipur

The total project cost was US\$ 91.95 million. OECF funded 10679 million Japanese Yen (equivalent to US\$ 78.16 million) and the rest US\$ 13.8 million was the state's contribution for the implementation of the project. The some important features of this project are that road bed will be R.M.C. concrete; single column and spread of 16.5 mts for 4 lanes, road capacity designed to meet traffic demands for 2020, modern traffic signaling, international design standards followed.

(d) Other Projects with Japanese Involvement in West Bengal

- Bakreshwar Thermal Power Generating Plant promoted by WBPDC. Generating capacity: 1050 MW (ODA)
- WBSEB distribution system augmentation for improvement of the existing network of WBSEB. Cost: US\$ 214.3 million (ODA)
- Vivekananda Bridge over river Hugli close to northern fringes of Kolkata. Cost: US\$ 85.7 million. (ODA)
- Major FDIs from Japan are also coming through Matsushita (with Siemens) investing in soft ferrites and synthetic ferric oxide at

Kalyani Sumitomo for Special Power Cable Plant at Kalyani and Gestetner, owned worldwide by Ricoh, contributing in its manufacturing facility in Salt Lake for duplicating machines.

8. Conclusion

It is widely accepted that FDI is the engine of growth for the development of developing countries. The purpose of this study is to assess the trends of Japanese FDI in India. The amount of Japanese FDI to India was never been substantial. Restrictive labour practices, troublesome and complicated tax practices, insufficient conditions and maintenance of infrastructures and complicated administrative procedures are the main reasons for low amount of Japanese FDI to India. But the scenario started changing since the new economic reform introduced in 1991.

The conducive FDI policies coupled with large domestic market have helped India to become a favourable destination for Japanese FDI in South Asia. Japanese FDI to India has increased significantly in recent years. With increasing urbanization and pressure to create modern infrastructure, a number of Indian cities are exploring mass-transit system with Japanese assistance. Japan's engineering excellence, knowledge in urban-transit system and capital are effectively employed in India. Japan's FDI is also expanding in its coverage to various industrial sectors. New diversified areas of investment are, however, emerging such as chemicals, pharmaceuticals, food processing, IT software and textile. Japan's FDI in Indian manufacturing sector, would undoubtedly contribute in promoting trade in components and finished products between Japan and India, thus changing trading structure.

Japan-India economic relations are entering now into their new high time which was never seen in the past. Increasing cooperation between India and Japan may open a new dawn of prosperity and regional stability. They can compete, yet benefit from complementary comparative advantages. Japan's advantages of highly improved technologies, superior manufacturing knowledge and practices, and capital can help a lot to augment growth of India.

While Japan is implementing structural economic reforms, India is in the process of basic economic reforms. To raise the bilateral relationship to a “qualitatively new level”, the Japan-India Joint Declaration made on December 10, 2001, and at the time of visit of Indian Prime Minister to Japan on December 15, 2006, are very supportive in enhancing mutual trust and relationship. Stronger India-Japan bilateral relations would also mean a more stable and prosperous Asia.

Endnotes

- ¹ The negative lists are arms and ammunitions, atomic energy, railway transport, coal and lignite, mining of iron, manganese, chrome, gypsum, sulphur, gold, diamond, copper, zinc (Source: Ministry of Commerce and Industry, Government of India).
- ² Source: <http://www.atkearney.com/main.taf?p=5,3,1,138>
- ³ See, Ruffing (2004), UNCTAD (1996), UNCTAD (2004).
- ⁴ Though a global standard of compilation of FDI statistics is to total all of three factors, fresh money (equity capital), reinvestment (reinvestment earnings) and borrowing (inter-company debt), the Indian FDI statistics counted only fresh money until its definition was revised to count also reinvestment and borrowing in 2002. This revision is, however, applied only to the total FDI to India. Thus, country-wise statistics remains very much narrow in their scope with counting only fresh money.
- ⁵ Source: <http://www.in.emb-japan.go.jp>
- ⁶ Where FDI is a long term international capital movement in the form of investible funds or finance, ODA (Official Development Assistance) is flow of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective, and which are concessional in character with a grant element of at least 25 percent (using a fixed 10 percent rate of discount). By convention, ODA flows comprise contributions of donor government agencies, at all levels, to developing countries (“bilateral ODA”) and to multilateral institutions. ODA receipts comprise disbursements by bilateral donors and multilateral institutions. (Source: Organisation of Economic Cooperation and Development, Paris).

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