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Policy Research Institute

Business Environments to ``Make in India'' by Japanese Firms

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(Kobe University)

Outline

1. Introduction

2. The Results of Questionnaire Survey (2013-14)

(1) Responding and Non-Responding Japanese Companies

(2) Current Situation of Responding Japanese Companies

3. Concluding Remarks

Appendix: Overview of Japanese Companies in India

1. Introduction

- According to Embassy of Japan in India and JETRO, # of Japanese companies: 926 in 2012 → 1072 in 2013 → 1209 in 2014 and # of establishments of Japanese companies: 1804 in 2012 → 2542 in 2013 → 3961 in 2014.
- The most successful cases: Maruti Suzuki and Honda.
- To the best of my knowledge, however, there are no comprehensive and academically serious research on the Japanese companies working in India.

- FDI spillover channels: (1)Horizontal effect with newly acquired knowledge spilling out from foreign-affiliated firms as skilled local workers change companies, (2)Vertical effect whereby new technology is introduced from foreign-affiliated firms to domestic firms through the industrial input-output relations
- Our paper recently shows the positive FDI spillovers through backward industrial linkages in enhancing the productivity of the Indian manufacturing sectors*.

*Azusa Fujimori and Takahiro Sato (2015) "Productivity and technology diffusion in India: The spillover effects from foreign direct investment," *Journal of Policy Modeling*, 37, pp. 630-651.

- Significant contribution of foreign-affiliated firms to "Make in India" can be expected.

Academic Contribution of This Study

- Making of “population list” of Japanese companies attached with the basic corporate information.
- Based on it, a questionnaire survey was done to all companies of “population list.” The current situation of the 113 responding companies is investigated. The difference between responding and non-responding companies is also examined.
- The study investigates the business environments faced by the Japanese companies working in India.

2. The Results of Questionnaire Survey (2013-14)

(1) Responding and Non-Responding Japanese Companies

Methodology

- Embassy of Japan in India and JETRO, *Japanese Companies List, October 2012* covering 926 Japanese Companies is set as the bench mark for making the ``population list.’’
- By employing the independent sources, additional companies are added to Embassy of Japan in India and JETRO list. ``Master file’’ covering 969 companies is made.
- Master file has a lot of duplicates of the companies. We drop the duplicates and finally get unique 620 companies. The list of these 620 companies is regarded as our ``population list.’’
- We request all of 620 companies to make answer to our questions during the period December 2013 to February 2014. Finally we got 113 responses. 5 companies do masking their own names.
- We look for the basic corporate information on all of 620 companies by employing online query of Ministry of Corporate Affairs. We finally get the basic corporate information covering 524 companies. Then, this information is merged into ``population list.’’

Characteristics of Responding Companies and Non-responding

	Non-responding	Responding	Total	Responding/ Total
Number of companies	512	108	620	17%
Number of identified companies	432	92	524	18%
Capital(Rupee in hundreds of million)	5763	637	6400	10%
Average capital(Rupee in hundreds of million)	13.34	6.92	12.21	87%

- 5 anonymous companies are excluded from the group of responding companies.
- Response rate: 17%.
- Share of capital of responding companies: 10%.
- Average capital of responding companies is also smaller.

Characteristics of Responding Companies and Non-responding Companies(2)

	Non-responding	Responding	Total
Others	3%	1%	3%
Other services	21%	19%	20%
Commerce, transportation	20%	28%	21%
Manufacturing(Others)	12%	8%	11%
Manufacturing(Chemical and medicine)	7%	10%	7%
Manufacturing(Machinery)	16%	19%	16%
Manufacturing(Metals)	3%	4%	3%
Manufacturing(Transport equipments)	19%	10%	18%
Manufacturing(Food)	0%	0%	0%
Manufacturing(Agricultural)	0%	0%	0%
Total	100%	100%	100%

- Responding companies' share of commerce/ transportation is larger and that of manufacturing (transport equipment) is less.

Characteristics of responding Companies and Non-responding Companies(3)

	Non-responding	Responding	Total
Andhra Pradesh	0%	1%	0%
Daman and Diu	0%	0%	0%
Delhi	35%	50%	37%
Gujarat	0%	1%	0%
Haryana	17%	24%	18%
Himachal Pradesh	0%	0%	0%
Jharkhand	0%	0%	0%
Karnataka	4%	5%	4%
Kerala	1%	0%	0%
Maharashtra	9%	5%	8%
Orissa	0%	0%	0%
Pondicherry	0%	0%	0%
Punjab	1%	0%	0%
Rajasthan	2%	3%	2%
Tamil Nadu	20%	7%	18%
Uttar Pradesh	1%	1%	1%
West Bengal	2%	2%	2%
Unknown	8%	2%	7%
Total	100%	100%	100%

- Location of responding companies is more in Delhi and Haryana and less in Tamil Nadu.

Characteristics of responding Companies and Non-responding Companies(4)

	Non-responding	Responding	Total
Non-governmental company	58%	48%	56%
Foreign subsidiary company	26%	35%	28%
Other company	1%	2%	1%
Non-company	16%	15%	15%
Total	100%	100%	100%

Characteristics of responding Companies and Non-responding Companies(5)

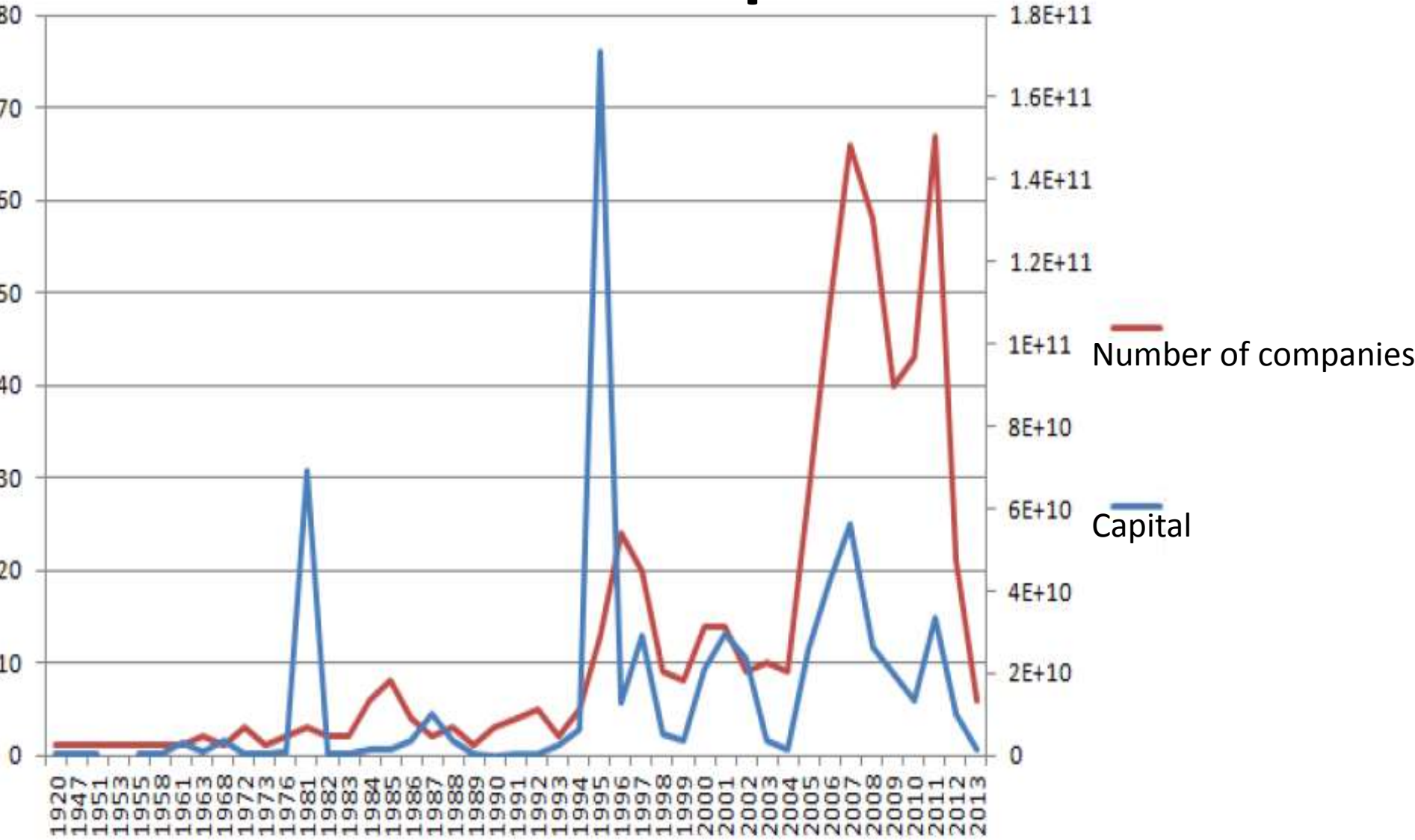
	Non-responding	Responding	Total
Private limited company	67%	77%	69%
Public limited company	18%	9%	16%
Non-company	16%	14%	15%
Total	100%	100%	100%

Characteristics of responding Companies and Non-responding Companies(6)

	Non-responding	Responding	Total
Listed company	5%	3%	5%
Unlisted company	79%	82%	80%
Non-company	16%	15%	15%
Total	100%	100%	100%

- Responding Companies' share of foreign subsidiary company and private limited company is larger.

Establishment Year, Number of Companies and Capital

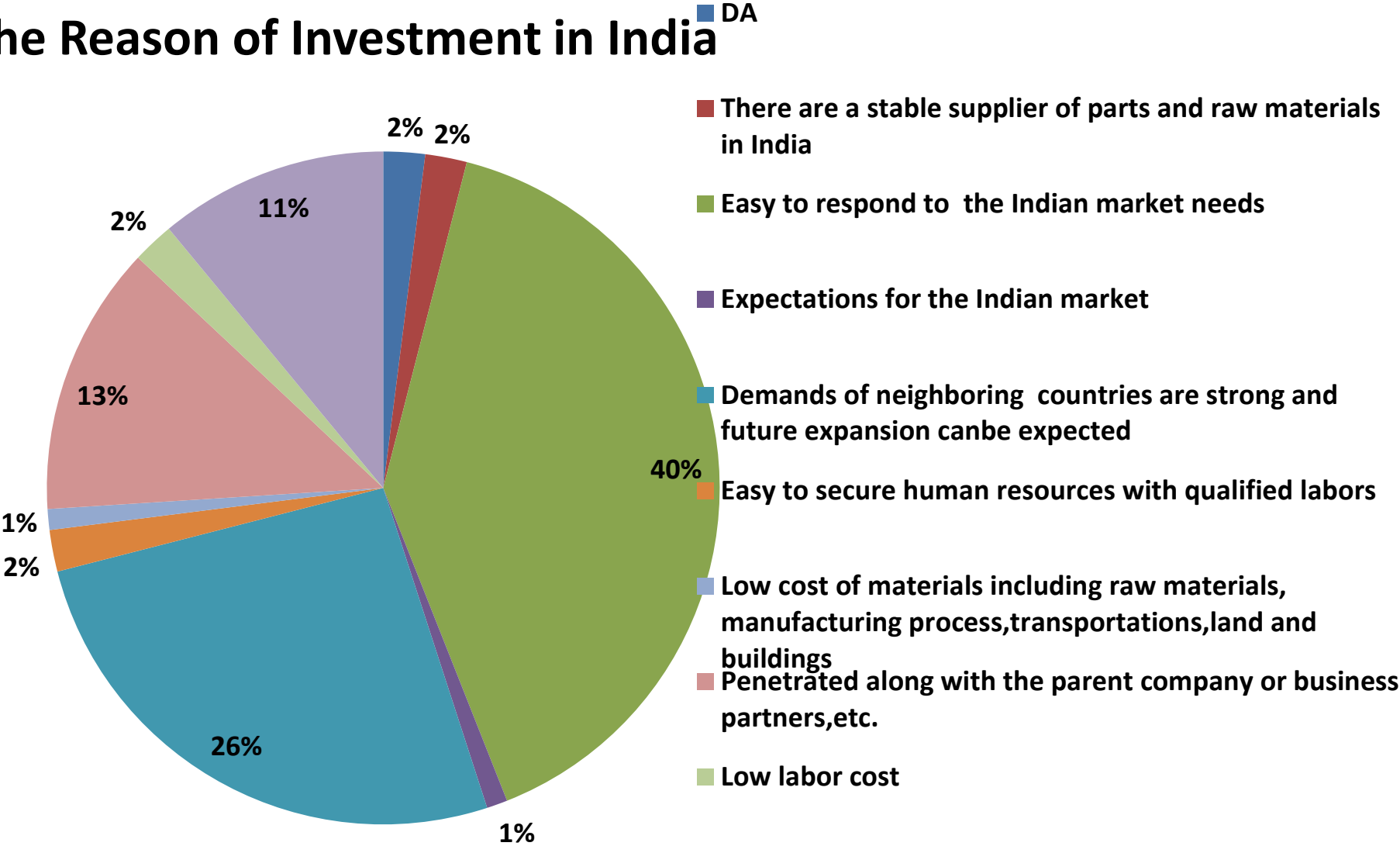


Note: 1981 is the year when Anchor Panasonic and Maruti Suzuki were established and 1995 is the year when TTSL (Tata Teleservices) was established.

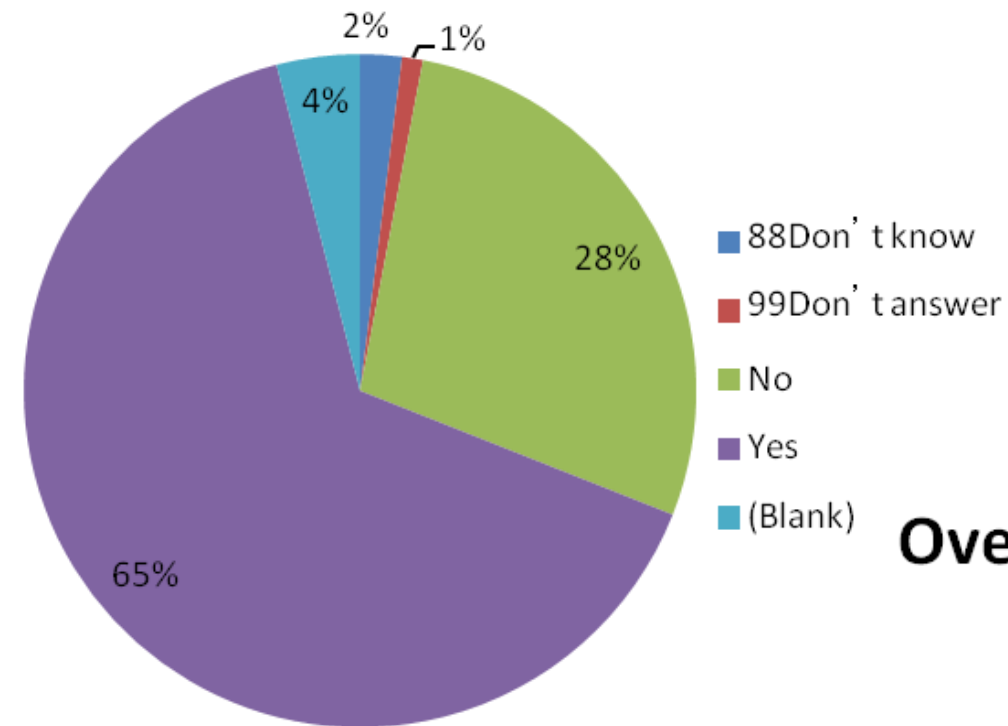
3. The Results of Questionnaire Survey (2013-14)

(2) Current Situation of Responding Japanese Companies

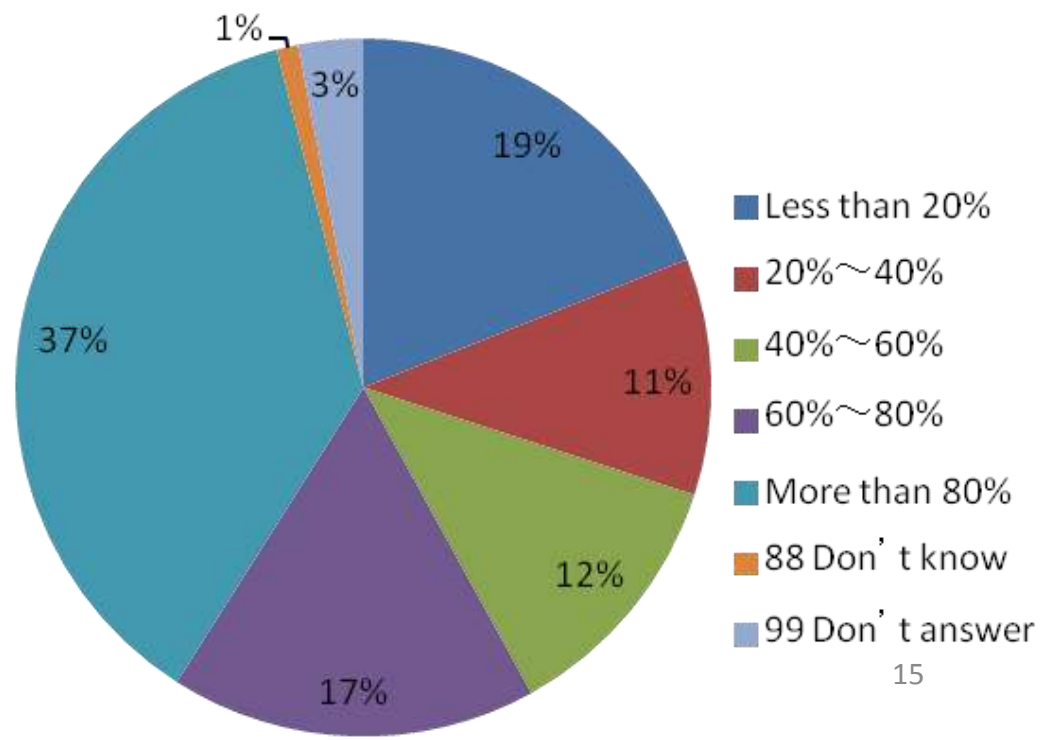
The Reason of Investment in India



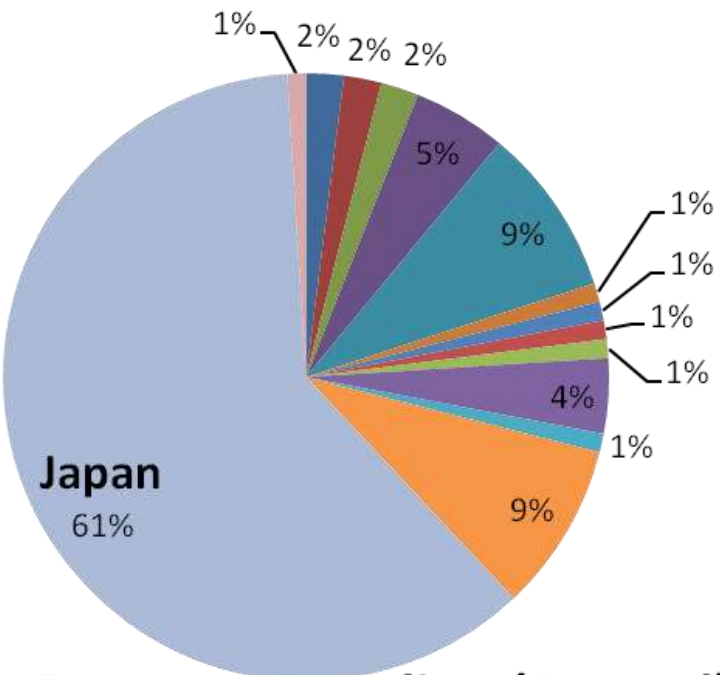
Overseas Procurement



Overseas Procurement rate

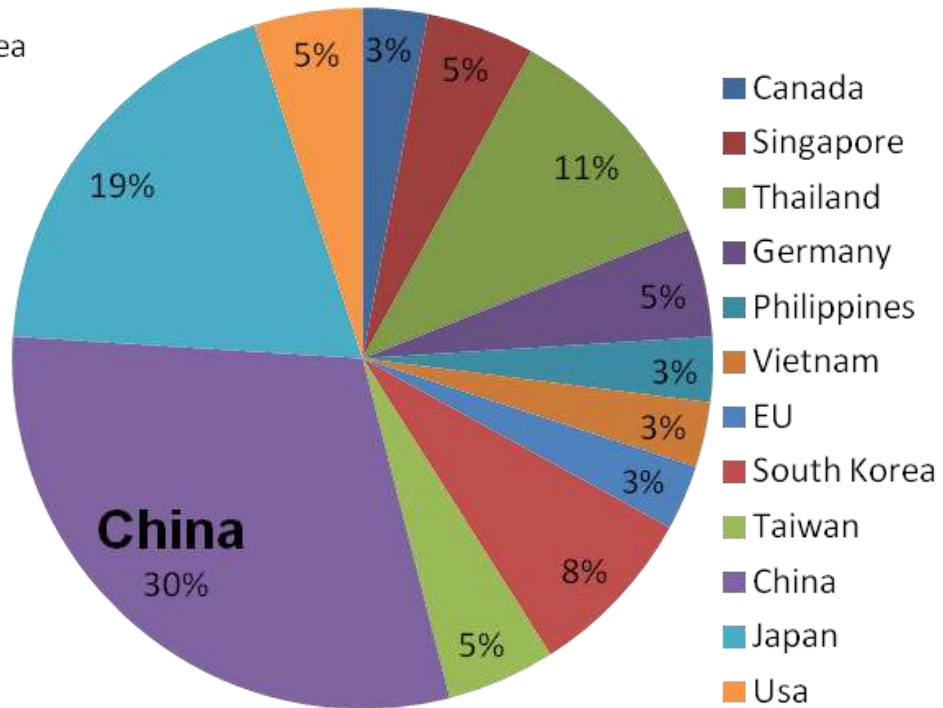


Overseas Suppliers(First)



