

The Rising Sun



Business ties between India and Japan are on an upswing, with bilateral trade topping the \$5 billion-mark and Japanese portfolio investments in the Indian stockmarkets almost touching the same figure. FDI from Japan is likely to grow in leaps and bounds in the near future as the Indian markets become more attractive. A Team **India Now** report

You will find the Maruti everywhere in India. The eponymous automobile company that manufactures the 800cc small car has even been selling on the proposition of its ubiquitous service stations. It has been joined on the roads by big brother Toyota, with models such as the Prado, the Camry, the Corolla and the Innova. Then there's the Honda Accord and the City. And many more. "You throw a stone on a crowded

road and the chances are that you will hit a Japanese make," says a Mumbai-based car dealer.

Yet, if you ask the man on the street about the Japanese presence in India, there will be very little awareness. The Maruti and its many stablemates — the Baleno, the Grand Vitara, the Zen and the Swift, for example — are seen as Indian cars. "The Japanese have traditionally been very low profile," says Nishimura Masahiro,

general manager operations (Asia) of Japanese staffing services firm Staff Service. This \$3.26 billion company has just bought a 54 per cent stake in the Mumbai-based Net Technologies.

Early this year Suzuki Motor Corp's chairman and CEO Osamu Suzuki landed up in India with nearly 2,500 dealers from Japan. (Suzuki is now the majority shareholder in Maruti Udyog, a company that was incorporated 25 years ago as a joint

venture with the government of India.)

Osamu Suzuki was singularly upbeat during his visit. In 2005, Suzuki Motors sold 700,000 cars in Japan and the growth was around 5 per cent. In India, sales stood at 516,000 and the growth rate was 8.9 per cent. In a couple of years, India will catch up. "We have brought our dealers here to show them the best practices adopted in this automobile market," Suzuki said.

It's a two-way process. "About 50 young Maruti engineers have been trained at Suzuki for periods ranging from six months to two years," Maruti managing director Jagdish Khattar told India Now recently. The objective is to make India the R&D hub for Suzuki in Asia. Several western information technology (IT) companies have already set up R&D facilities here. Now it's the turn of the Far East.

Maruti is not the only Japanese company making silent waves. More than 425 engineers of Toyota Kirloskar have been sent to Japan, Indonesia and Taiwan for training programmes. "Talent is at a premium today," says Vikram Kirloskar, vice-chairman of the Bangalore-based Toyota Kirloskar Motor.

Kirloskar sees huge scope for Indo-

Japan joint ventures (JVs) to cater to both the domestic and export markets. "I do not look for only big Japanese companies to come to India, but also for the small and mid-size enterprises which are the key to an efficient supply and delivery chain," he says. His principal learning from his interaction with the Japanese, he adds, is in manufacturing management.

Kirloskar and Khattar are high profile and their companies share the podium with them. But there are hundreds of other Japanese companies in India that do not make headlines as often. According to Japanese embassy figures, there were 231 such companies in August 2003. That number rose to 328 by January 2006.

Some of the names are independently familiar, though they only look startling when you put them all together. They include Asahi Glass, Canon, Citizen Watches, Daikin Air-conditioning, Dentsu Marcom, Fuji Photo, Fujitsu, Hitachi, Honda, Kansai Paints, Mitsubishi, Mitsui, Nissin Foods, Panasonic, Ricoh, Sakata Inx, Sona Koyo, Sharp, Sony, Sumitomo... Like a roll of honour after a particularly successful campaign, the list goes on.

Today, many of these companies have moved into investment mode (see table).

Maruti Suzuki has lined up a \$700 million expansion. Mitsubishi Chemicals is pumping in \$370 million for increasing the capacity of its plant in Haldia (in the eastern state of West Bengal). The Honda Group has prepared a warchest of \$230 million. And Toyota and Asahi are talking about \$130 million apiece. "Money is not the constraint when it is needed," says Vikram Kirloskar.

Masahiro of Staff Service explains that the manufacturing units come first; the service sector follows. "If you see the number of Japanese companies in India, you will wonder why we haven't been here earlier," says he. "We are not banking on Japanese companies alone for our business. But it helps to have a base that is familiar with your name and style of operations."

