

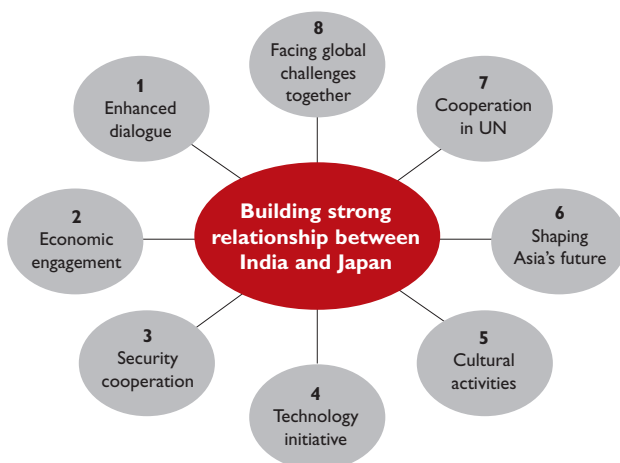
EXECUTIVE SUMMARY

Indo-Japanese Economic and Commercial Relations

Economic cooperation between India and Japan began in 1984 after the visit of Mr. Y. Nakasone, who was the Prime Minister of Japan at that time. Since then, there has been a foray of Foreign Direct Investment (FDI) in India, with Suzuki, Yamaha and Honda entering the Indian market. India's large domestic market has been the main factor that has resulted in investments by Japanese companies. The majority of investments are in traditional fields such as automobiles and auto parts. However, some companies have invested in businesses such as pharmaceuticals (EISAI), health drinks (Yakuruto), pulp (Nihon Koso) and rice processing (Yanmar). Japanese Small and Medium enterprises (SMEs) are also investing in India.

Japan and India share a common world vision. This is aptly illustrated by the fact that there

Eight-fold initiatives to promote cooperation between India and Japan



Source: Indiaonestop

has been an increase in the number of joint declarations, delegation visits and other business events between the two countries. The following eight-fold framework has been outlined by both governments to bolster Indo-Japanese relations:

Trade and investment relations between India and Japan are growing stronger. This can be explained by the following facts:

- Japan is a relatively labour-scarce, capital-abundant country that complements India's rich spectrum of human resources.
- India's prowess in the software sector lends synergy to Japan's excellence in the hardware sector.
- India's abundance of raw materials and minerals matches well with Japan's capabilities in technology and capital, which can result in the production of knowledge-intensive manufactured goods.

This is further substantiated by the fact that Japan is among India's top five trading partners. The total trade between India and Japan was close to US\$ 6 billion during 2005-06.

Another landmark in the Indo-Japanese relationship was the successful conclusion of the India-Japan Business Summit, held in Tokyo on June 14, 2006. Approximately 350 delegates participated in the summit. It was agreed that the trade relations

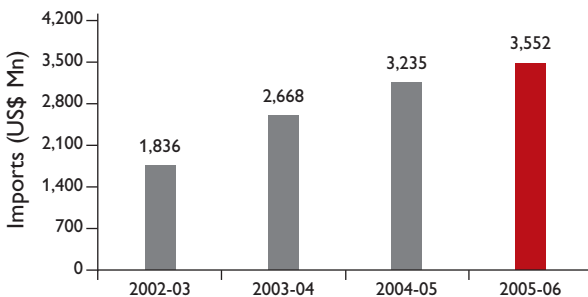
between the countries had not realised its full potential and needed to be further boosted. Honourable Commerce Minister of India, Mr. Kamal Nath and his Japanese counterpart, Mr. H. E. Toshihiro Nikai, Minister of Economy, Trade and Industry, saw SMEs as the future area of India-Japan business partnership.

In response to these developments, Japan External Trade Organization (JETRO) announced opening of new offices and business support centres in Delhi and Bangalore. JETRO has also opened a business support centre in India to encourage SMEs from Japan to invest in India.

Imports

India's imports from Japan are dominated by capital and knowledge intensive manufactured products such as machinery, transport equipment, electronic goods, chemicals and metal products. Imports from Japan have grown at a CAGR of 24 per cent for the period 2003-06. During 2005-06, imports from Japan to India were US\$ 3.5 billion.