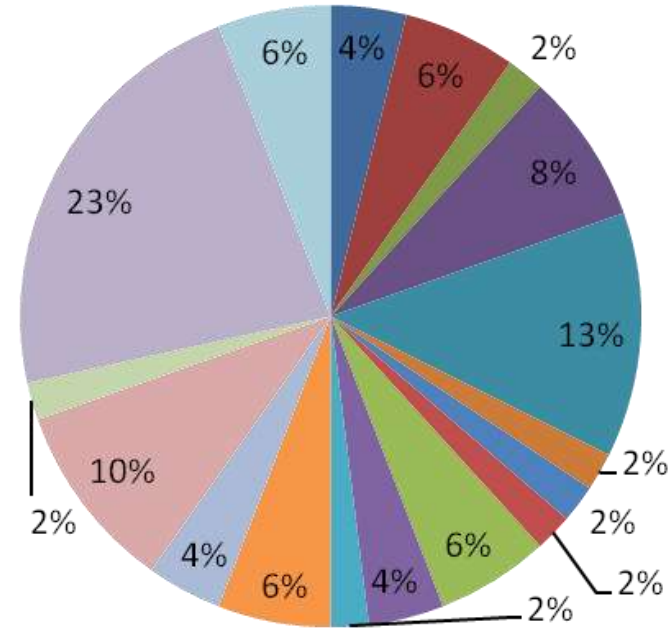
- EU
- Indonesia
- Netherlands
- Singapore
- Thailand
- Germany
- Nigeria
- France
- Vietnam
- Malaysia
- South Korea
- China
- Japan
- Usa

Overseas Suppliers(Third)



- Canada
- Singapore
- Thailand
- Germany
- Philippines
- Vietnam
- EU
- South Korea
- Taiwan
- China
- Japan
- Usa

Overseas Suppliers(Second)

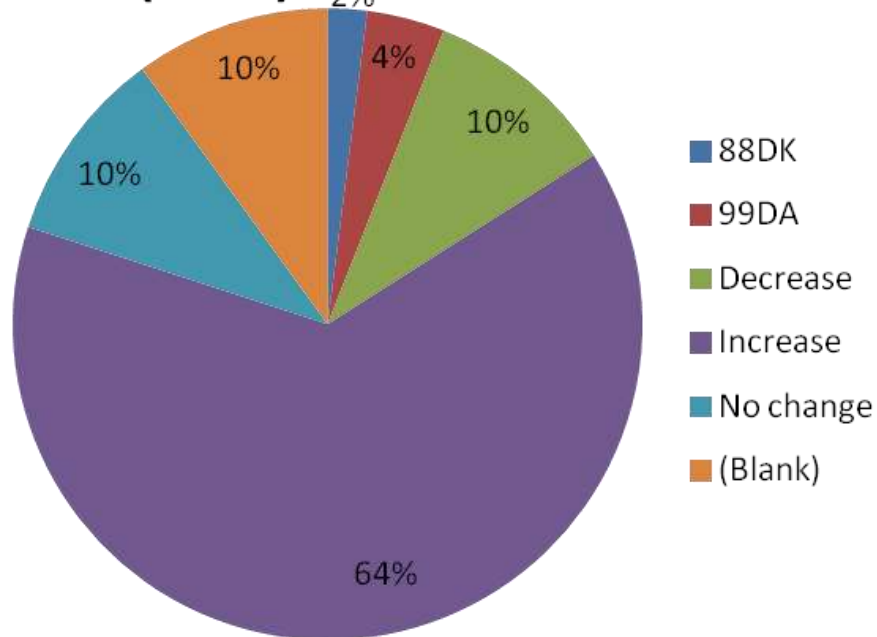


- Canada
- Singapore
- Thailand
- Germany
- Philippines
- Vietnam
- EU
- South Korea
- Taiwan
- China
- Japan
- Usa

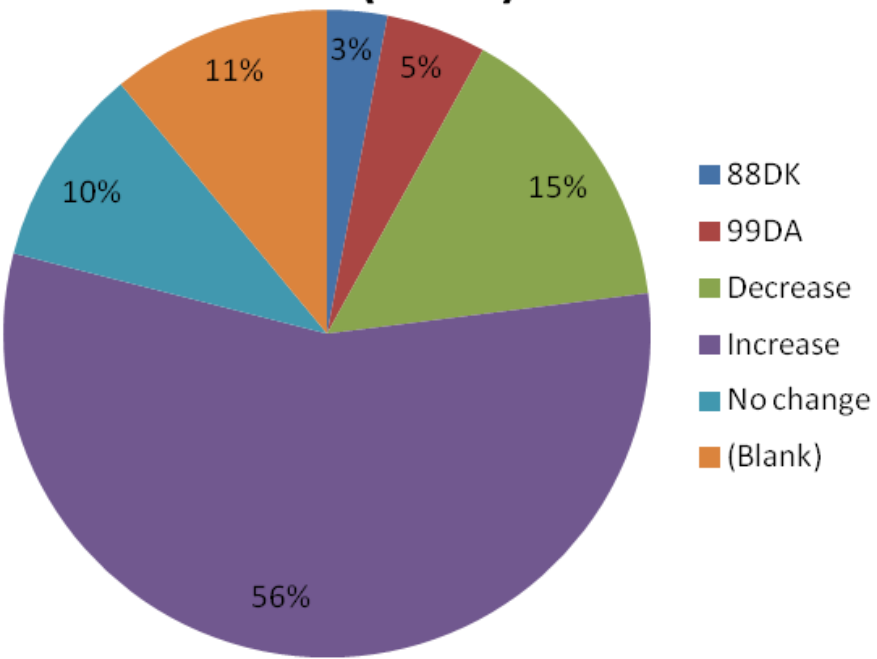
Employment Situation

	Average	Min	Max	Total
Number of employees	212	1	3000	23579
Japanese nationality	5	1	90	580
Local Japanese employees	1	0	10	60
Temporary staff	137	0	5000	12291
Turnover	9	0	100	811

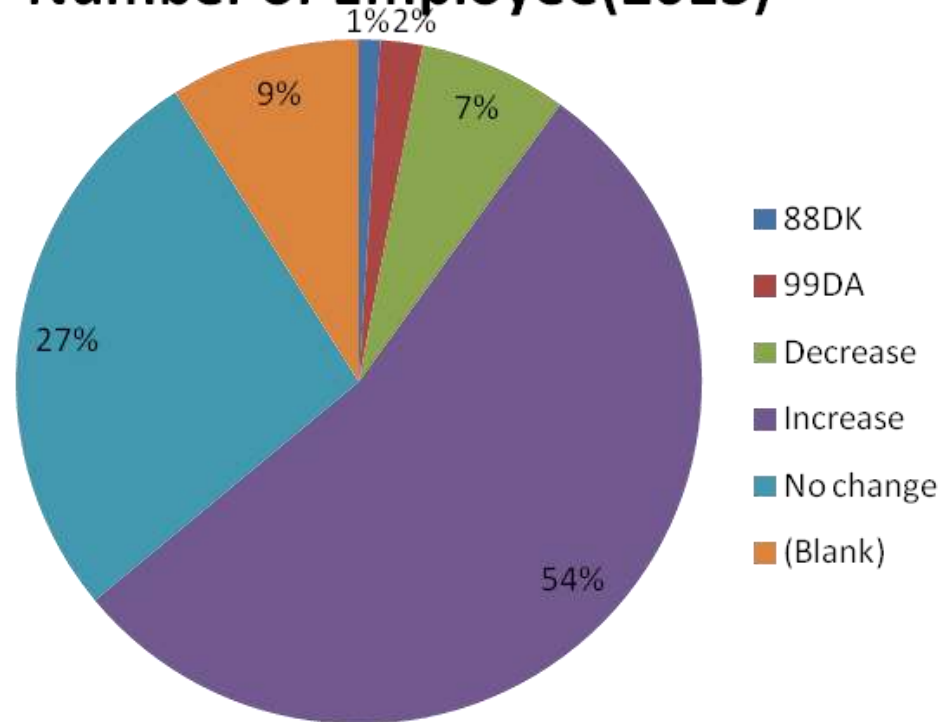
Sales(2013)



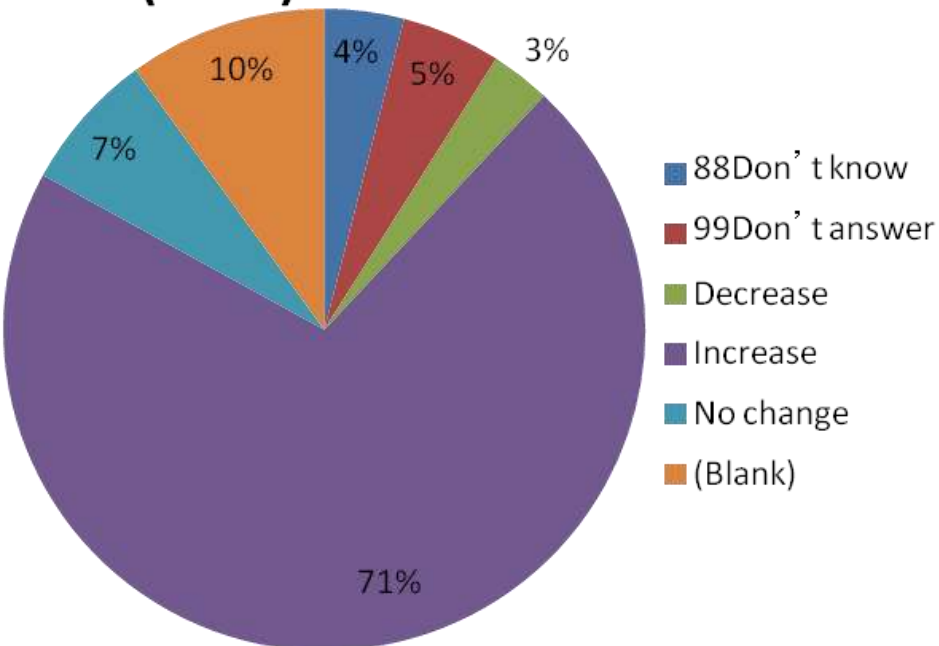
Current Profit(2013)



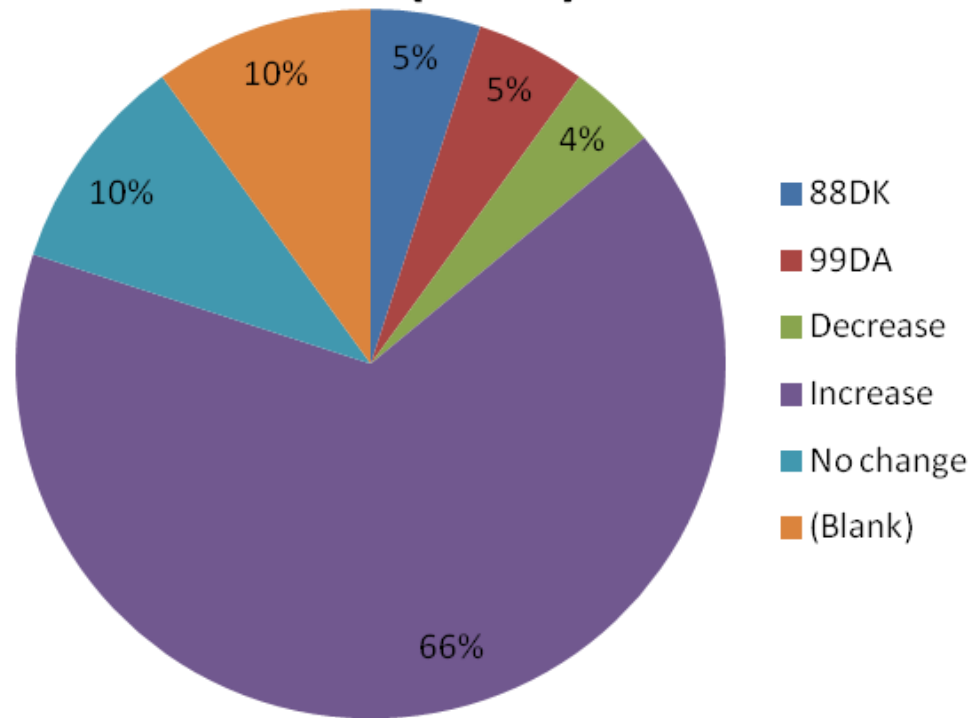
Number of Employee(2013)



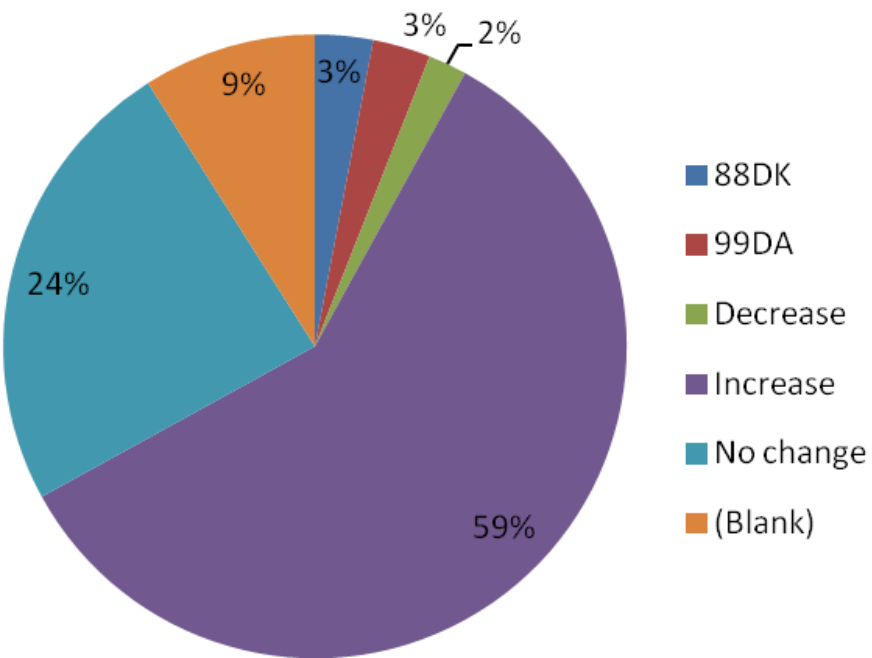
Sales(2014)



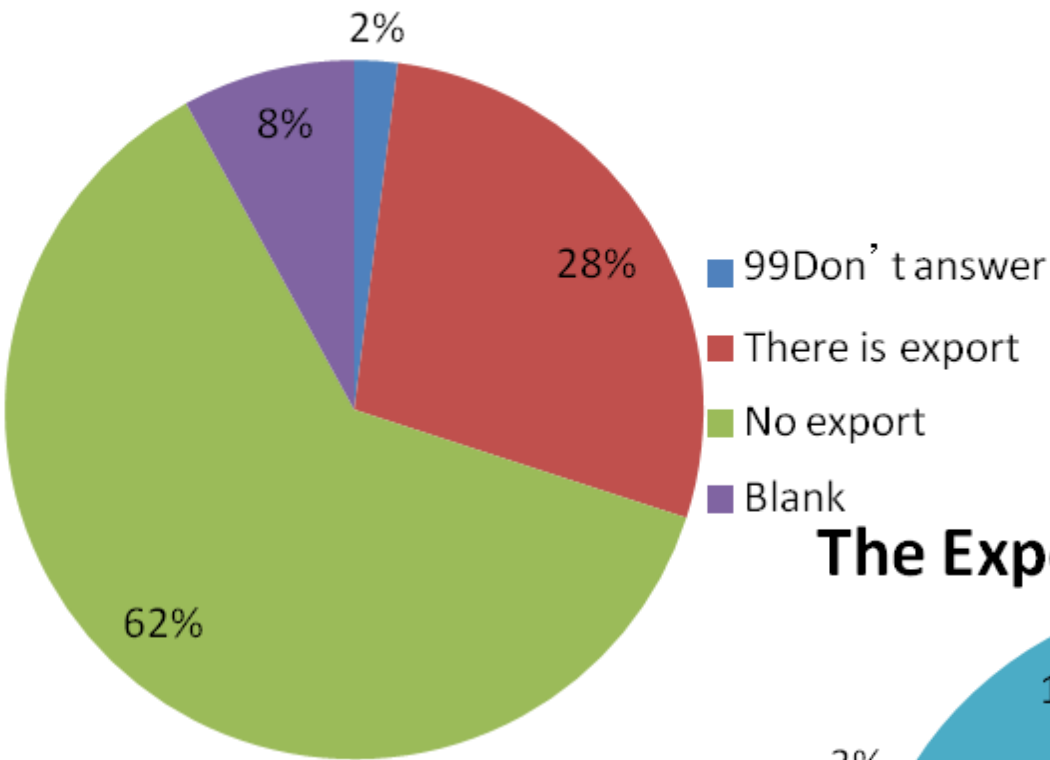
Current Profit(2014)



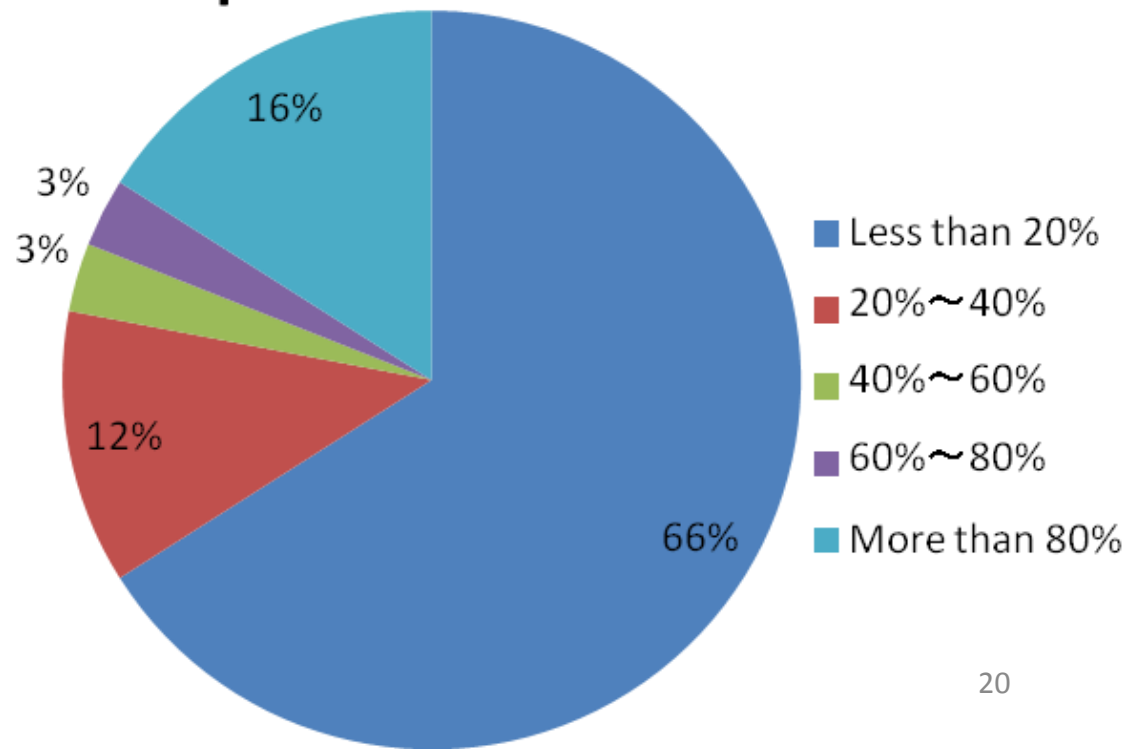
Number of Employee(2014)