There is a flip side to this, of course. Many of the companies on the list are mere trading outfits. Big-ticket investments in manufacturing have not come in across the board. According to available estimates, foreign direct investment (FDI) from Japan will amount to only \$1.8 billion in the 2005-07 period.

"This is only a rough estimate," says Japanese ambassador to India Yasukuni



VIKRAM KIRLOSKAR: There is huge scope for Indo-Japan joint ventures to cater to both the domestic and export markets

JAPANESE INVESTMENT IS AN EXPRESSION OF CONFIDENCE IN THE

JAPANESE ambassador to India - Yasukuni Enoki - is no stranger to this country. He has been here before, as Counsellor in the Embassy of Japan in New Delhi during 1981-1983. He sees a further thrust to the "productive economic partnership with India". One indicator: "An increasing number of top executives of major Japanese firms are visiting India one after another." Excerpts from an interaction with India Now:

Japanese FDI (foreign direct investment) into India is expected to average around \$600 million a year over the next three years — 2005-07. Do you see a quantum jump in this figure in the post-2007 phase?

Japanese FDI of \$600 million per year is a rough estimate arrived at by totalling individual FDI projects reported until last December in Japanese newspapers. Taking into account many new FDI projects announced since the beginning of this year, as well some large-scale projects currently under serious consideration, the amount of Japanese FDI per annum over the period 2005-2007 will exceed \$600 million very easily. The current Japanese FDI boom in India

is based on the confidence of Japanese investors in the strong economic fundamentals of the country. Thus, even beyond 2007, Japanese investment will be further strengthened as long as India achieves sustainable growth.

What are the other sectors in India — besides automotive and petrochemicals, which so far account for 80 per cent of Japanese FDI — that are likely to see increased inflow of investments from Japan in the future?

The recent trends in Japanese FDI to India show that investment is being diversified into sectors such as pharmaceuticals, food-processing, the software and hardware sectors in the Information Technology industry, manufacturing machinery, and so on. The second trend is the growing interest of Japanese small and medium enterprises (SMEs) in the Indian market. This SME investment also contributes to the diversification of FDI destinations.

With almost \$5 billion of portfolio investments in India from Japanese FIIs (foreign institutional

investors) last year, do you see this country emerging as a magnet for Tokyo-based fund managers? What is attracting such a huge inflow? Does this reflect the confidence of Japanese investors in the India success story?

Japanese FII investment in India continues to grow. As this is basically the expression of strong confidence of Japanese investors in the robust economic growth of India, Japanese FII investment in India will most probably continue to expand further. With this as the backdrop, Japanese financial and securities companies are, one after the other, opening branches or liaison offices in Mumbai and New Delhi, to cope with the strong demand of Japanese investors.

What are the advantages India has over, say, China which has also attracted a lot of Japanese investment?

I believe India has four distinct features in comparison with China:

First is the deep-rooted democracy and the consequent political stability in the long term.

Second, Indian gross domestic product



JAPANESE FDI: It's thumbs up for increased inflows

INDIA STORY

(GDP) has not been particularly dependent on external trade and FDI. This, paradoxically, is a positive feature. It leaves much room to achieve more robust economic growth through expansion of external trade and further liberalisation of FDI.

Third, the country has an established rule of law. A reliable judicial system constitutes a safeguard for commercial disputes. This is recognised as a safety net. Fourth is the younger demography. Even in the middle of the 21st century, the labour force will account for 70 per cent of the population. This should be a locomotive for India's sustainable development over the decades to come.

Do you see acceleration in the two-way trade in the coming years? Would you agree that there is a lot of scope for enhancing bilateral trade, from the existing \$5 billion level?

It is evident that the current Japan-India trade level is less than expected, given the economic potential of the two countries. While two-way trade is expected to expand manifold through increased FDI, the increase of FDI by SMEs will, in particular, add to the impetus.

At the same time, I wish to draw your attention to the fact that international trade is conducted by global and multinational mechanisms. In particular, much of Japan-India business is taking the shape of trilateral trade among Japan, the ASEAN and India. One typical example of this is the export of transmissions and auto components manufactured by Toyota in Bangalore to Toyota in Thailand. This is reflected only in India-Thailand bilateral trade statistics.