Imports from Japan to India (US\$ million): 2003-2005

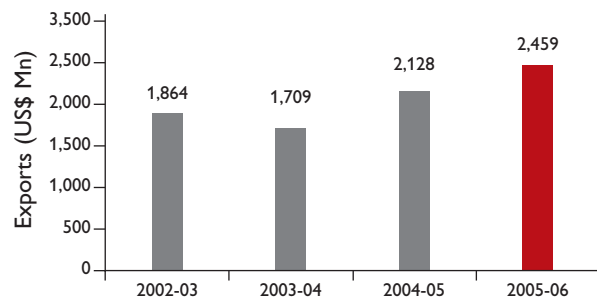


Source: Reserve Bank of India

Exports

India's exports to Japan comprises mostly of raw material and minerals such as marine products, minerals and iron ore, gems and jewellery and textile products. Exports from India to Japan were US\$ 2.4 billion during 2005-06, as compared to US\$ 1.8 billion in 2002-03. This represents a CAGR of 10 per cent over the period 2003-06.

Exports from India to Japan (US\$ million): 2003-2005



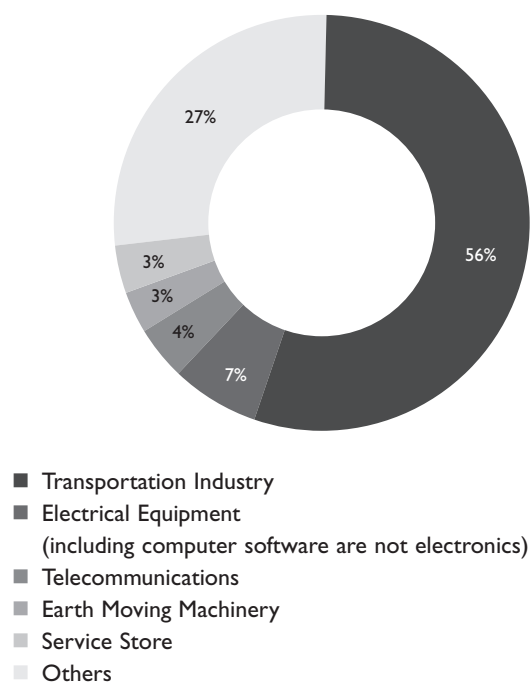
Source: Reserve Bank of India

Investments in India

Since September 2004, Japan has invested nearly US\$ 5 billion in India's capital markets. Japan has also been an attractive destination for Indian investors. It hosts one of the best Information and Communication Technology (ICT) facilities in the world. Around 70 Indian IT companies have already established their offices in Japan.

Japanese investment has been centered on the transportation industry, with companies such as Suzuki, Honda, Toyota and Yamaha, making large

Sectors Attracting FDI from Japan (Jan 2000 to March 2006)



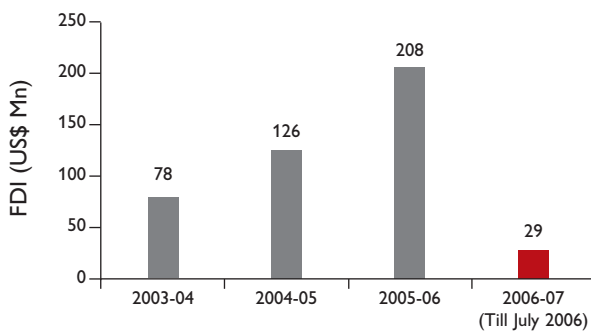
Source: DIPP

investments in India. Other sectors that have attracted significant Japanese investment in India include transportation, electrical equipment, telecommunications, chemicals and trading.

Japan has emerged as the third-largest FDI contributor in to India for the period 1991-2006 (July 2006). Japan's cumulative FDI inflow in to India for the period 1991 to July 2006 has been US\$ 2,153 million, which accounts for approximately 6 per cent of the total FDI inflows for the period.

Japan has contributed approximately 11 per cent to India's total technical collaboration with foreign partners. The total number of approved technical collaborations stood at 854 for the period August 1991 to July 2006. The main areas of collaboration include electrical equipment, transportation, industrial machinery, chemicals and metallurgy.