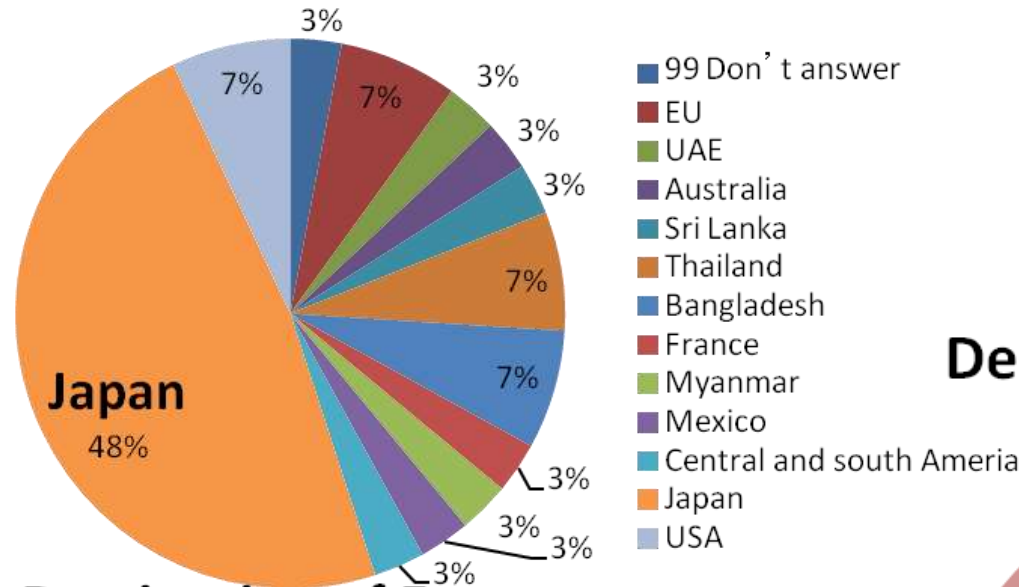
Export



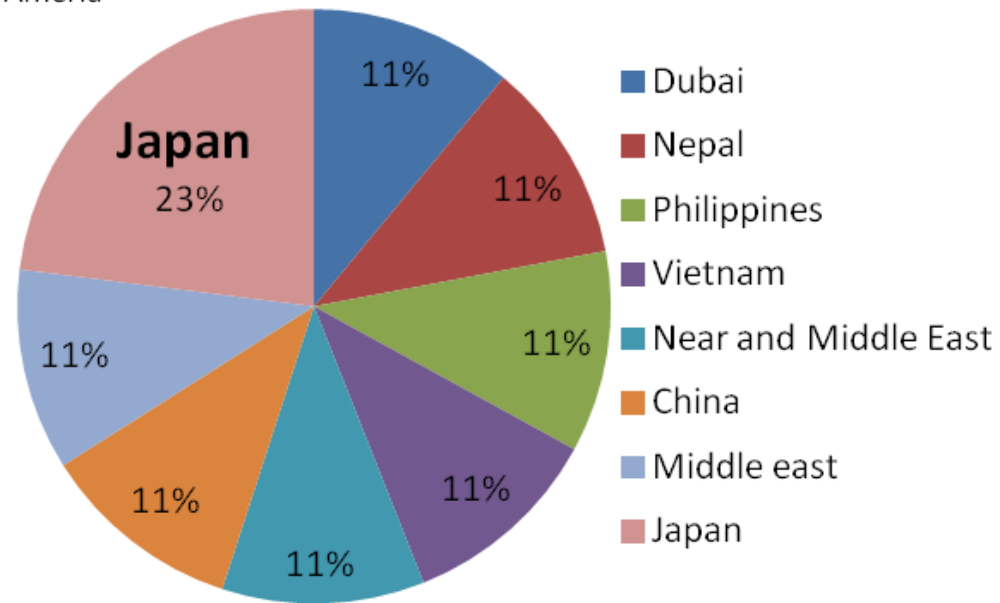
The Export-Sales Ratio



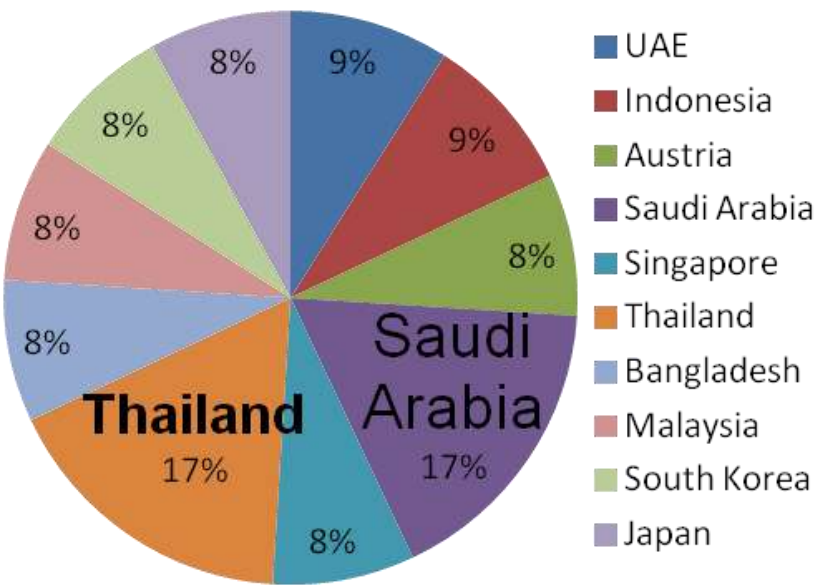
Destination of Export (First)



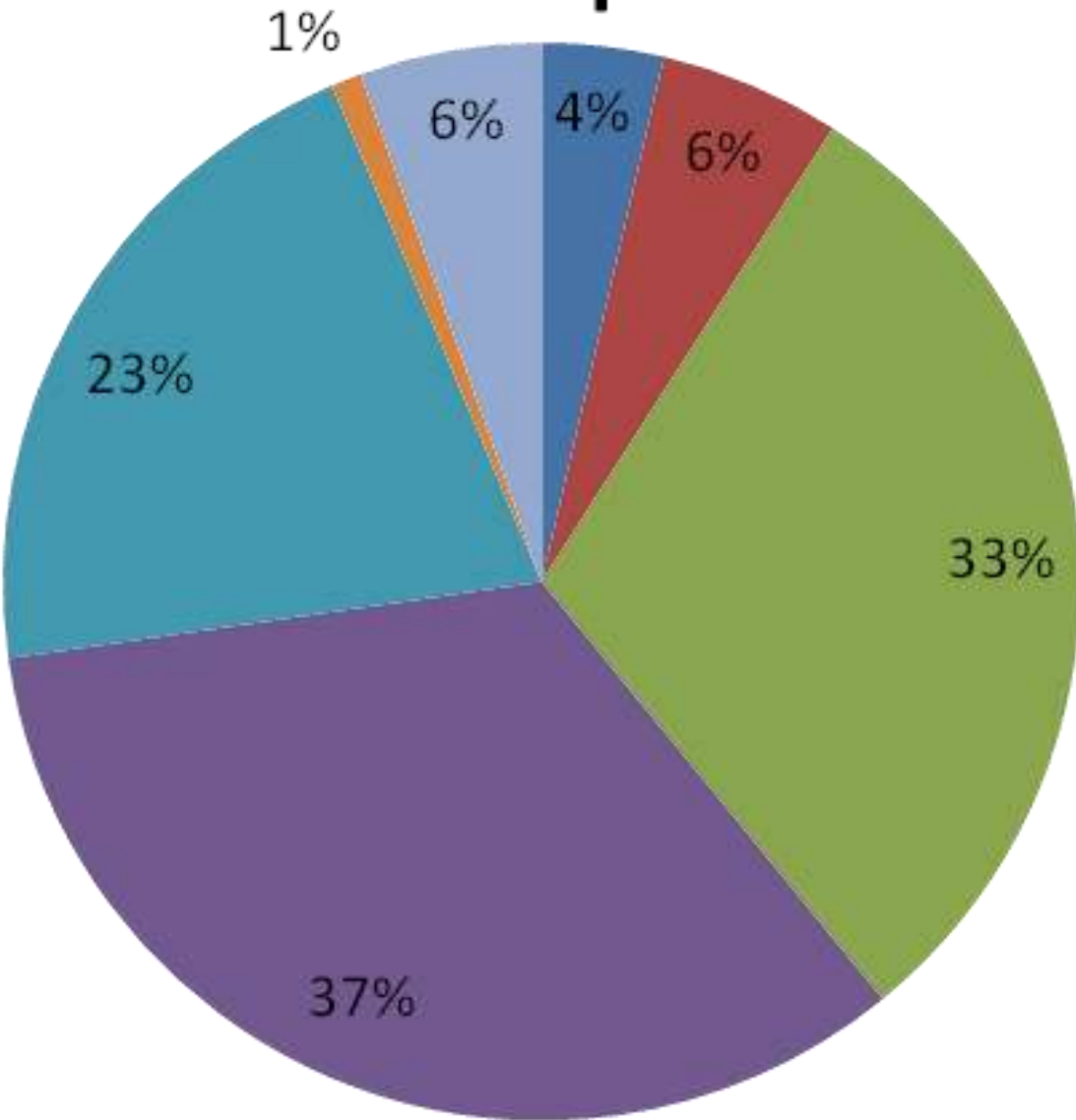
Destination of Export (Third)



Destination of Export (Second)



Competitors



■ 99DA

■ Others

■ Other foreign companies in India

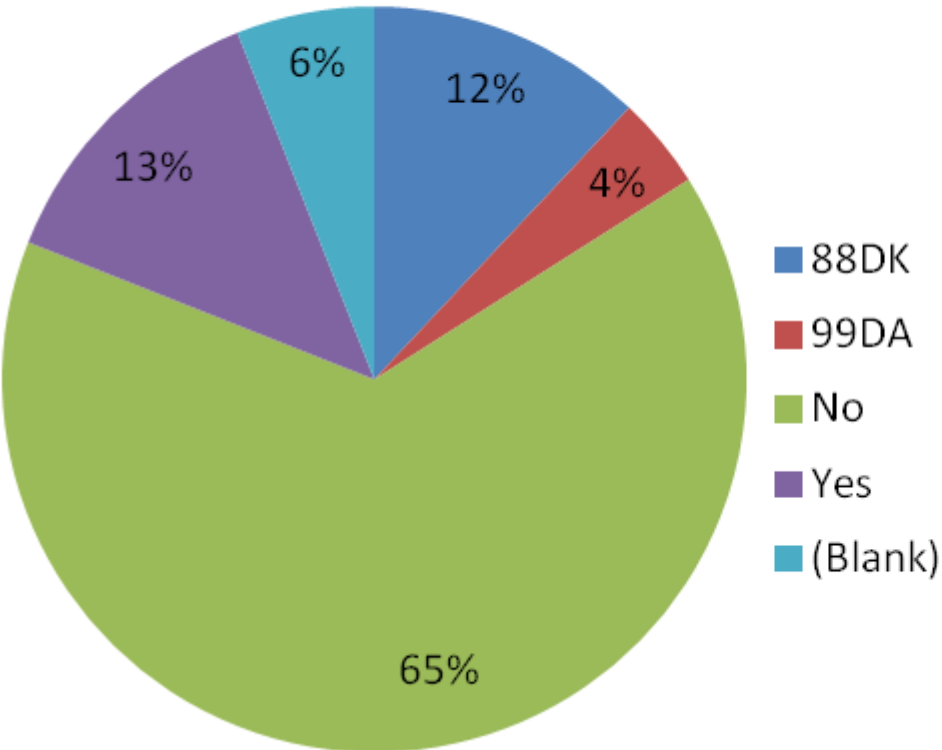
■ Local enterprises

■ Japanes companies in India

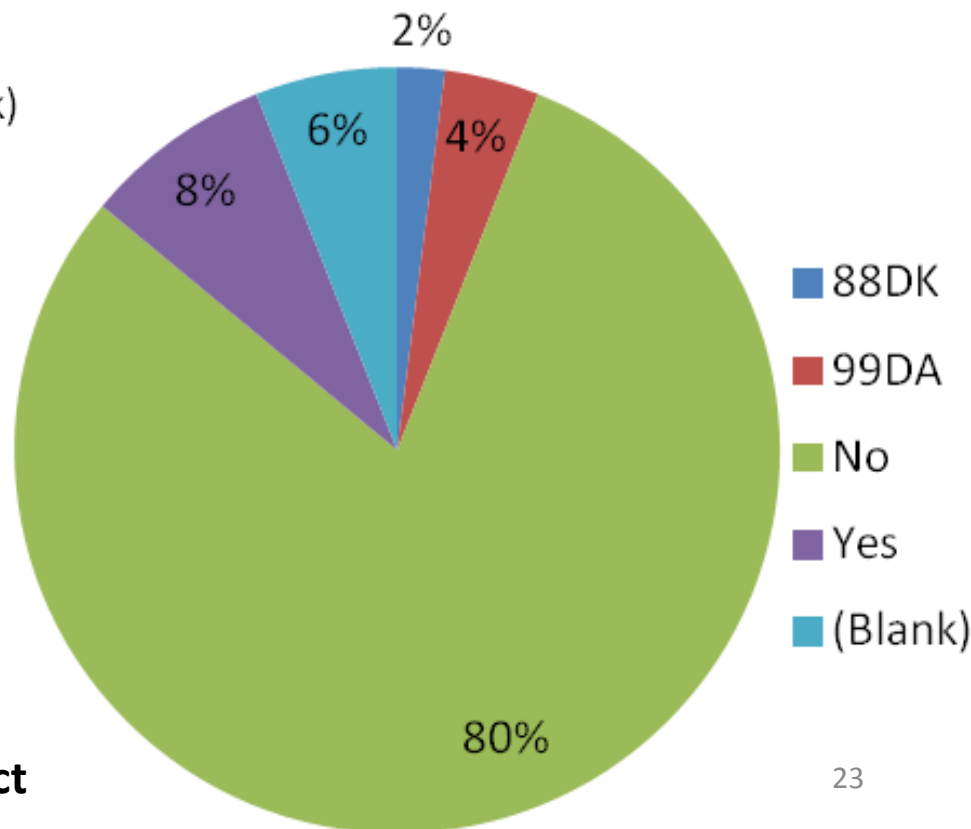
■ Both Japanes companies and local companies in India

■ (Blank)

Use of CEPA Preferential System



Participation in DMIC

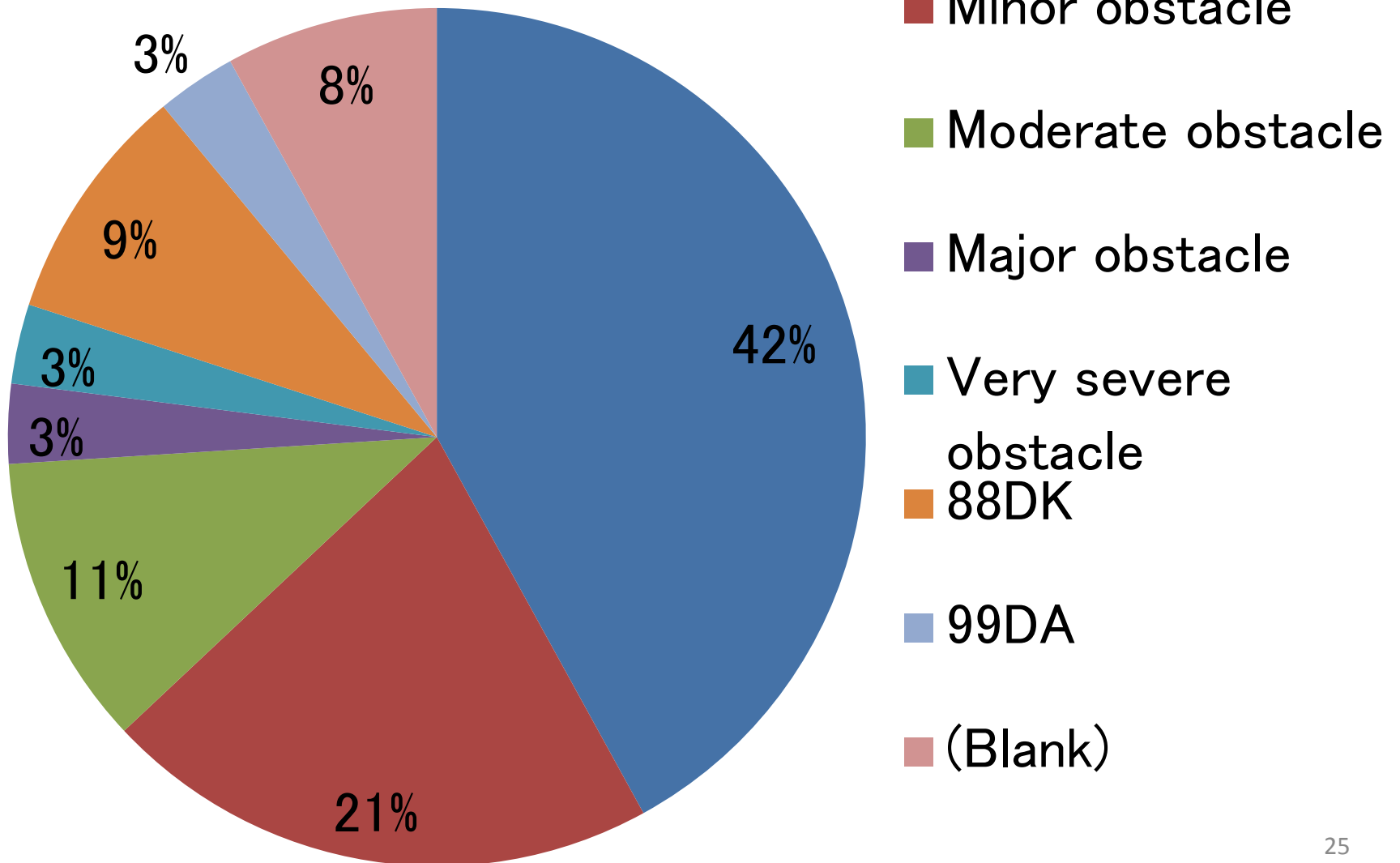


CEPA: Comprehensive Economic Partnership Agreement
DMIC: Delhi-Mumbai Industrial Corridor Project