India's infrastructural requirements are huge, running into tens of billions of dollars every year. Are Japanese investors mulling over investing in projects to build



Ambassador Yasukuni Enoki

new airports, ports, expressways and highways, and power plants in India?

Japan's FDI in the infrastructure sector will be activated in the future. It is being confirmed by the increase in the number of Japanese construction companies in India. However, the methodology of Public-Private Partnership (PPP)

has not been fully established. These projects can be easily affected by political factors because of their long duration, the large amount of investment requirement, and the large number of people who will be beneficiaries. Japanese developers and construction companies have so far adopted a cautious attitude to becoming the main contractor in large PPP projects. They are not yet familiar with the intricacies of the Indian market. I hope that after one company succeeds in a PPP venture, the way will be paved for other Japanese companies to follow.

India has also thrown open the real estate sector to 100 per cent FDI. Do you expect Japanese developers and builders to take up construction of residential townships, IT parks, office blocks, convention centres, and even hotels and resorts?

It is true that Japanese companies have invested heavily in the real estate sector in ASEAN countries and there are many success stories. However, investment in the real estate sector usually arrives at a rather later stage within the sequence of Japanese FDI. Investment in this sector is generally aiming at supporting an existing large-scale Japanese business community in the market. Thus, we first need to concentrate on encouraging investment in the manufacturing sector, as it is more important to enhance the overall presence of Japanese business activities in India.

Enoki (see interview). The actual numbers will be much higher. Japanese investors will go where growth is. And the India story is the brightest at the moment.

There is clear recognition of this when it comes to investments in the Indian stockmarkets. The first India investment fund for domestic Japanese investors was inaugurated only in September 2004. Since then, some \$4.7 billion has been raised from individual investors (see chart).

According to the Japanese embassy, this is around half the total foreign institutional investor (FII) investment in India. Japan, thus, is a major contributor to the gallop of the Bombay Stock Exchange Sensex to the 12,000 levels today from 6,000 on 11 February 2000. "You can't deny their role," says Nandan Chakraborty, head of research at Enam Securities, a Mumbai-based capital market intermediary. "Today even a rumour of Nomura (which has a \$1 billion India fund) getting into action is enough to move the market." Japanese ambassador Enoki sees much more FII money coming India's way.

Although these numbers are heartening, it is possible to make too much of

Major Japanese FDI projects in India (\$ million)

Company	Investment
Maruti	700
Mitsubishi Chemical	64
Asahi India Glass	128
Toyota	128
Honda Motorcycles	107
Hero Honda	107
Sakata Inx	54
Honda Siel	33
Yanmar	32
NTN	26
Kansai Paint	19
Koito Manufacturing	15
Yakult	14
YKK	13
Lotte	11
Sanyo	9
Mitsubishi Heavy	9
Nihon Koso	3
Eisai (Pharma)	2
Obara	2

Note: Other projects for which the amount has not been specified include Munjal Showa, Nippon Leakless, Makino Milling, Suzuki, Marubeni, Komatsu, Hitachi and Daihatsu.

Source: Japanese Embassy in India

THE CULTURAL DIMENSION



Geetanjali Kirloskar at a workshop conducted by the India-Japan Initiative, where Japanese women were taught how to wear a saree.

TEA MAKING in Japan is a ritualistic exercise. The ceremony goes back to Shogun Ashikaga Yoshimasa, some 600 years ago. For him, tea making was on the same plane as painting and drama.

Tea making is an art that Japanese ladies in India are teaching their Indian counterparts. It is a part of the activities of the India Japan Initiative (IJI), set up in May 2004 by the Kirloskar Foundation along with companies such as Infosys, Bharat Forge, Toyota Kirloskar, Mitsubishi, Mitsui, Asahi Glass and Citizen Watches.

The bottomline to all this is, of course, business. But, as Geetanjali Kirloskar, chairperson of the IJI, explains: "It is critically important to provide an enabling environment for the people of the two countries to interact through an exchange of ideas, and sharing of cultural diversity and business learnings, to create higher levels of comfort. We are building bridges between the two countries."