Japanese FDI inflows in India: 2004-06



Source: DIPP

Since 2003, India has received the largest share of Japan's Official Development Assistance (ODA). Japan is committed to addressing the following developmental needs of India:

- Infrastructure development
- Poverty reduction
- Improvement of healthcare facilities
- Environment protection

Most grants received by India from Japan were in the field of basic human needs and medical

services. Some of the key ODA projects funded by Japan in India are as follows:

- Delhi Mass Rapid Transport
- Irrigation improvement plan in Rajasthan
- Ganga action plan in Varanasi
- Afforestation plan in Tamil Nadu
- Construction of a diarrhoea research and control centre
- Construction of super thermal power plant in North Karanpura

Japanese Companies in India

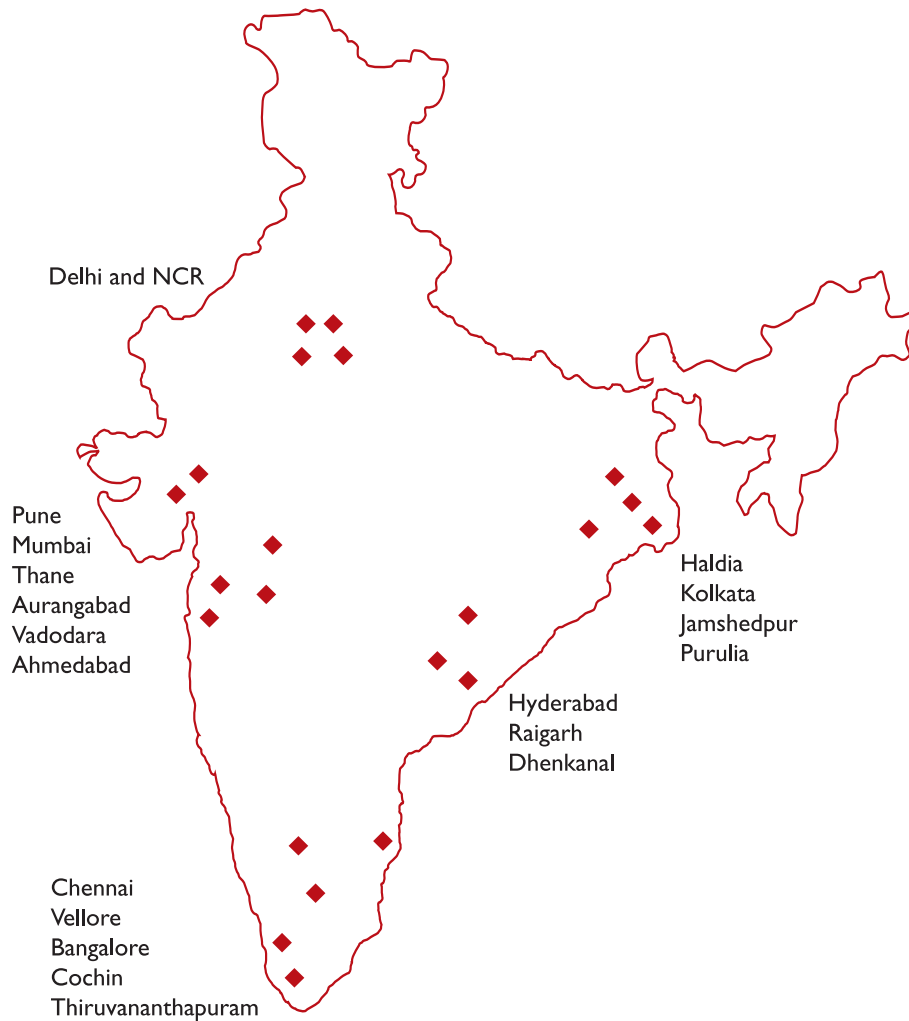
Japanese companies have been operating in India for long. Around 328 affiliates of Japanese companies are operating in India in various sectors such as machinery, electrical goods, IT and automobile. Most companies are located in metropolitan cities (Delhi, Bangalore, Mumbai and Chennai). The figure provides information on the major locations of Japanese companies in India.