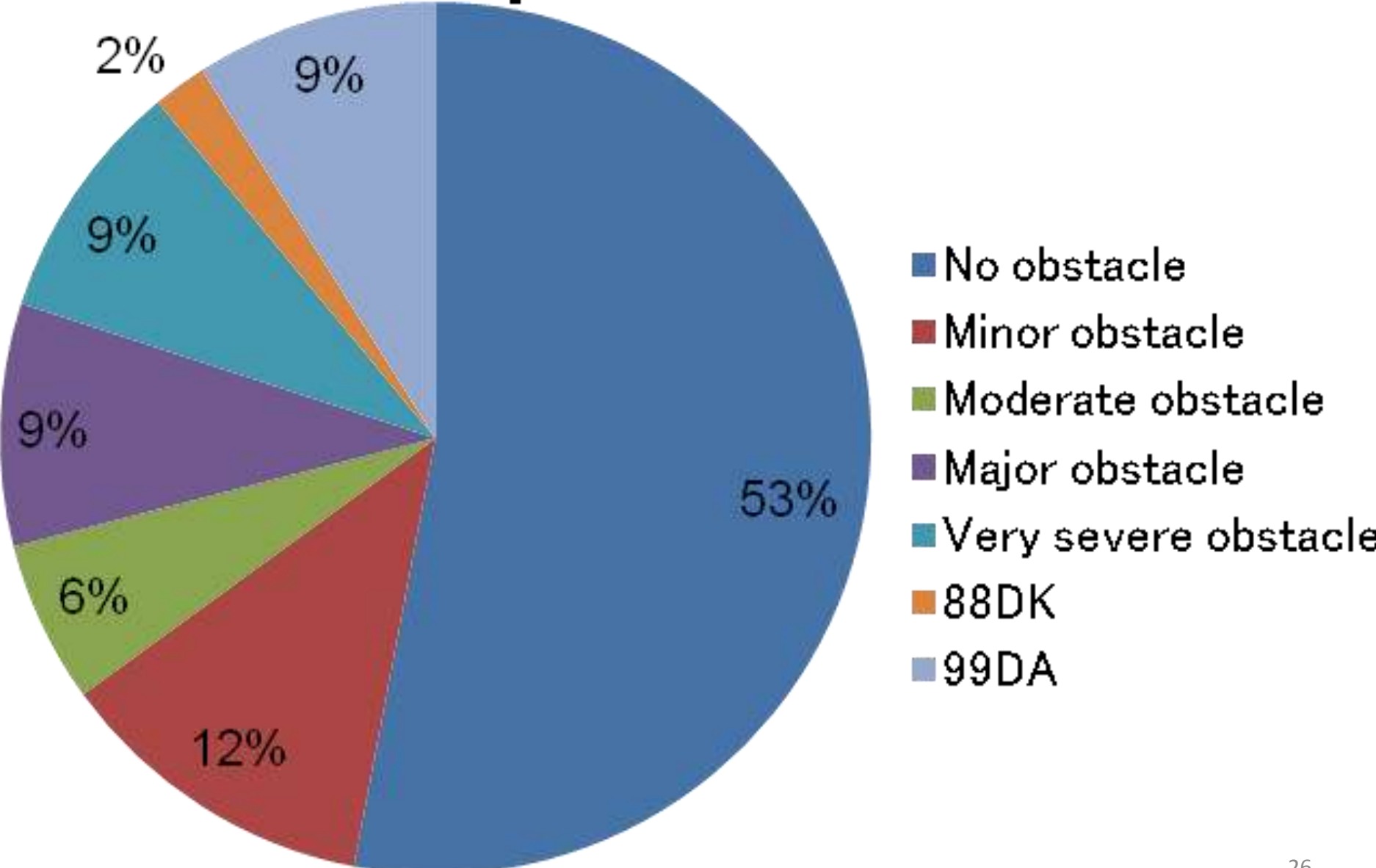
Questions on Business Environments

- ``To what degree is the following thing an obstacle to the current of this company?''
- Seven choices: (1)No obstacle, (2)Minor obstacle, (3)Moderate obstacle, (4)Major obstacle, (5)Very severe obstacle, (6)Don't know, (7)Don's answer
- Ten things: (1)Finance, (2)Land acquisition, (3)Business licensing and permits, (4)Corruption, (5)Courts, (6)Crime, (7)Customs, (8)Electricity, (9)Qualified Workforce, (10)Labour Regulation, (11)Political instability, (12)Practices of competitors, (13)Tax administration, (14)Tax rates, (15)Logistics, (16)Intellectual property rights