IJI has been very active since its inception. It holds regular cultural workshops in the major Indian cities. One side of it is introducing Indian apparel, cuisine and

entertainment to the Japanese. On the other side, it is the Japanese teaching origami, ikebana, kimono wearing and similar arts to Indians. Many such programmes have been held at fashion colleges, art schools and even for financially-disadvantaged children.

"The objective is to create greater understanding," says Kirloskar. "With improved understanding comes a greater degree of respect and higher comfort levels. Business automatically grows." Kirloskar, who is also on several government and professional bodies, is bringing all her marketing and management skills into play in this endeavour. (She has enough of them; she has been at the helm of Pratibha Advertising, Quadrant Communications and Lintertainment.) IJI will succeed, she says, because the time is ripe for better Indo-Japan ties in every sphere.

IJI's activities have not been restricted to sarees and sushi. In the business area it is currently concentrating on the Indian software industry and the manufacturing sector. Business seminars have been conducted with the National Association of

Software and Service Companies (NASSCOM) on the potential of software, and with the Confederation of Indian Industry (CII) on "How to do business with Japan". Many others are on the anvil.

"But our focus really is on the softer aspects," says Kirloskar. "Ultimately that's what makes all the difference." Among recent initiatives are sessions on ayurveda and yoga, which have already been held in Mumbai, Delhi and Bangalore. "There is a great interest in these areas," says Kirloskar. "The Japanese want more." Another area of interest is modern Indian fashion.

The IJI has also helped organise the Indo-Japan Golf Cup in Gurgaon on the outskirts of Delhi. According to Kirloskar, who played a few shots, golf is a favourite of the Japanese. "We might introduce more games and cultural shows which the Japanese enjoy," she says.

The 19th hole - the watering hole where you relax after a round of golf — is where many business deals are struck. And Kirloskar aims to make the presence of IJI felt there too.



MASAHIKO KAJI: The work environment in Japan is exciting

them. Take the list of Japanese companies operating in India, for instance. It looks great, until you start digging. Many of these companies are only trading outfits. They have not struck roots in India as yet.

Besides, what looks impressive in isolation fades away when compared to the Japanese presence in other countries. Against the 300 odd line-up in India, there are 6,000 Japanese companies in China and 2,000 in relatively tiny Thailand.

If you look at the FDI numbers, it is a similar story. Japan's investment in China rose 19.8 per cent to \$6.53 billion last year. India has had to be happy with one-tenth of that. Total Japanese FDI in 2004, the latest year for which the Japan External Trade Organisation (JETRO) provides numbers, was \$35.5 billion. India claimed \$96.7 million, practically on a par with the Antilles, which chalked up \$95.8 million. Japanese FDI in India is mainly concentrated in the auto sector (60 per cent) and pharmaceuticals (20 per cent).

"You will start seeing changes now," says Geetanjali Kirloskar, chairperson of the India Japan Initiative (see box). "The Japanese have become much more aggres-

The language and the customs may be different but there is something unmistakable about this environment which keeps us going.

sive today. They have climbed out of an economic slump and a banking mess. Growth days are here again and the Japanese are raring to go."

She says India will become the cynosure of Japanese business eyes because China may be an opportunity, but it is also perceived as a threat. Last year, there was a great deal of anti-Japan activism in China. At its peak a mob of 20,000 attacked the Japanese consulate in

Shanghai. "India does not have any anti-Japanese sentiments," says Geetanjali Kirloskar.

The other worrisome area is trade (see chart). India's exports to Japan in 2004-05 stood at a humble \$2,019 million accounting for 2.51 per cent of the country's total exports. Imports stood at \$5,161 million (2.72 per cent). The growth rates at around 18 per cent are good, but the absolute figures are far below potential.

Japanese ambassador Enoki says that the numbers are misleading because they do not reflect third country exports. For instance, auto components are shipped to Thailand and the finished product is sent from there to Japan. "(But) this is reflected only in India-Thailand bilateral trade statistics," he says. Geetanjali Kirloskar sees a quantum jump soon. "(Commerce minister) Kamal Nath is working very hard," she says.

Want another statistic of the better days ahead: there have been more business delegations from Japan visiting India in the past one-and-a-half years than in the five decades before that. Earlier, most of the exchanges used to be cultural.