This report is an updated version of an earlier study conducted in June 2006. As such, this report gathers profiles of 25 successful Japanese organisations in India. It combines primary and

Sector-wise Break-up of Companies

Sector	No. of Companies Studied
Automobiles/Ancillaries	6
Technology	2
Diversified	2
Financial Services	2
FMCG	1
Capital Goods	4
Consumer Electronics	6
Chemical	2

Major locations of Japanese companies in India



Source: Japan Embassy

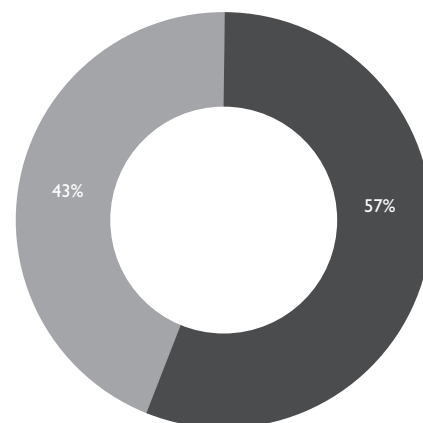
secondary research. The following table provides a sector-wise break-up of organisations covered in the study.

Most Japanese companies in India are planning to expand. This study revealed that 57 per cent of the companies in the sample are more than satisfied with their overall experience of operating in India.

Maruti, Honda, Asahi are among the major players planning to invest heavily in India in the coming years.

Japanese companies operating in India are planning to significantly increase their presence in India by investing in activities.

Experience of Japanese Companies in India



- Satisfactory
- Exceptionally Good

Source: Evalueserve Primary Research conducted in May 2006

- Improvement in nurturing human resources as well as educating and training staff

Japan's FDI projects in India over the period 2005-2007

Company Name	FDI Amount (US\$ million)	Description
Maruti Udyog	699	New factory for car production and diesel engine plant
MCC PTA	364	Increasing capacity at Haldia plant
Toyota Motor Corporation	128	Increasing its capacity
Honda	214	Increasing its capacity and building new factory
Sakata Inx	54	Increasing its capacity

Source: Japanese Embassy

- Strengthening of Research and Development
- Increase of value added products
- Expansion of product portfolio

It is expected that in the current fiscal year, investment from Japanese companies is expected to increase by three- fold.

According to data gathered during this study, 71 per cent Japanese companies are planning to increase their investments in India. An earlier study, conducted by JETRO in 2005, corroborated this by indicating that India, in terms of expansion, is a top-priority destination for Japanese companies.

Japanese Companies Entering India

Nippon Paints	<p>As a result of the rapid growth of the Indian paints industry Nippon Paints, a Japanese paint and coatings manufacturer, has decided to enter the Indian market. The company's India operations will be called Nippon Paints India, a 50-50 joint venture between Nippon Paint Japan and Singapore-based Nipsea Holdings International. Nippon India will import a range of decorative paints until its manufacturing units are set up in India.</p> <ul style="list-style-type: none"> • The company plans to invest US\$ 35.8 million for setting up two manufacturing facilities in India. These manufacturing units are expected to commence production from 2008. Initially, the units will have a minimum capacity of 20,000 tonnes, which will be subsequently scaled up to 40,000 tonnes. Both units will cater to the decorative and automotive paint segments. • By December 2006, it plans to set up 50 exclusive retail outlets across India. <p>Σ The company also plans to cater to South Asian markets through its Indian operations.</p>
Nomura Group	<p>The Nomura Group, the largest securities firm in Japan, has decided to establish a base in India before the end of the year 2006. It plans to tap the growing Indian financial market by providing following services:</p> <ul style="list-style-type: none"> • Facilitate Indian companies to raise funds in foreign markets • Provide opportunity to companies as well as individuals to invest in Japan <p>Japanese companies in the financial sector, such as Mitsubishi UFJ Financial Group Inc. and Mizuho Financial Group Inc. already have a presence in India. However, Nomura will become the first Japanese financial institution operating in India that will give priority to trading with local companies.</p>

Source: The Hindu Business Line, www.biztech.nikkeibp.co.jp

The following table summarises the ‘profit expectation’ of companies operating in various ASEAN countries:

Estimated Operating Profits for 2006, Compared to Those for 2005

	Improve	Remain Same	Decrease
Total	48.7	32.6	18.7
ASEAN Total	47.5	33.4	19.1
Thailand	48.3	34.3	17.4
Malaysia	46.2	40.9	12.9
Singapore	49.0	38.5	12.5
Indonesia	37.3	28.5	34.2
Philippines	53.0	29.2	17.8
Vietnam	54.1	28.2	17.6
India	63.8	23.2	13.0

Companies cited the following reasons that are fuelling their growth in India:

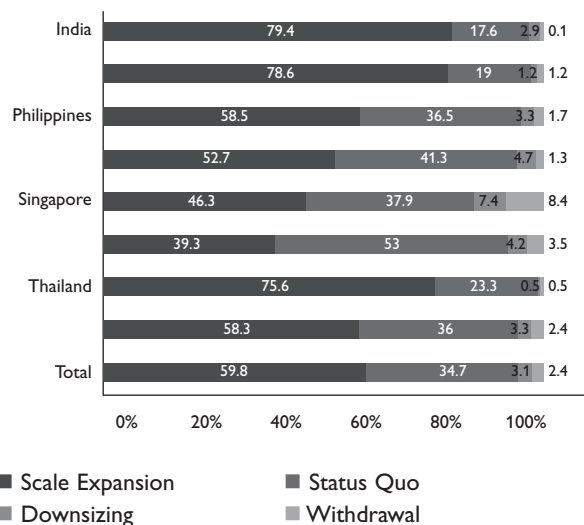
- Increase in local market sales
- Reduction of procurement costs
- Increase in production of high value-added products
- Improvement in production efficiency

According to the JETRO survey, the companies operating in India are planning to increase local procurement, which is driven by following factors:

- Quality improvement of raw material and parts by local suppliers
- Strict observation of delivery dates
- Cost reduction
- Improvement of logistics and infrastructure

Many Indian companies have established technical collaboration with their Japanese counterparts. There is an ideal match between Japan’s technology

Business Strategy of Companies in the Coming One-to-Two-Year Term



Source: JETRO

and finance, and India’s skilled and relatively inexpensive labour. This can be harnessed to deliver quality products to the world at competitive costs. A Japan Bank for International Cooperation (JBIC) report (in 2005) on Japanese manufacturers’ overseas business operations has ranked India second among promising countries for business development in the medium term.

Best Practices Followed by Japanese Companies Operating in India

Focussing on Research and Development

Japanese companies have been able to maintain an edge over competitors by constantly innovating their products through research and development. The companies were quick to realise the needs of Indian consumers and customised their products accordingly.

- Nerolac’s focus on research and development is one of the key reasons for its success in India. The research and development laboratory of the company is officially recognised by the Department of Science and Technology, Government of India.

Forming Strategic Alliances

In order to establish their presence in India, Japanese companies formed various alliances. Through these alliances, the companies gained an understanding of market dynamics and also utilised the existing distribution network of the partner. The companies were also able to leverage their existing alliances in Japan to serve Indian clients.

- Onkyo India forged an alliance with LG and Bowers & Wilkins (UK), for its product category in the home theatre segment. Through the synergistic endeavours with its business and technology partners, the company was able to witness significant growth in India.
- KWI established strategic alliances with leading telecommunications companies such as Reliance, Tata Teleservices, BSNL and MTNL. This enabled it to strengthen its position in the Indian market. The company began its Indian operations with contracts to provide handsets to BSNL and MTNL.

Following Best Management Practices

Japanese companies adopted best management practises that led to a higher level of employee satisfaction. The companies focussed on employee training to improve the technical skills, encouraged team building and worked towards improving working conditions. Perseverance in resolving cross-cultural issues has been another factor that led to their success in India.

- Kyocera Wireless adopted the philosophy pioneered by Dr. Inamori. This philosophy encourages team effort and promotes a 'respect for the divine' and the environment, a simple and effective accounting system, and people orientation.
- Toyota takes proper care to ensure stability of employment and strives to improve working

conditions and to develop human resources and improve the technical skills of its employees, TKM's young team members are regularly sent to Japan, Indonesia and Taiwan for training programs.

Leveraging the Support of Parent Company

The Japanese companies operating in India have been able to effectively leverage the experience of their parent company. The parent company has also helped in providing superior technology to offer innovative products, assisting proper resource allocation and fostering global partnerships. The companies were also successful in leveraging the powerful brand of their parent company.

- Onkyo India has been able to leverage the support of its parent company to meet client requirements with effective and innovative products, thereby achieving a credible performance in the Indian market.
- Panasonic is one of the most powerful brands worldwide. The company has been able to leverage this advantage in India also. 'National', and 'Novino' are the most successful brands of the company. These brands enjoy a good market share in India.