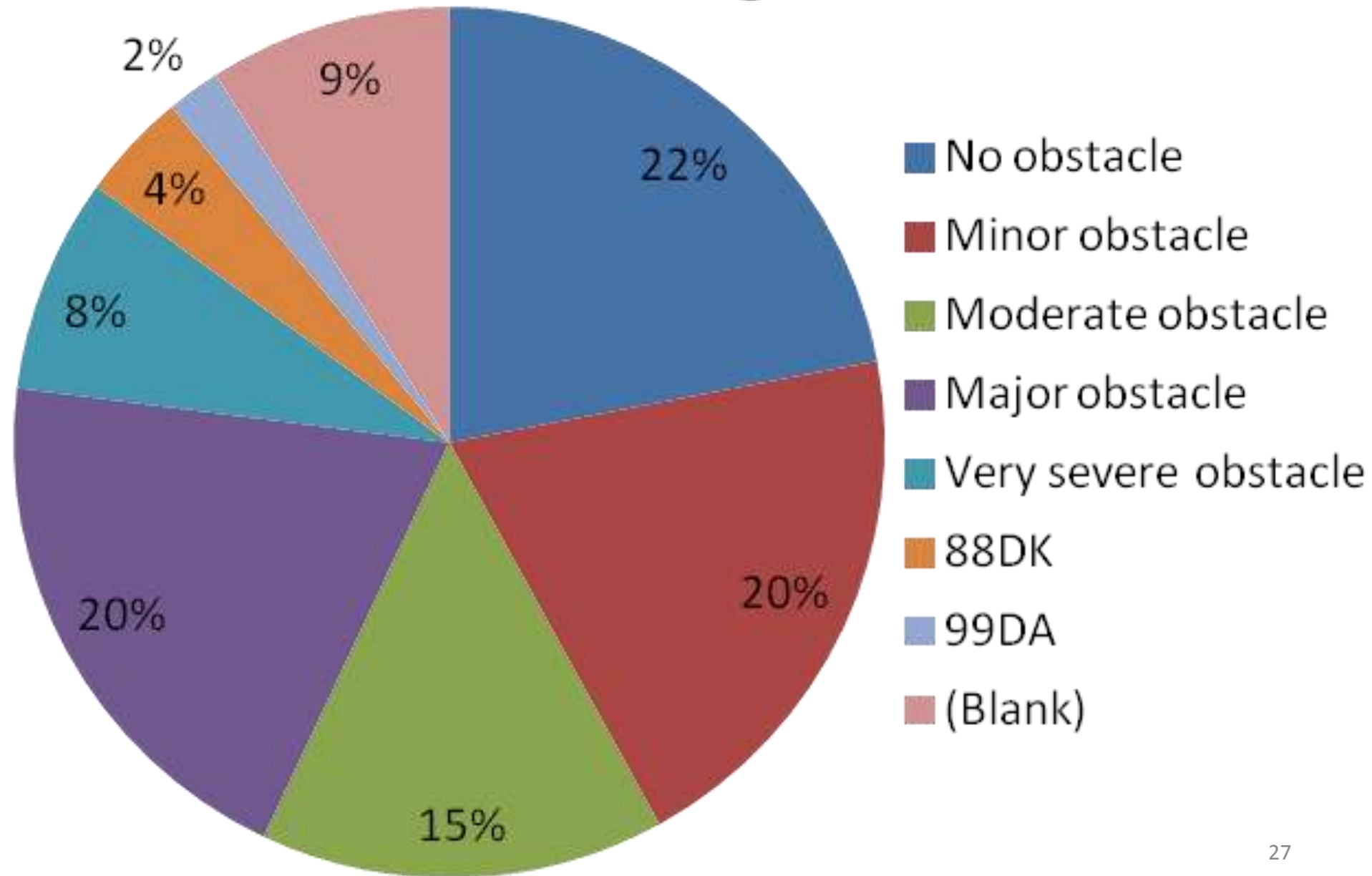
Finance



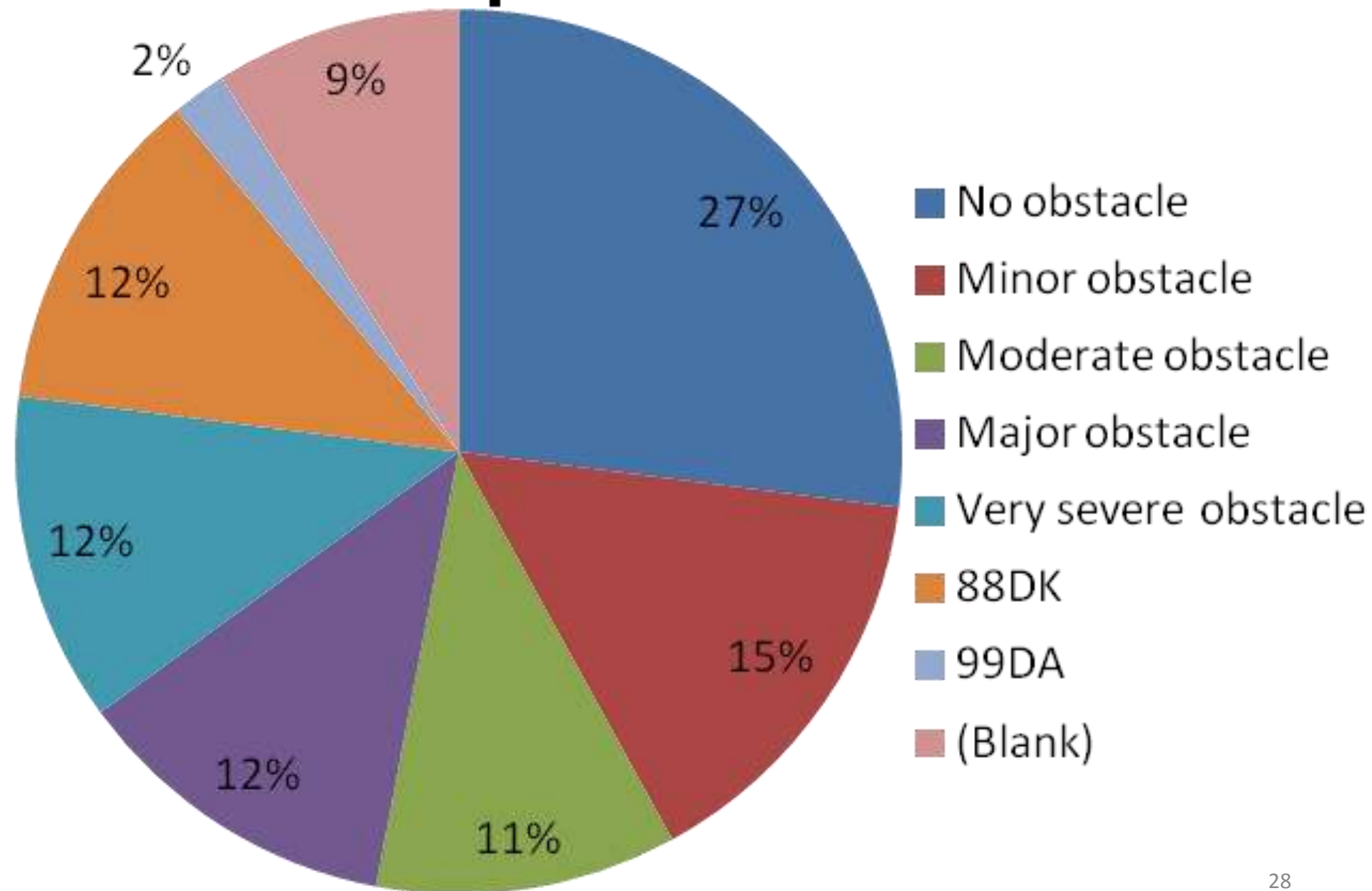
Land Acquisition



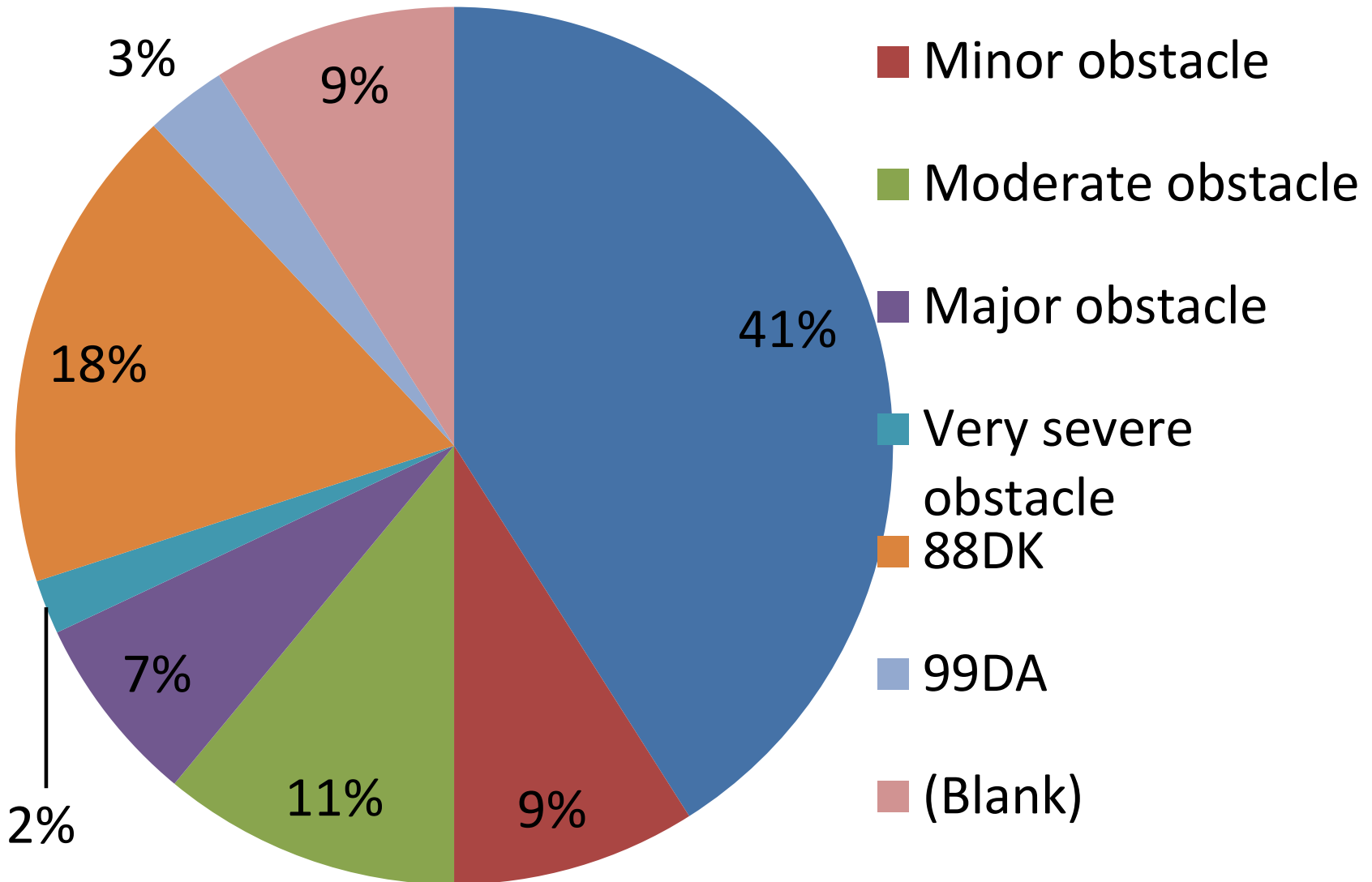
Business Licensing and Permits



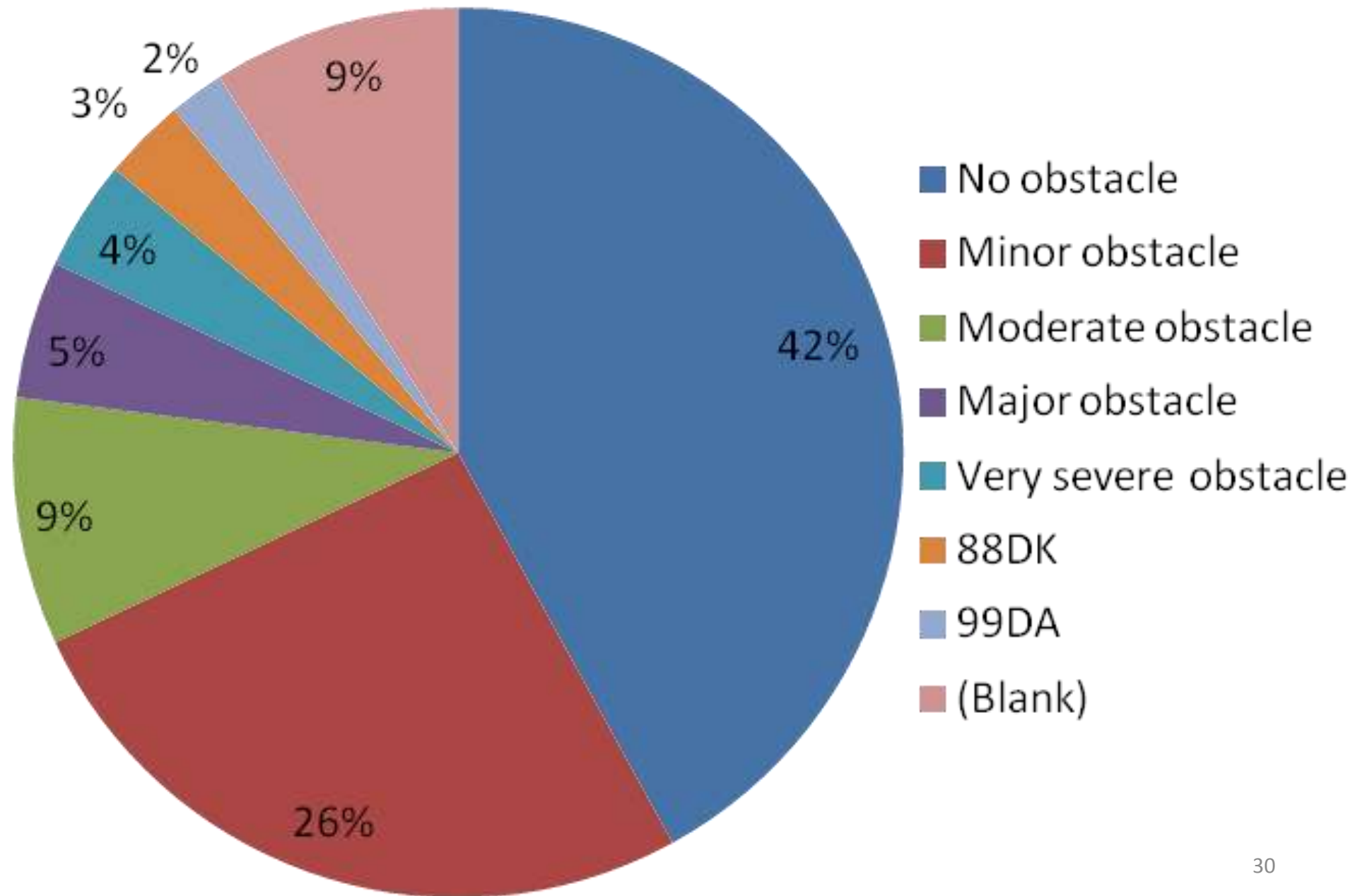
Corruption



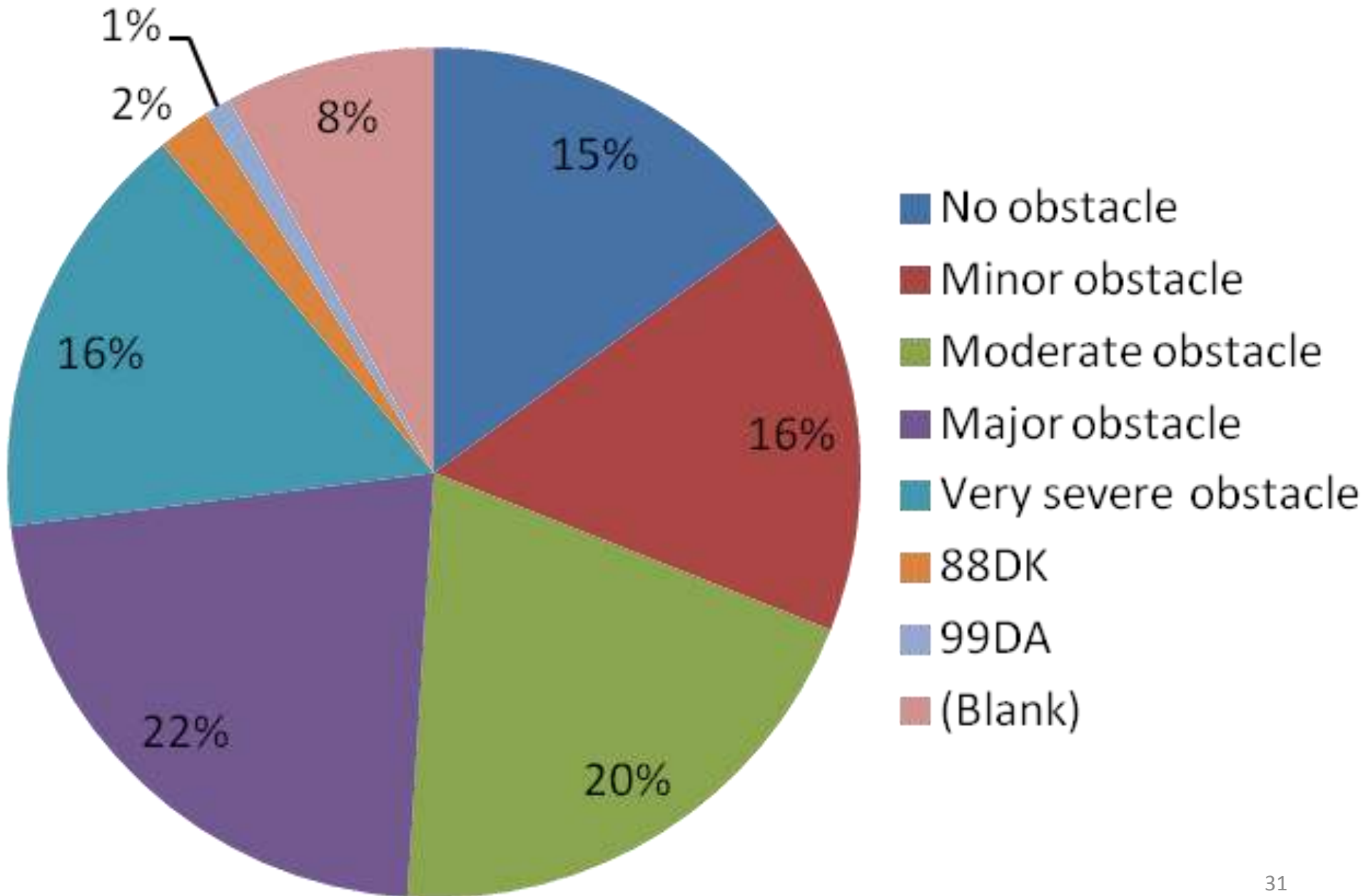
Courts



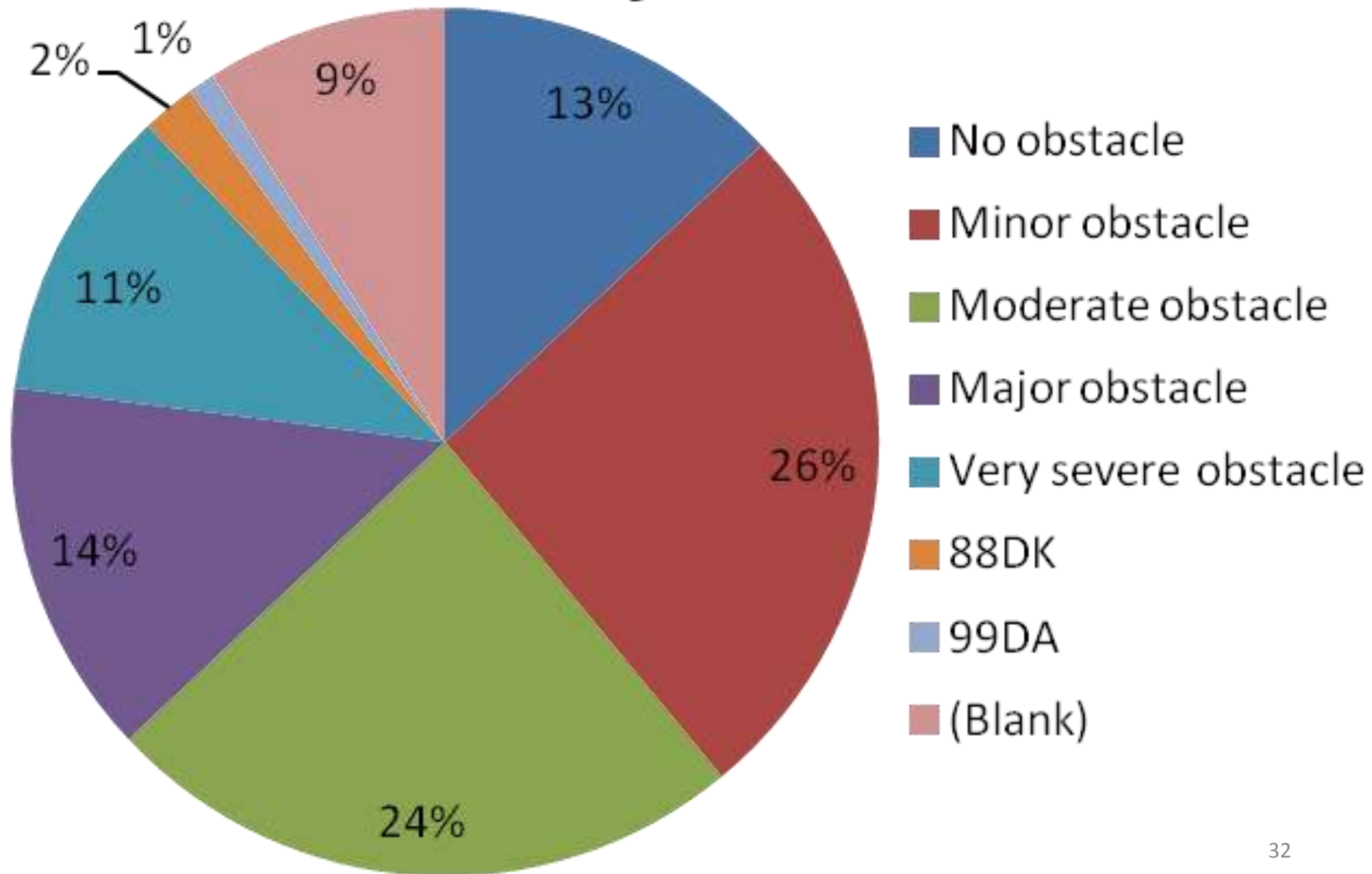
Crime



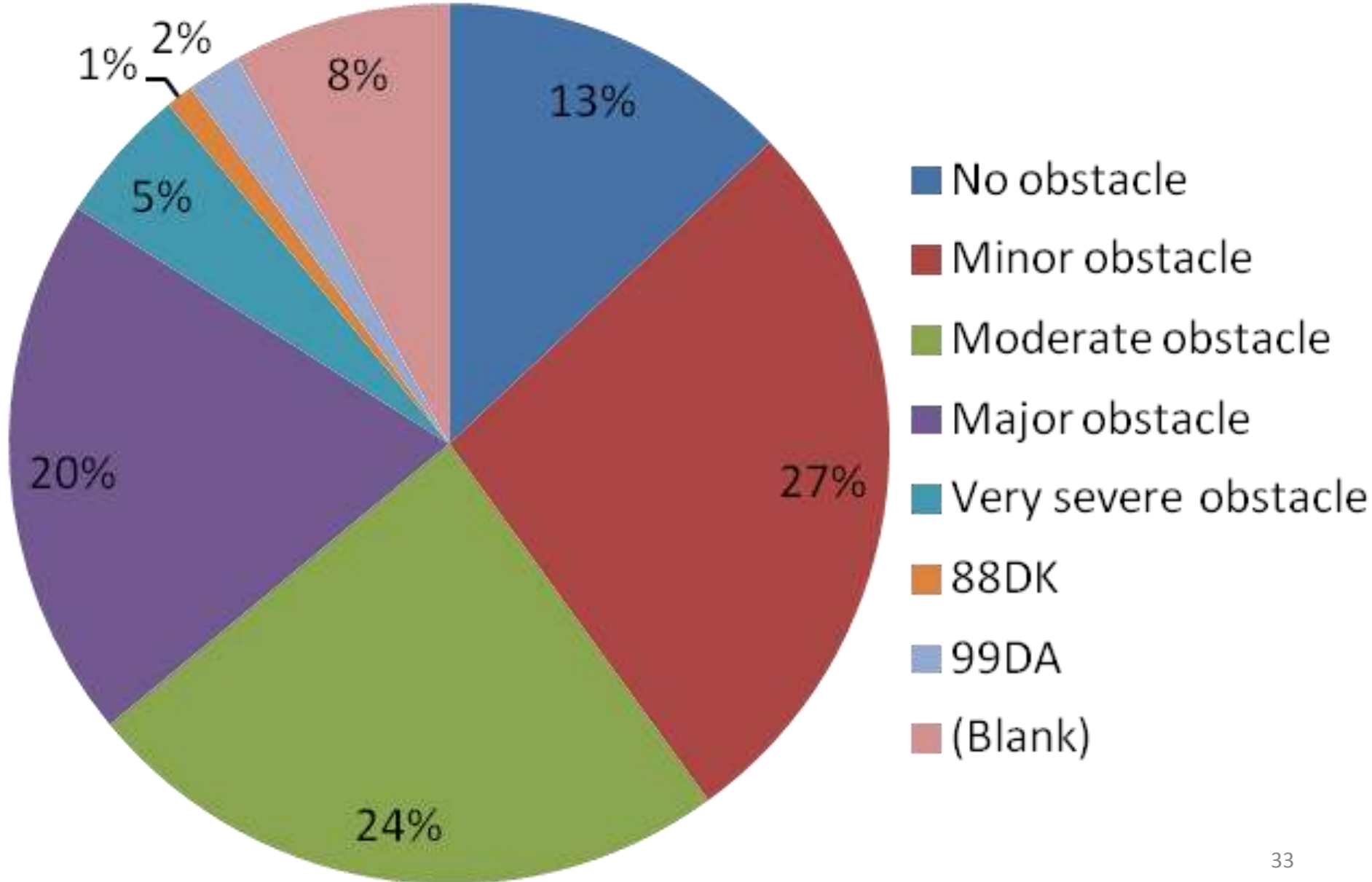
Customs



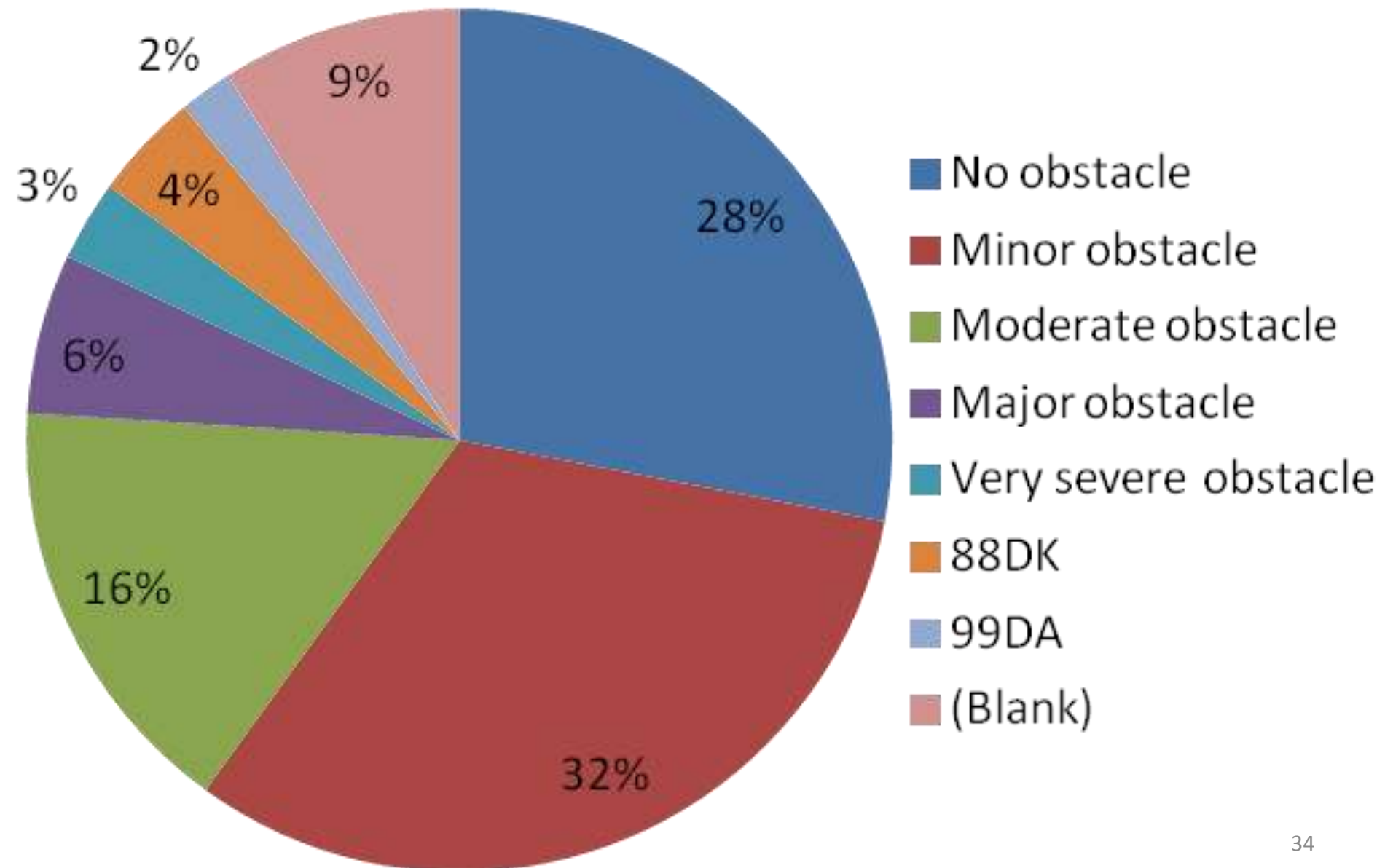
Electricity



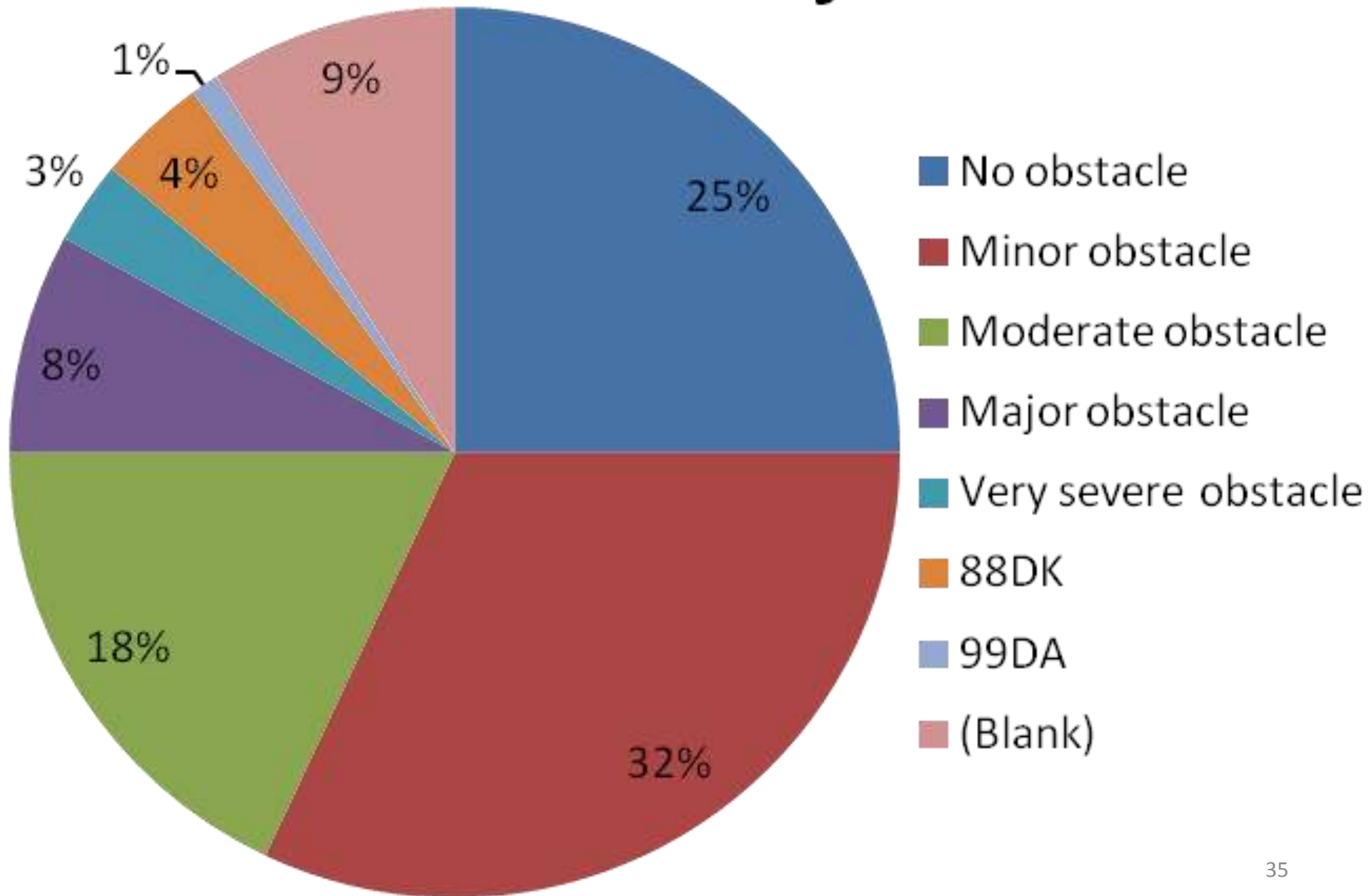
Qualified Workforce



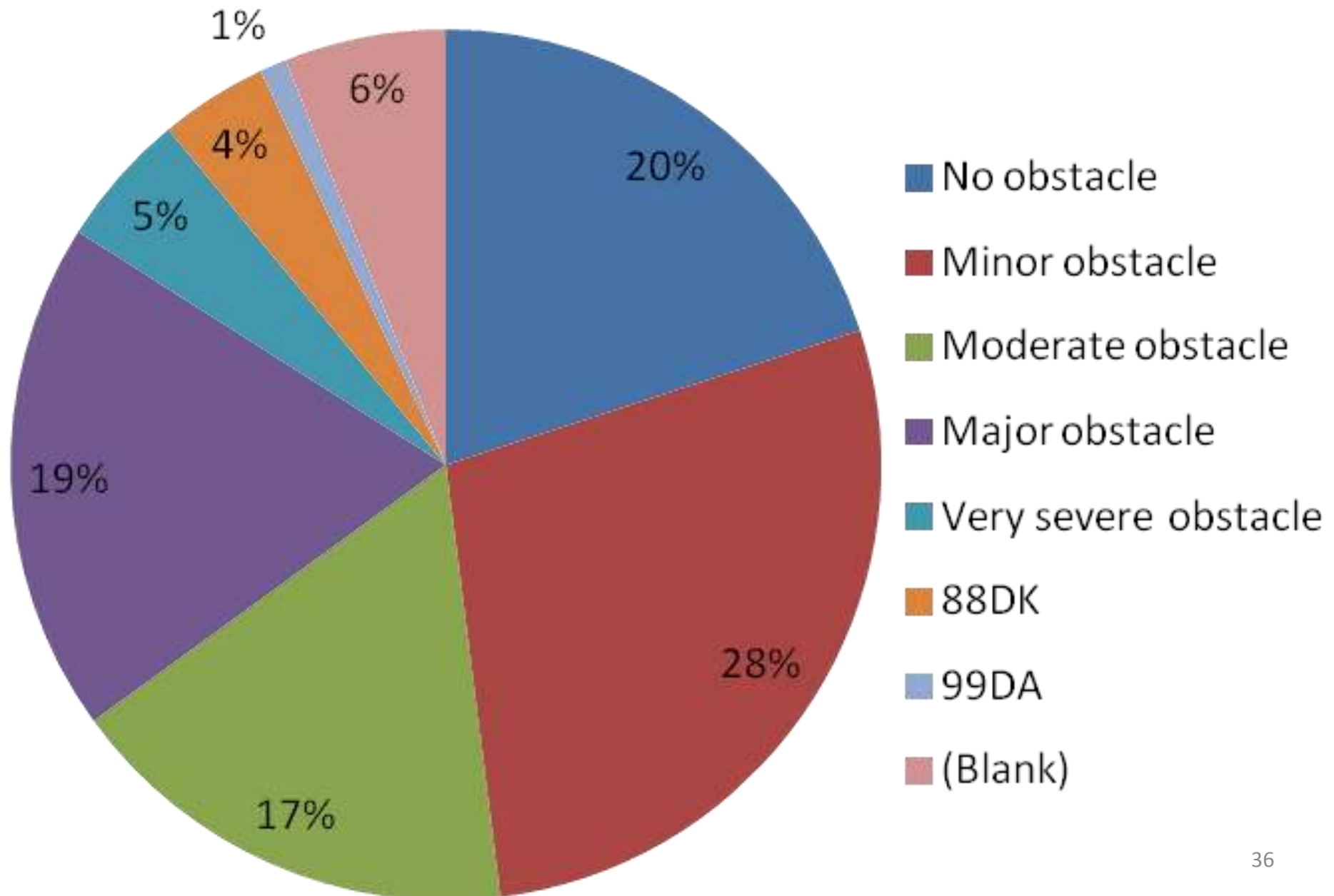
Labor Regulations



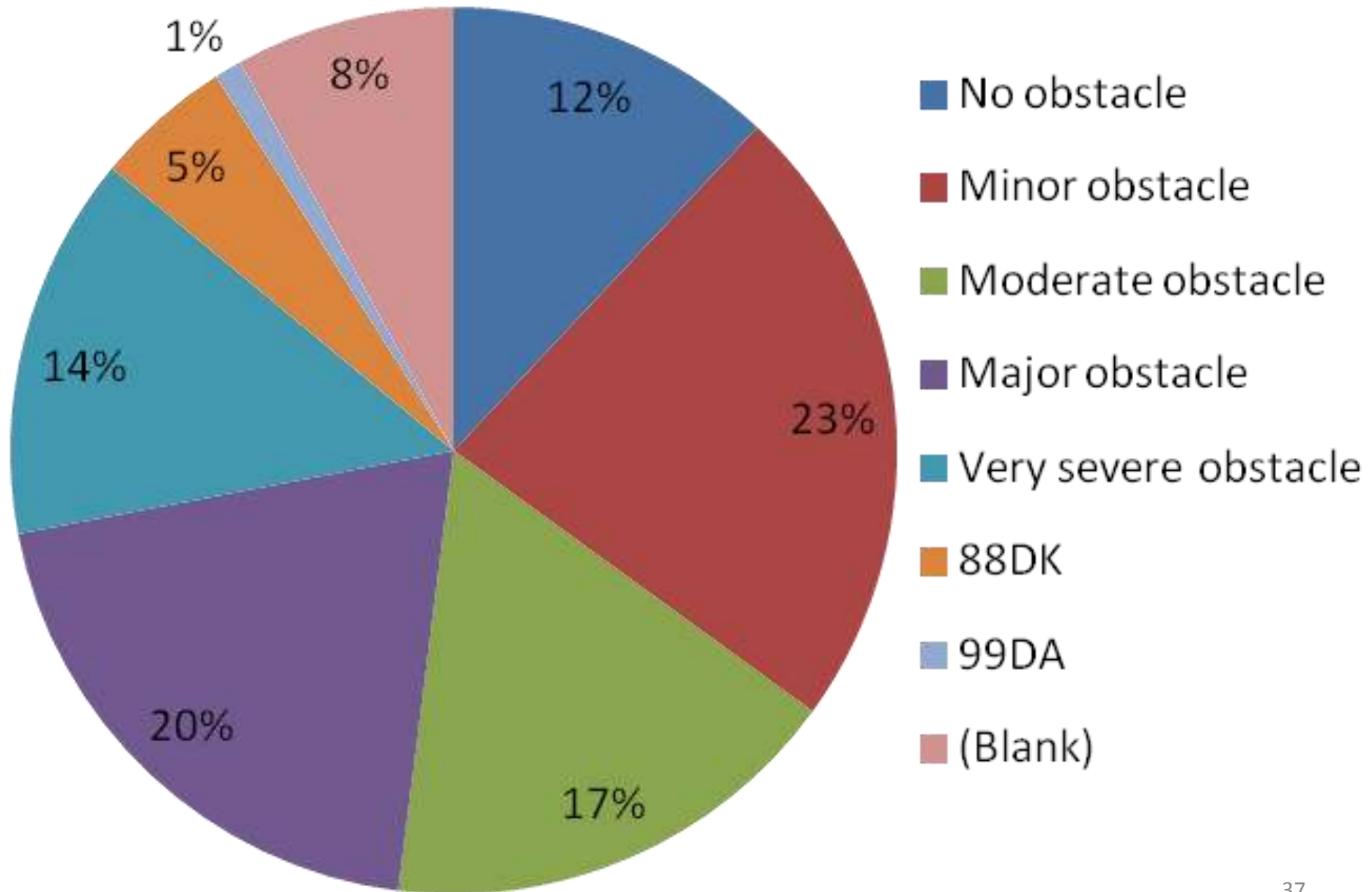
Political Instability



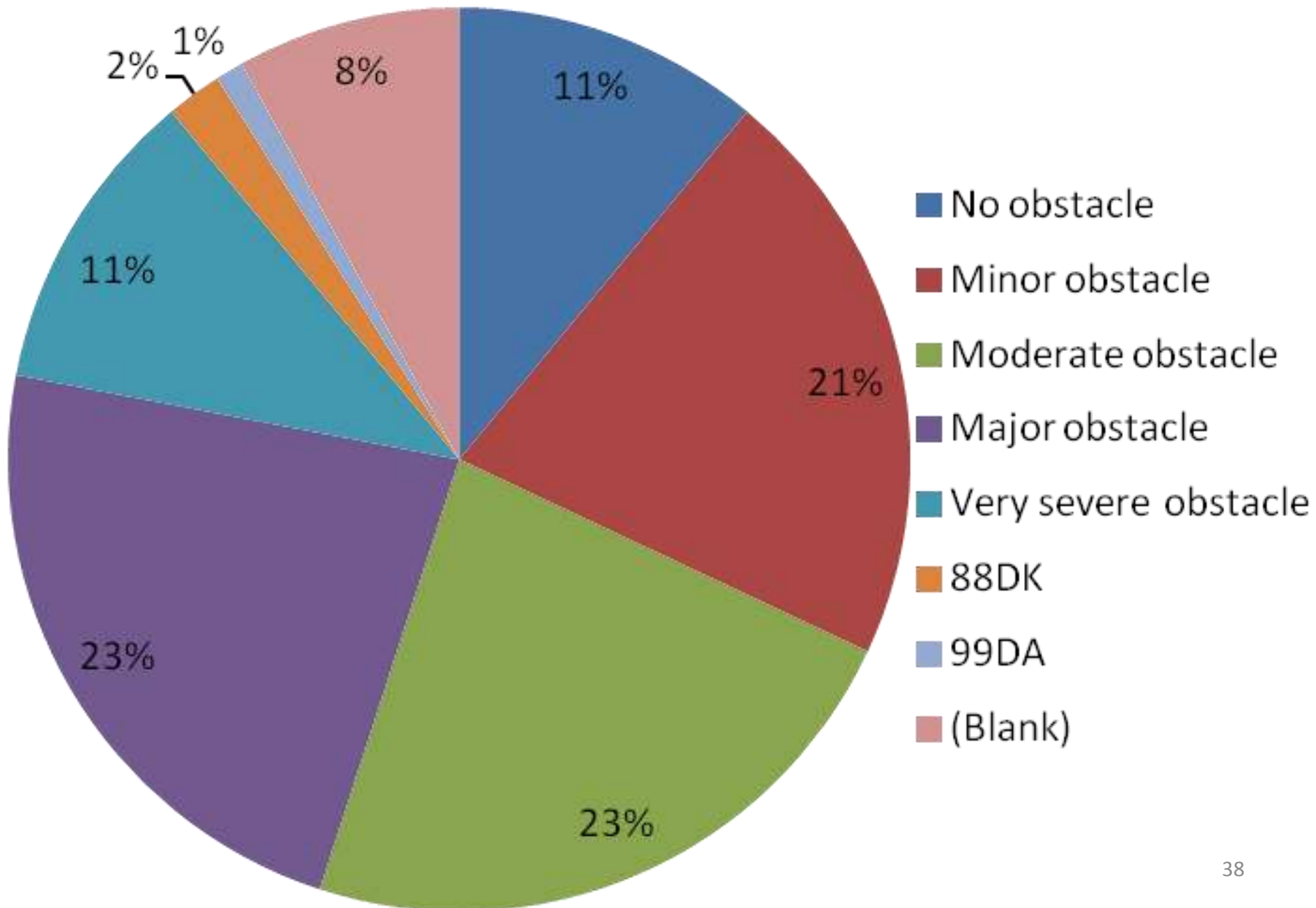
Practices of Competitors



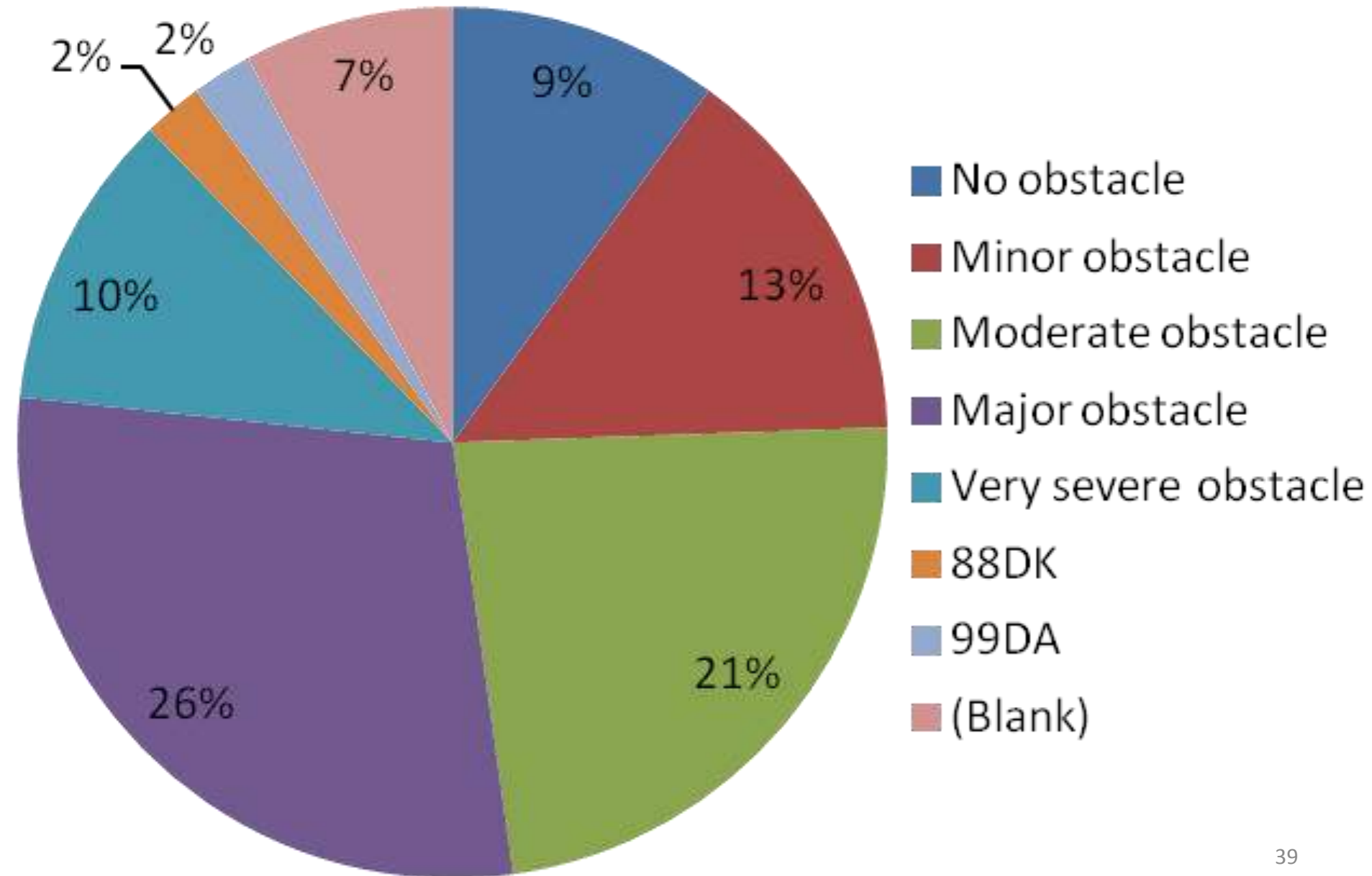
Tax Administration



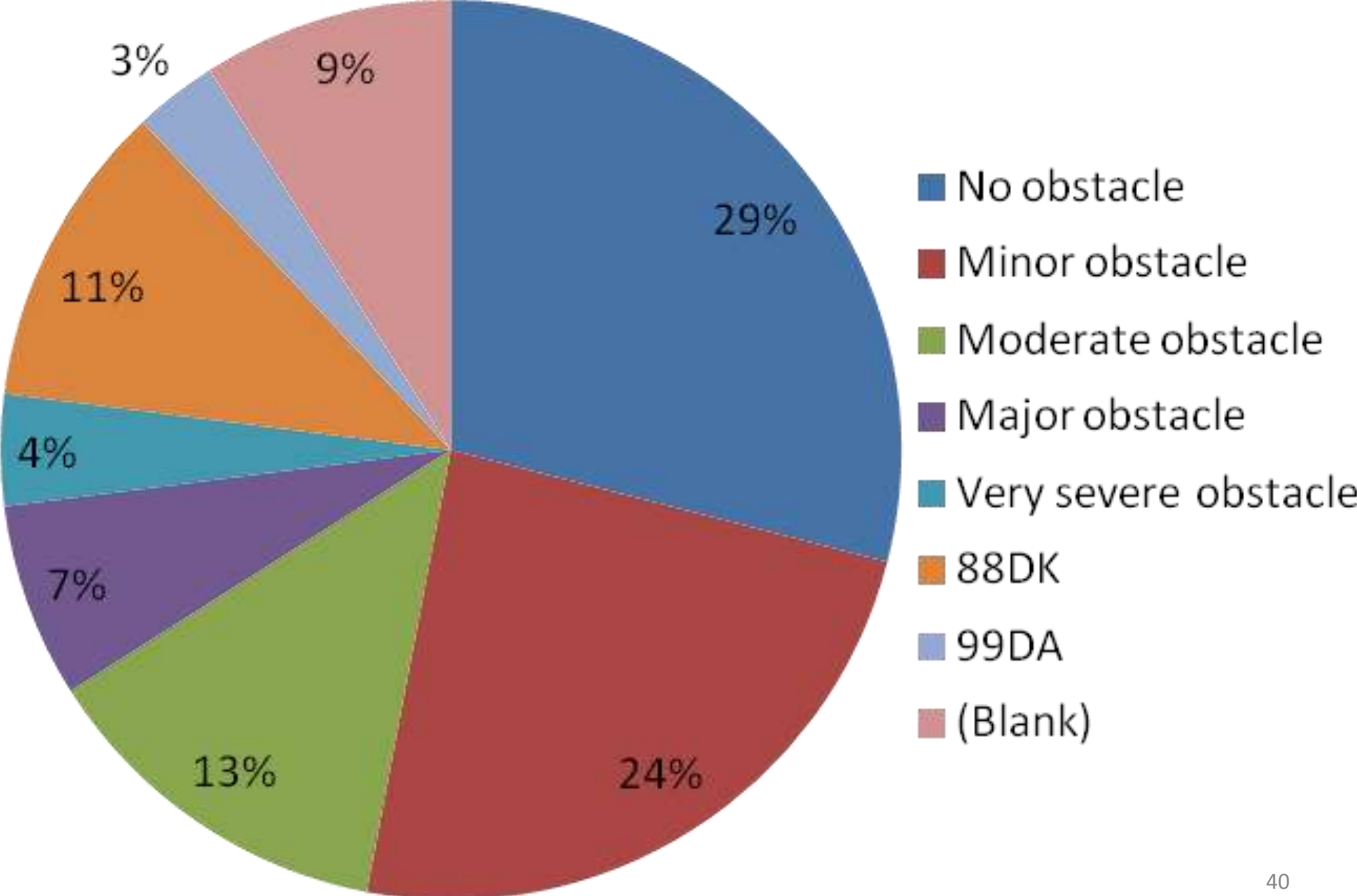