Japanese investments in the stockmarkets (\$ million)

Name of fund	Net assets*
India Advantage Fund**	1350
Nomura AMC	1000
HSBC AMC	700
PCA AMC	650
India Focus Fund**	460
JP Morgan Fleming AMC	280
Mitsubishi UFJ	140
Deutsch AMC	80

* As of November 2005 ** Registered in Luxembourg
Source: Japanese Embassy in India

India's trade with Japan

Export*	2,019.30
Growth	18.14%
Share in India's exports	2.51%
Import*	3,142.02
Growth	17.78%
Share in India's imports	2.88%
Total trade*	5,161.32
Growth	17.92%
Share in India's total trade	2.72%

* Figures for 2004-05, in \$ million
Source: Ministry of Commerce, Government of India

Japanese businessmen are sniffing around. But is the reverse process also true? Only to a limited extent. There are companies like L&T-Chiyoda — an engineering consultancy organisation formed by Larsen & Toubro and Chiyoda Corporation of Japan (in a 50:50 joint venture). Another engineering consultancy — M.N. Dastur & Co — has a branch in Tokyo for its Dusseldorf-based Dastur Engineering International GmbH. But none of these have been painting the town red.

The place where the action has been hotting up is software. Indian companies like Tata Consultancy Services (TCS), Infosys and Wipro are globally famous. And they want to add Japan to their bailiwick.

According to one estimate, there are more than 50 Indian software companies already engaged in Japan. Infosys is active in retail and finance, Wipro in embedded systems, Satyam in CAD, and TCS in the finance sector. "The potential is huge," says Atul Nishar, chairman of Hexaware, which flagged off an office in Tokyo late last year.

The first software and services company to begin operations was TCS, way back in 1987. Today, it has 320 employees, including 260 Indian IT engineers. Says Masahiko Kaji, president of TCS Japan: "TCS has significant operations in Japan to



JOINT VENTURE: Workers at the Toyota Kirloskar Motor plant

cater to the local market. We are the largest Indian software and services company here." It has now made a transition from representative office (1987) to branch office (1992) and finally a limited company (January 2004).

Kaji says the work environment in Japan is exciting, uniquely stimulating and satisfying. "The language and customs may be different, the business segment and products may be different, but there is something unmistakable about this environment which always keeps us going," he explains.

"Our experience of working with a Japanese partner has been very enriching and satisfying," says Glenn Saldanha, managing director & CEO, Glenmark Pharmaceuticals. "They have a very systematic and methodology driven approach to problem-solving. This makes it relatively easy for us to understand each other." (Glenmark inked a collaboration agreement with Teijin Pharma for its GRC 3886 molecule in April 2005. Teijin has the exclusive right to develop, register and commercialise the molecule for the Japanese market.)

Collaboration is necessary, continues Saldanha. "Both markets are fairly unique in terms of consumer behaviour and it is therefore almost essential for a Japanese company to have an Indian marketing partner and vice versa. On the technology front, Japanese brandnames have traditionally been associated with premium

quality in India and that is a major incentive for Indian companies to partner with their Japanese counterparts. At the same time, Indian capabilities are increasingly being recognised internationally in terms of intellectual power. That has led to Japanese companies looking at partnering Indian companies in hi-tech areas such as pharmaceuticals and IT."

Sanjay Salunkhe CEO of Net Technologies (the company that sold a stake to Staff Service) adds a human dimension. "Japanese people are warm, very particular about timely working and quality, and they believe in teamwork," he says. Complements Masahiro of Staff Service: "We have always found Indians to be hardworking, ambitious, energetic and enterprising with good risk-bearing ability." Adds Geetanjali Kirloskar: "It is the personal element that is so important. We need to get to know each other."

Thanks to the IJI, that is happening. And everyone sees a new era of cooperation. Says Kaji of TCS: "Although the amount of trade and investment between the two countries is not large compared to the potential, the prospects are good, thanks to India's economic reforms and the recovery of the Japanese economy." Adds Saldanha of Glenmark: "Going forward, this relationship will only get stronger."

In 2002, India and Japan celebrated the golden jubilee of their diplomatic relations. But the real golden age of the relationship is just beginning. 🍷