Emerging Potential for SMEs

SME sector in India is the growth engine of the Indian economy which is highlighted by the following facts:

- It accounts for approximately 40 per cent of total industrial production
- The sector accounts for 91 per cent of total industrial units
- Its share in national exports is 34 per cent of national exports

Further, the sector employs approximately 29 million personnel in the country. It has grown at an average rate of 8 per cent in the last eight years.

The factors driving the growth of SMEs are lower costs, higher quality, better service, adaptability, flexibility, speed, aggressiveness and innovation. SME sector in India thrives on forming clusters. The country has approximately 400 modern small scale and 2000 rural and artisan based clusters. These clusters manufacture 60 per cent of India's total manufactured exports. Some examples of these clusters are Panipat and Tirupur, which manufacture 75 per cent of the total blankets and 80 per cent of the country's cotton hosiery exports in the country, respectively.

The Indian government has also taken steps to strengthen the SME sector. The government introduced a legislation 'Small and Medium Enterprises Development Bill, 2005' in the parliament. The government has also taken initiatives for technology incubation and hand holding services, and introduced promotional package for small enterprises. These reforms have facilitated the SME sector in India to face the global competition and produce better results.

SME forms the bulk of most of the industries present in the country. Some of the industries which present vast opportunities for the SMEs are the auto component industry, textile and garment industry and the drugs and pharmaceutical industry.

- The auto component industry in India has become an outsourcing hub for the world. Presently, it is a US\$ 6.7 billion industry and is growing at a CAGR of 16.48 per cent. India offers cost advantage over the developed countries since the labour cost in India is only 8-9 per cent of the sales whereas it is 30-35 per cent in the developed countries.
- India also offers a huge domestic market for textiles as 63 per cent of the textiles manufactured in the country is sold in the domestic market.

- India has one of the largest drugs and pharmaceutical industries among the developing countries. It is fourth largest in terms of volume in the world. It is estimated that the domestic pharmaceutical market will be US\$ 12 billion by 2010.

Indian SMEs are keen on establishing strategic alliances with their global counterparts. Japanese companies are the most obvious choice for such alliances due to the latter's proven technology supremacy. Potential areas for cooperation include electrical equipment, transportation, chemicals, industrial machinery and metallurgical industries. The possibilities of vertical integration between Indian SMEs and their Japanese counterparts can also be explored.

Indian SMEs are increasingly looking for potential tie-ups as it provides numerous advantages such as:

- Increasing cost competitiveness
- Gaining technical expertise
- Entry into new markets
- Improving capital base
- Achieving economies of scale

Indian SMEs can leverage the brand, technical expertise and quality standards of the Japanese partner. On the other hand, Japanese companies can leverage the marketing and distribution channels to tap the growing Indian market. Following are the possible modes through which a partnership can be forged:

- Equity participation
- Turnkey project arrangement
- Technical arrangement
- Franchising

Governments on both sides have taken proactive steps to ensure that the sector realises its full potential. The enthusiasm is also visible in the recent visits of various Japanese missions to India. JETRO's mission of 70 SMEs specialising in IT and

auto components visited India in 2006 to evaluate the investment climate as well as for business talks with their Indian counterparts. Some other similar missions are as follows:

- Tokyo Small and Medium Business Investment & Consultation Co., Ltd
- Organization for Small & Medium Enterprise and Regional Innovation, Japan
- Japan Finance Corporation for Small and Medium Enterprises Investment Promotion mission

Successful Japanese SME in India

Three Bond Company

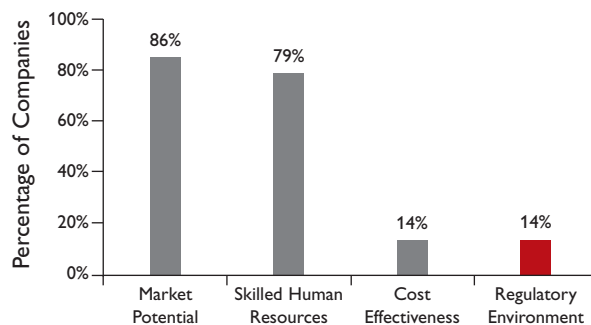
Three Bond Company Ltd. (Three Bond) was established in 1955 and is headquartered in Japan. The company manufactures products for automobiles, public construction materials, building materials, electric and electronic equipment.