Tax Rates



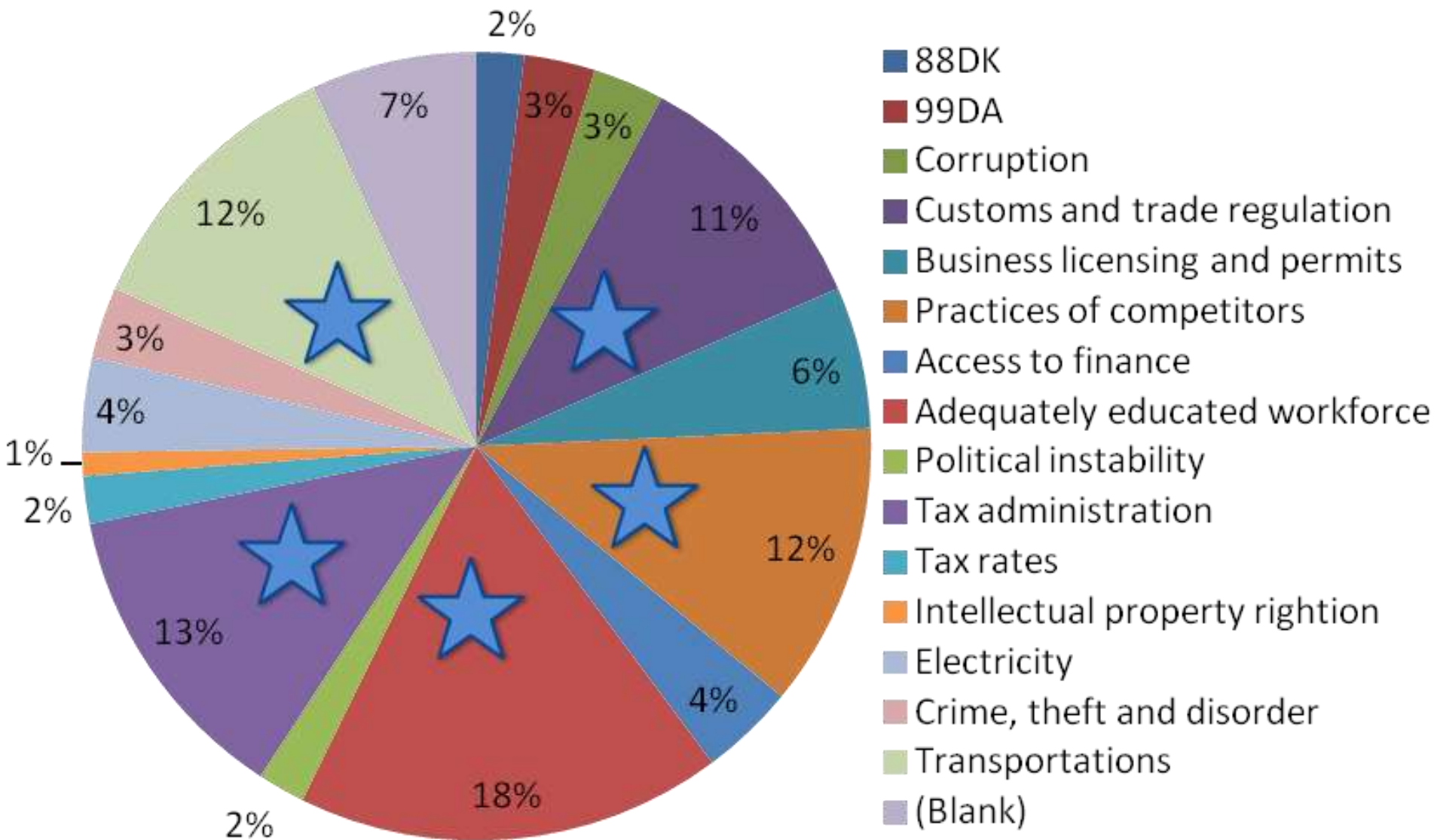
Logistics



Intellectual Property Rights



Biggest Obstacle



- The results of questionnaire survey in section 2 shows:
 - (1) Responding companies have the following characteristics: more NCR in location, less transport equipment and more commerce/ transportation in industry, and smaller in size.
 - (2) Reason for investment in India: Many companies market potentiality not only in India but also in the neighbor countries. Indeed, some companies have export destination diversity. India as step stone for business in Africa, Middle East, and EU.
 - (3) Local content ratio is not high. Many companies procure the goods from Japan and East Asia.
→ Implications for exchange rate problem and the opportunities of cost advantage induced by increase of local contents.