Its Indian operations is tapping the growth in the automobile sector in India. The company leveraged on its existing relationship with the Japanese auto makers to succeed in the Indian market. The company has strategically established its base near Delhi, which hosts major Japanese auto makers.

India's Advantage

India is the fastest-growing free market democracy. India has a mature and dynamic private sector, which accounts for 75 per cent of India's GDP. In addition, the Indian market has enormous potential due to its large size and diversity. India offers significant business opportunities in the manufacturing and service sectors. This is because of the benefits that the country offers with respect to the cost advantage in product development, back-office processing, and the availability of a large network of skilled English-speaking professionals. According to the findings of this study, Japanese companies in India considered market potential as the main advantage offered by India.

Key India Advantages
(As perceived by Japanese Companies)



Source: Evalueserve Primary Research conducted in May 2006

MNC experiences have proven that India is an attractive investment destination, and it is expected to achieve the highest growth rate among the BRIC countries (Brazil, Russia, India and China). In 2005, AT Kearney ranked India as the most attractive democracy in its FDI confidence index.

Strong Economy

India's economy is on the fulcrum of an ever-increasing growth curve. With positive indicators, such as a stable 8 per cent annual GDP growth, increasing foreign exchange reserves of over US\$ 160 billion, a booming capital market with the popular Sensex index topping the 10,000 mark, flowing FDI of approximately US\$ 8 billion (expected to rise to US\$ 9-10 billion by the end of 2006), and a more than 20 per cent surge in exports, it is easy to understand why India is a leading destination for foreign investment.

Market Potential

India is one of the largest consumer markets in the world. Due to the rapid growth of its economy and an increase in its disposable income, the spending power of the Indian consumer is increasing rapidly. In 2001, about 54 per cent of the total population was below 25 years of age. By 2013, another 200 million people will join this category, representing the exponential growth in the 'consuming' class.

Availability of Skilled Manpower

India has over 300 universities and about 1500 research institutes. Over 4,00,000 engineering students, 30,00,000 graduates, and around 1,500 PhDs are added to India's skilled workforce every year. This large base of skilled manpower offers an unparalleled advantage to companies operating in India.

Availability of Natural Resources

India has large reserves of metals, minerals, coal, oil and gas, rubber and wood. It has the fourth-largest coal reserves in the world, and its long coastline ensures the regular supply of marine products.

Low Cost of Infrastructure and Operation

The Ministry of Commerce, Government of India, has estimated that offshoring operations to India can result in a cost benefit of up to 40 to 60 per cent for companies, compared to developed countries. It has one of the lowest labour costs among developing countries, and it also offers a cost-effective manufacturing base. In addition, the country has emerged as a major R&D hub, with over 100 Fortune 500 companies having their bases in India.

DISCLAIMER

This publication has been prepared for the India Brand Equity Foundation (“IBEF”).

All rights reserved. All copyright in this publication and related works is owned by IBEF. The same may not be reproduced, wholly or in part in any material form (including photocopying or storing it in any medium by electronic means and whether or not transiently or incidentally to some other use of this publication), modified or in any manner communicated to any third party except with the written approval of IBEF.

This publication is for information purposes only. While due care has been taken during the compilation of this publication to ensure that the information is accurate to the best of IBEF’s knowledge and belief, the content is not to be construed in any manner whatsoever as a substitute for professional advice.

IBEF neither recommends nor endorses any specified products or services that may have been mentioned in this publication and nor does it assume any liability or responsibility for the outcome of decisions taken as a result of any reliance placed on this publication.

IBEF shall, in no way, be liable for any direct or indirect damages that may arise due to any act or omission on the part of the user due to any reliance placed or guidance taken from any portion of this publication.



INDIA BRAND EQUITY FOUNDATION

The India Brand Equity Foundation is a public-private partnership between the Ministry of Commerce & Industry, Government of India and the Confederation of Indian Industry. The Foundation's primary objective is to build positive economic perceptions of India globally.

India Brand Equity Foundation
c/o Confederation of Indian Industry
249-F Sector 18, Udyog Vihar Phase IV
Gurgaon 122015, Haryana, INDIA

Tel +91 124 401 4087, 4060 - 67
Fax +91 124 401 3873
Email ajay.khanna@ciionline.org
Web www.ibef.org