- (4) Employment of contract labors is common.
→ Implications for labor laws and industrial relations.
- (5) Despite of the serious recession of the Indian economy, more than half of companies have good performance.
- (6) The most serious obstacle for the business is the difficulty to obtain good human resources (turnover rate is also high). → Implication for “Skill Development” for promoting “Make in India.” Many companies suffer from inadequate infrastructure and strong regulations (ex. High tax rate, inflexible and retrospective tax administration and introduction of MAT to SEZs).
- (7) A few Japanese companies involve the CEPA and the DMIC. Further investigation of low utilization of preferential tax treatment under the CEPA is needed.

Thank you.

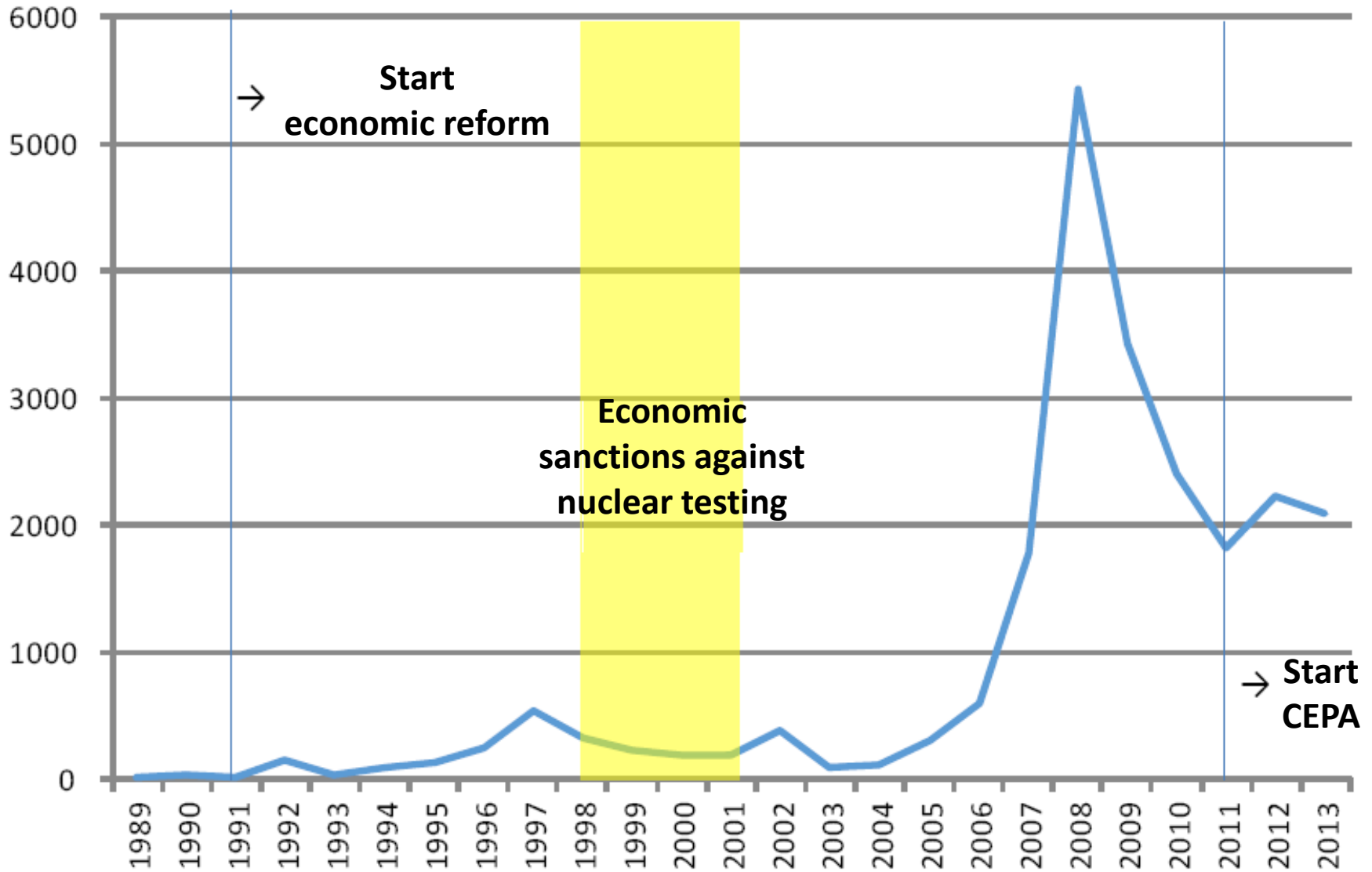
Email: takahirodevelop@gmail.com

Appendix: Overview of Japanese Companies in India

- Ministry of Finance, *Situation of Outward and Inward Direct Investment, and Process of Outward/ Inward Direct Investment.*
- Toyokeizai, *Kaigai Sinsyutsu Kigyo Souran.*
- Ministry of Economy, Trade and Industry, *Survey of Overseas Business Activities.*

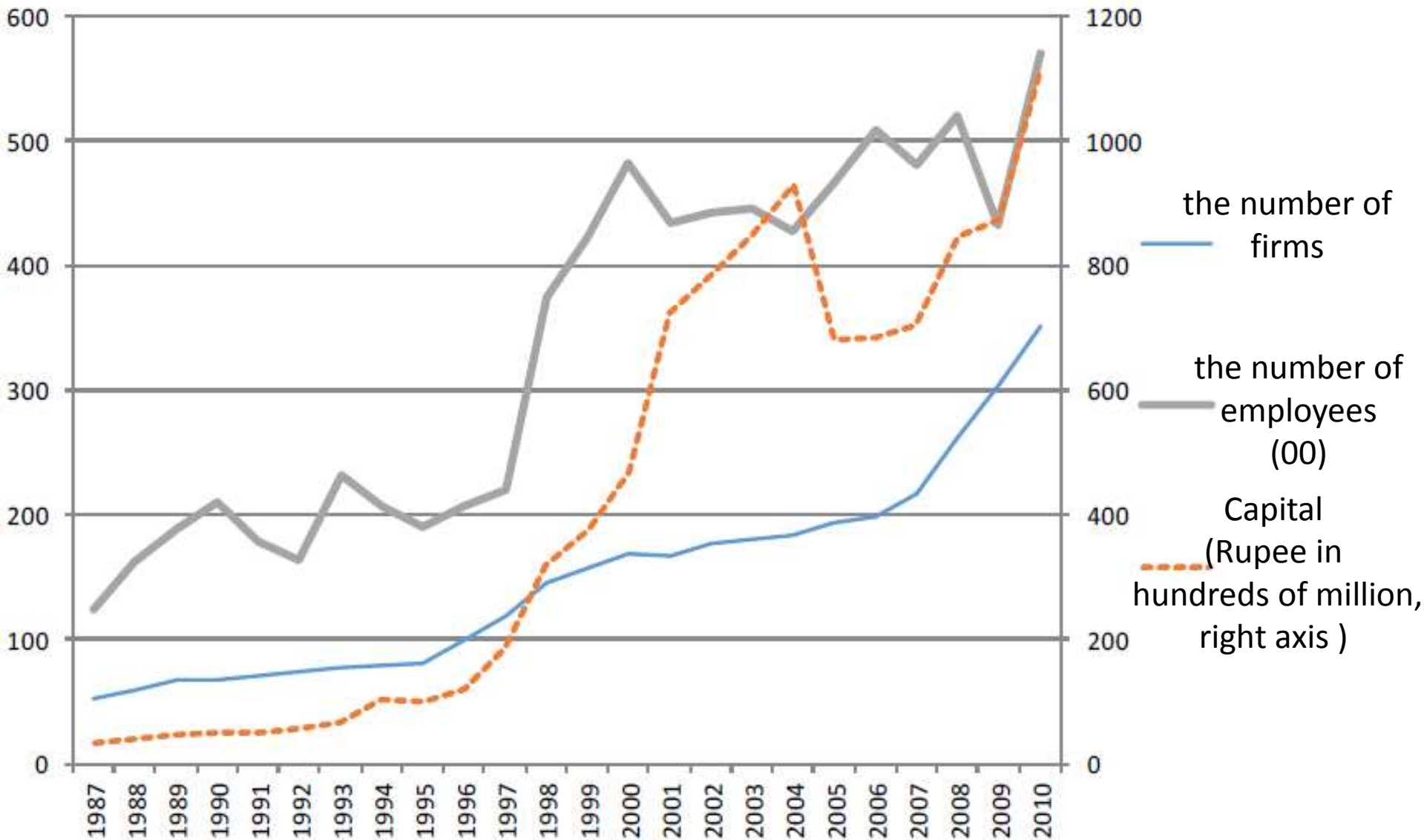
Foreign Direct Investments from Japan to India

JP yen in hundred of million



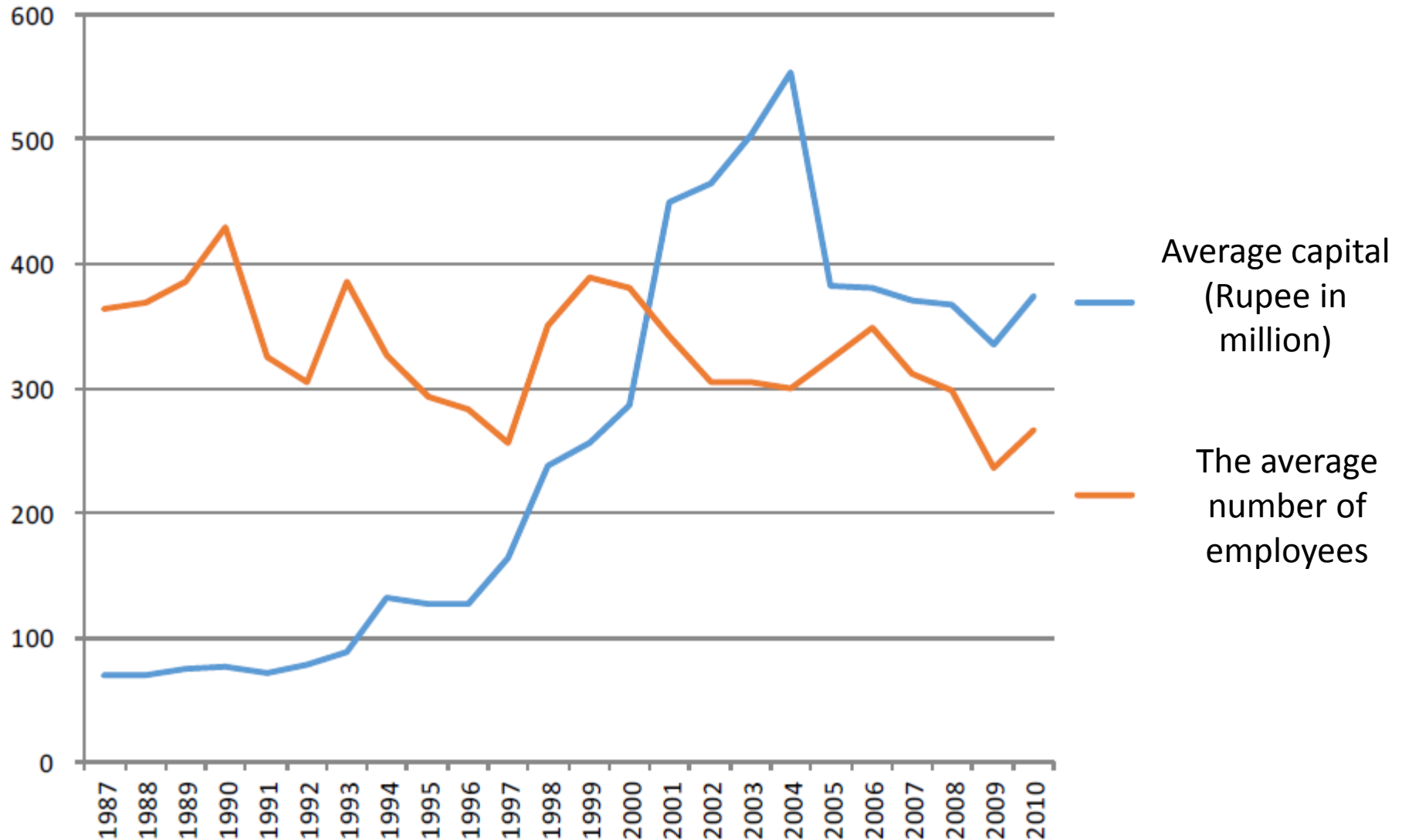
Source: Author's elaboration based on MOF, *Situation of Outward and Inward Direct Investment* for 1989-2004 and *Process of Outward/Inward Direct Investment* for 2005-2013.

Number of Japanese Companies, Employees and Capital in India



Source: Author's elaboration based on Toyokeizai, *Kaigai Sinsyutsu Kigyo Souran*.

Japanese Companies' Average Capital in India

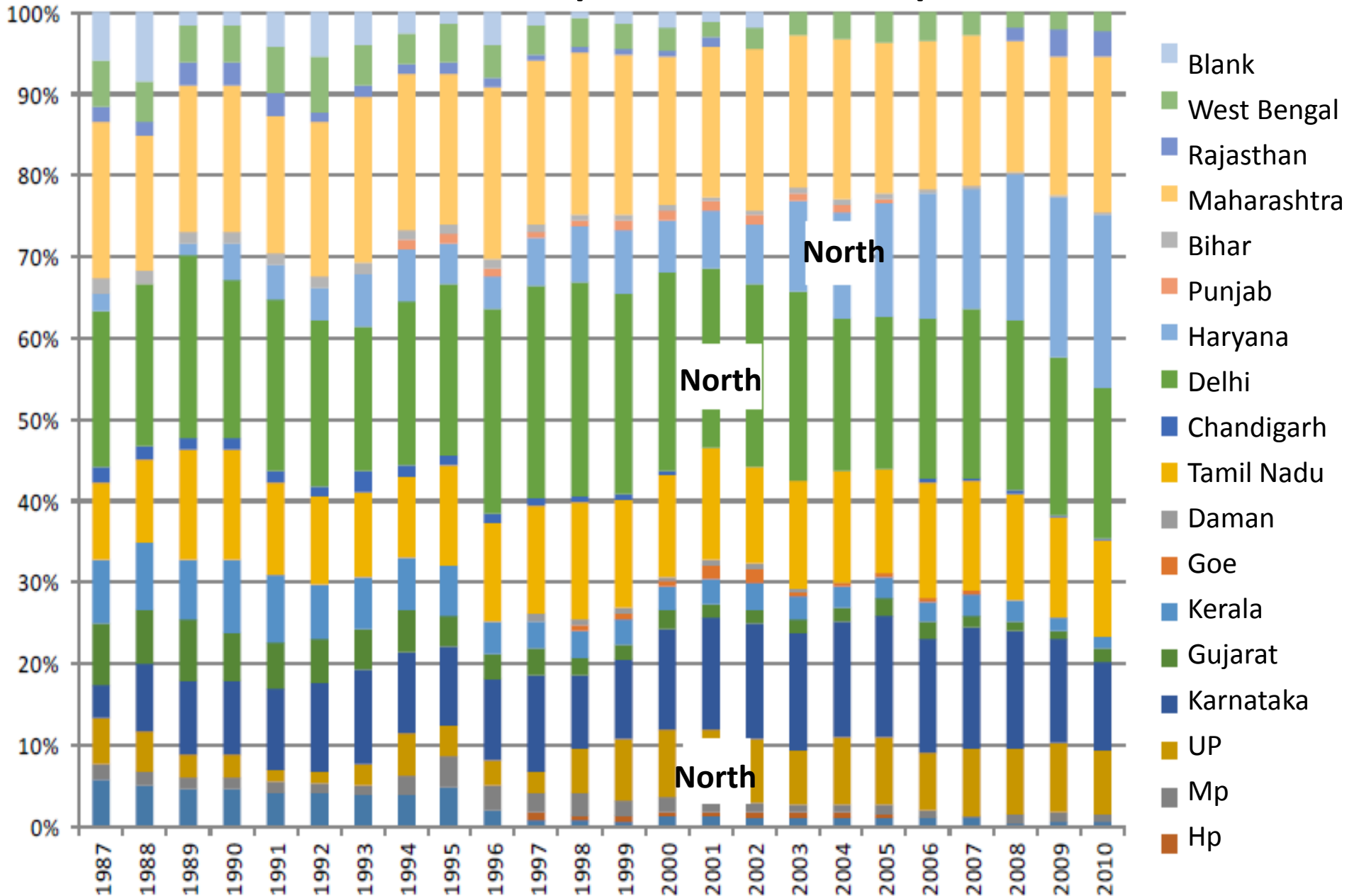


Source: Author's elaboration based on Toyokeizai, *Kaigai Sinsyutsu Kigyo Souran*.



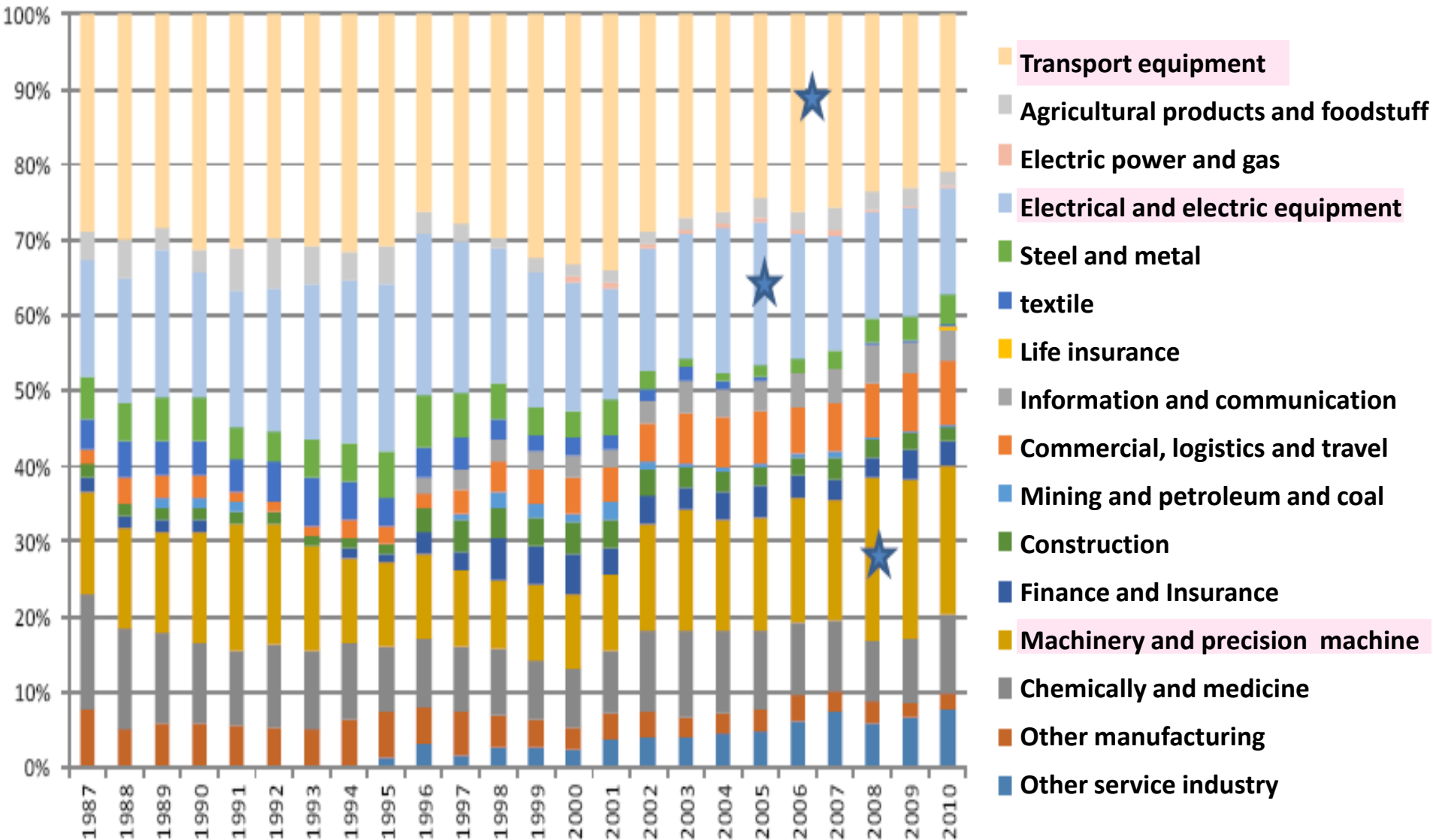
The source:
<http://www.freemap.jp/itemDownload.php?b=asia&s=india&t=gif>

Locations of Japanese Companies



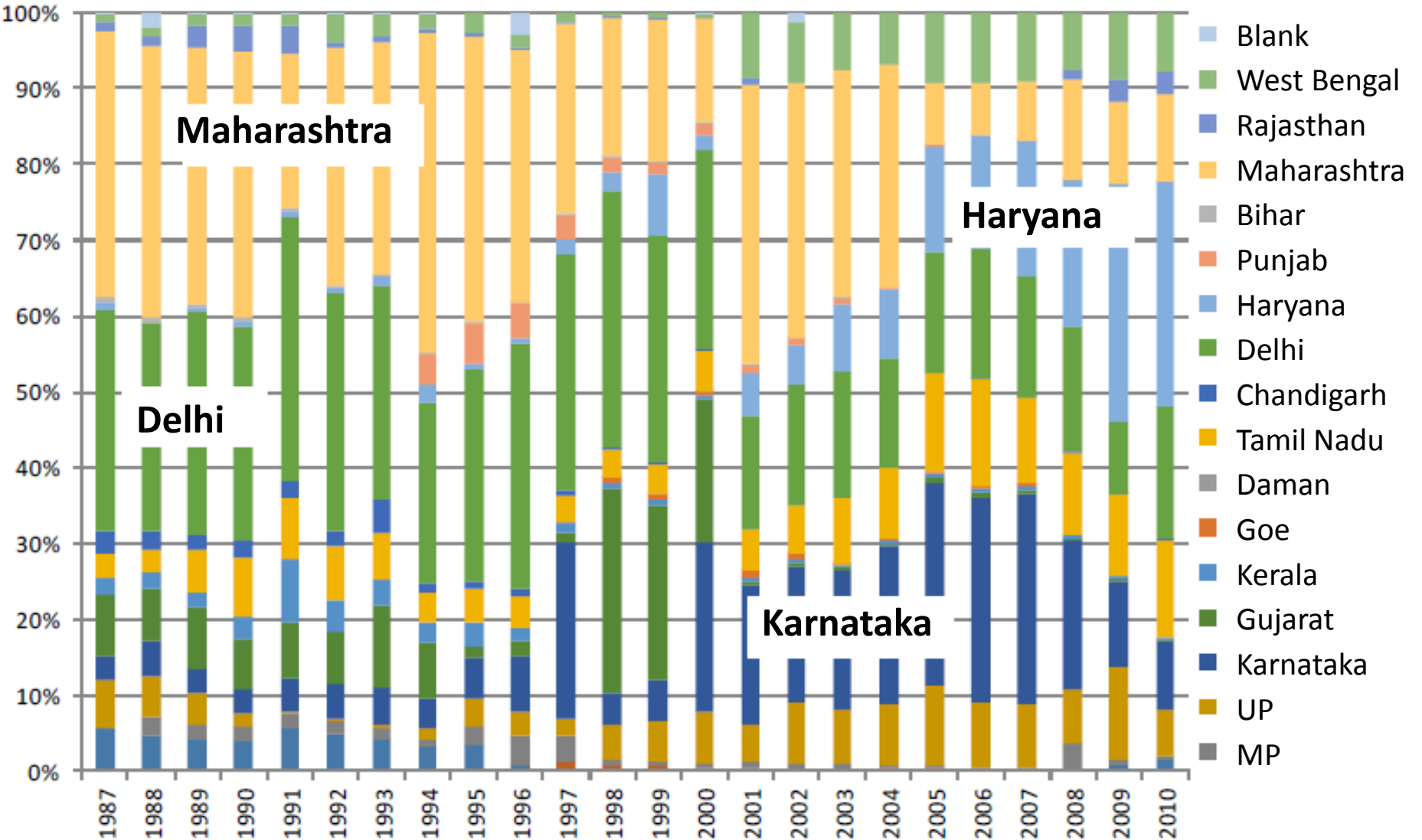
Source: Author's elaboration based on Toyokeizai, *Kaigai Sinsyutsu Kigyo Souran*.

Industrial Sectors of Japanese Companies in India

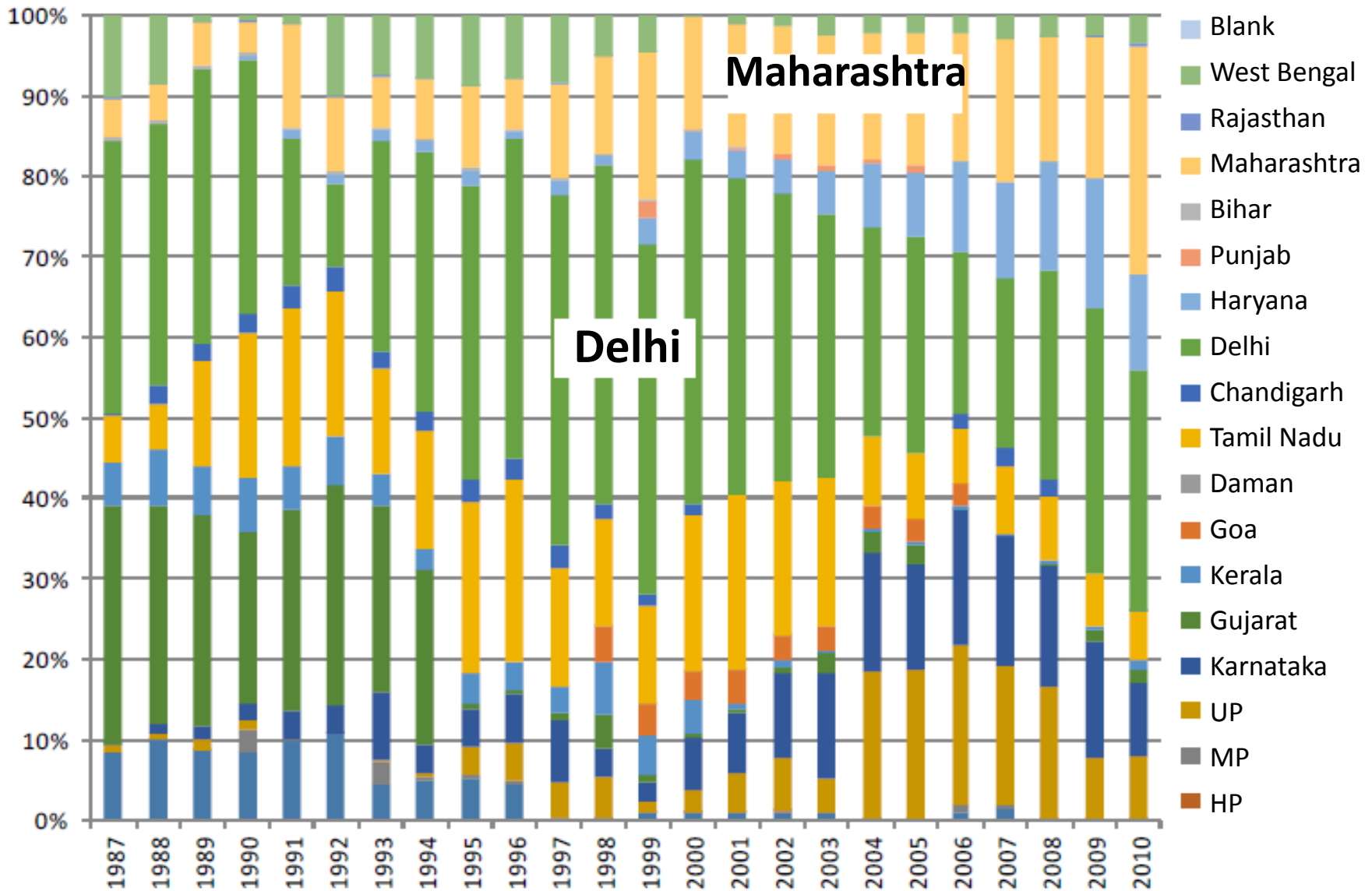


Source: Author's elaboration based on Toyokeizai, *Kaigai Sinsyutsu Kigyo Souran*.

Distribution of Japanese Companies' Capital Across States

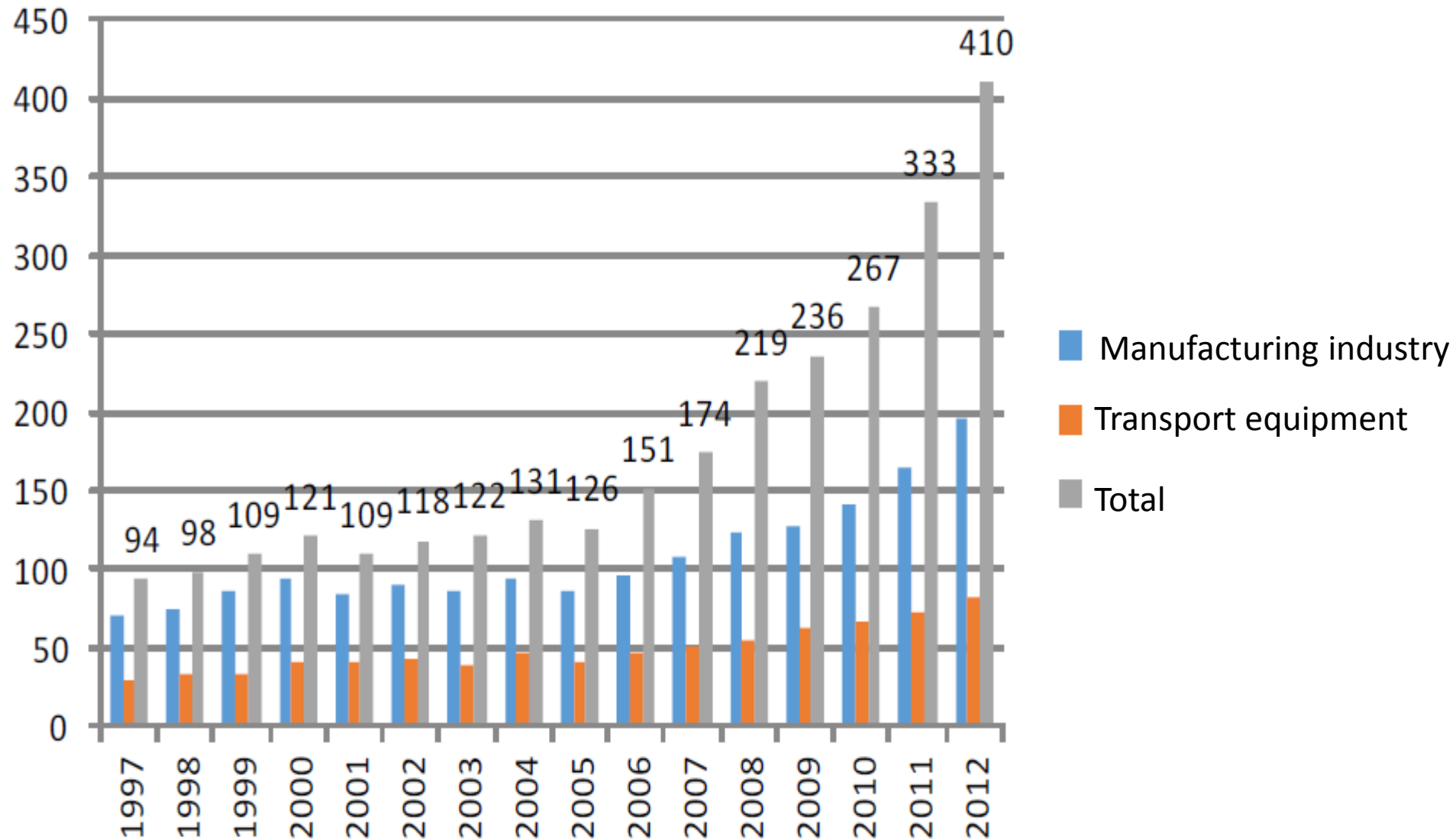


Distribution of Japanese Companies' Employees



Source: Author's elaboration based on Toyokeizai, *Kaigai Sinsyutsu Kigyo Souran*.

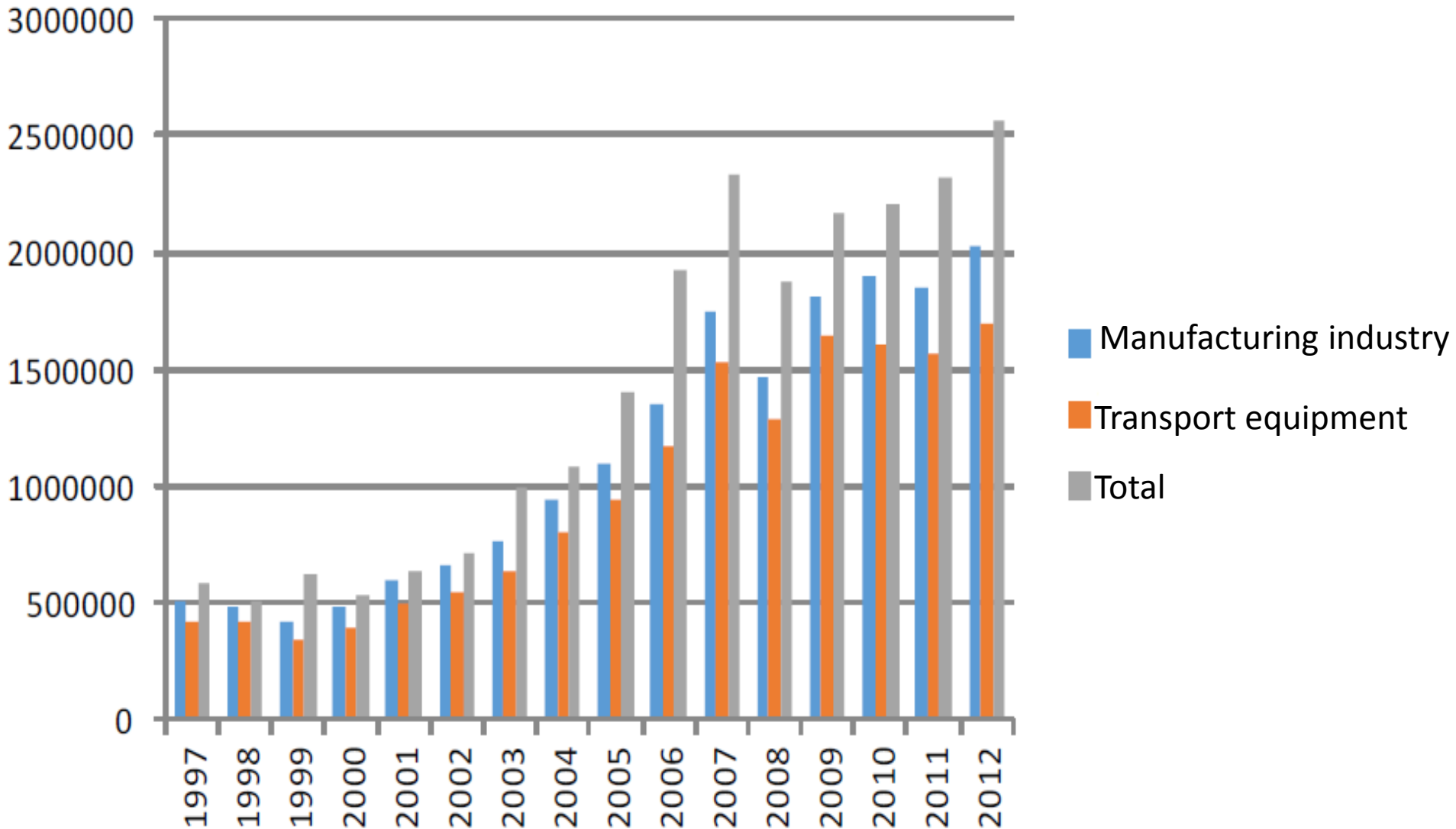
Number of Japanese Companies in India



Source: Author's elaboration based on METI "Survey of Overseas Business Activities".

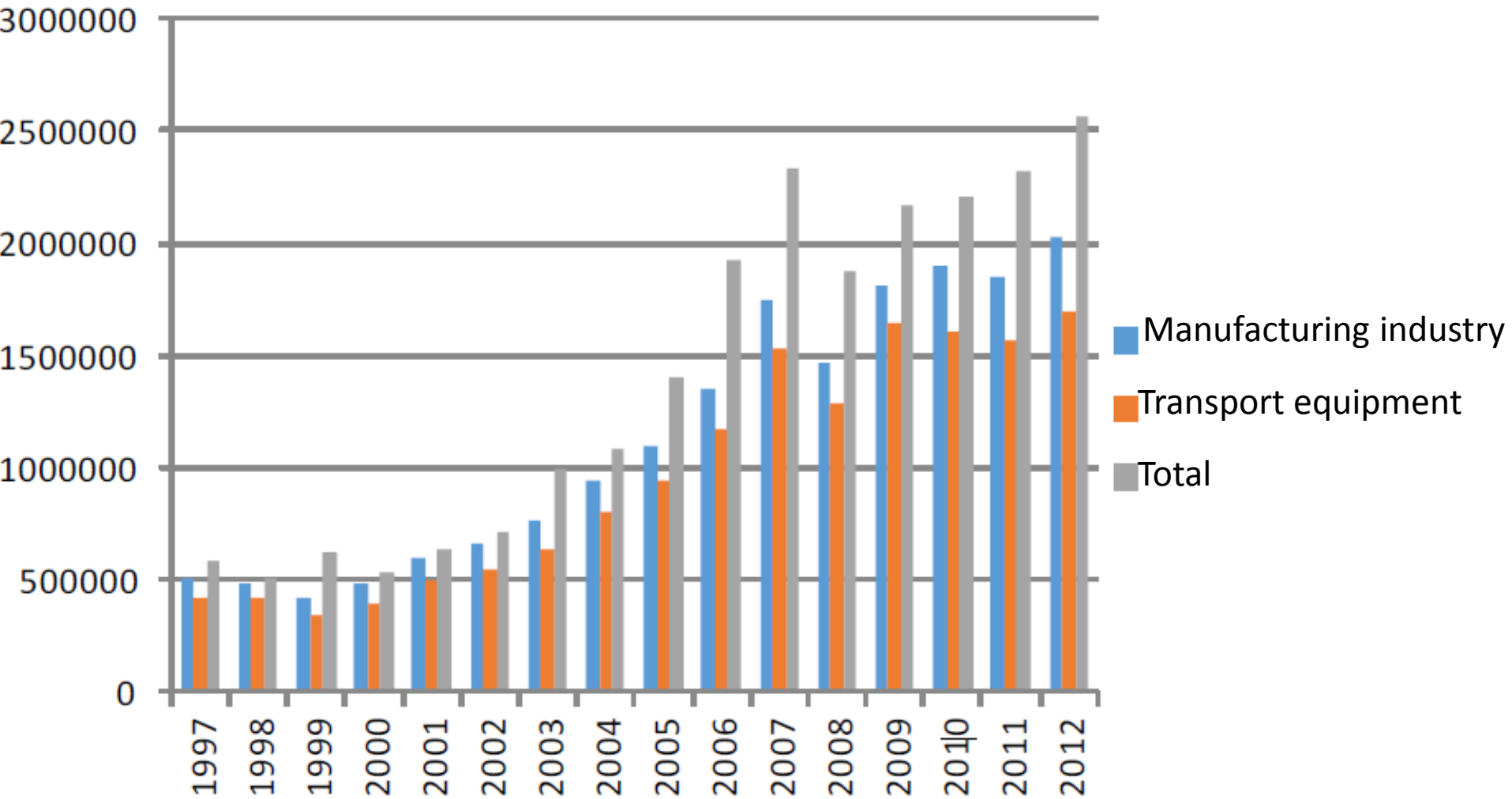
Japanese Companies' Sales in India

JP yen in million



Source: Author's elaboration based on METI "Survey of Overseas Business Activities".

Number of Japanese Companies' Employees in India



Source: Author's elaboration based on METI "Survey of Overseas Business Activities".

Summary of Appendix

- Existing Statistics in Appendix shows:
 - (1) Since the mid-2000s, investment of Japanese companies grows especially in NCR.
 - (2) Transport equipment, electronics, and machinery industries dominate the Japanese investment.
 - (3) Maharashtra and Delhi absorb capital of Japanese companies. Recently the Japanese capital goes to Haryana.
 - (4) Share of transport equipment industry in terms of sales and employee is very high.
- Long-term economic relation between India and Japan:
Cotton era → *Iron era* → *Car era* (Pls. see Takahiro Sato (2012), "Economic Relations between India and Japan," *Eurasian Geography and Economics*, Vol.53, No.4, pp.457-478.)