

# Japanese Investment in India: Bilateral Relations and Beyond

## Abstract

After the liberalization of Indian economy in 1991, bilateral trade extended expressively and the country appealed improved investments from abroad. India received massive support from the Japanese government in the form of large overseas development assistance (ODA) since 1960s and Japan turned into the prime bilateral business contributor in India. However, the portion of Japanese investment in India declined and it remained inadequate. Such an outcome was quite eccentric for the two countries with plentiful potential. The situation, however, has begun to change in recent years. Both the countries have signed a Comprehensive Economic Partnership Agreement (CEPA), which came into force from August 2011, this provided a helping hand in business and investment continuously.

**Keywords:** Investment, Japan-India, CEPA, FDI, ODA, Business, Export, Import, Agreements, Bilateral Relations.

## Introduction

The role Foreign Direct Investment (FDI) in bilateral relations, is nowadays an important factor for strong commitment in terms of economic partnership (Borensztein and Lee; 1998). FDI in India has grown quickly after the liberalization started in early 1990s. The investment has always seen as an economic upkeep for India. In this globalized age, India has liberalized its economic policies to compete in the world market and invite investments. Internationally, the Indian economy is the third largest by purchasing power parity, with a gross domestic product of US \$2.439 trillion. India is the second fastest growing major economy in the world with 7.4% of Gross Domestic Product (GDP) in October 2017 (IMF, WEO, Oct 2017). The developed nations have looked the prospects new markets for labors and profits. The survey by Times Global mentioned India as ninth most important FDI destination after Australia for transnational corporations in 2016. The sectors like service, telecommunication, pharmaceutical, construction, computer, banking, software-hardware and automobile are important, which enticed better inflows of FDI in India. Japan is among the best partners for the FDI inflows with US \$1,340 million investment.

## Aim of the Paper

The aim of this paper is to observe and find the advantage and economic progress of India and the investment priorities of Japan. Japanese FDI in India is glossier in comparison to other advance economies. Continuous Indian economic growth is favorable for Japanese FDI and other financial assistance (ODA), and Japan find easy market and labor in India, this opportunity for both the countries help to strengthen the bilateral ties beyond confines. This paper witnesses the prospects of different other business related partnership between Japan and India and analyses it on the basis of past benefits.

## Japan and India-The Bilateral Relations

Traditionally, India adopted particularly discerning approach while conveying FDI policy in view of 'import substitution' in industry. The directing context was associated with Foreign Exchange Regulation Act (FERA) of 1973, where foreign equities were allowed only 40 percent. In addition, the success rate of other country in international business in Asia have encouraged government to establish special economic zones (SEZs) and craft liberal policies to provide enticements FDI to promote exports. The broader changes took place when India get on upon economic liberalization and reforms program in 1991 (ET, Sept 2011), pointing to raise its growth possibilities. Policy related reforms in industries in India gradually detached precincts in investment and permitted enlarged access to foreign technology and fund.



**Mahendra Prakash**

Assistant Professor,  
Deptt.of Political Science,  
Ramabai Government Mahila  
PG College,  
Akbarpur, Ambedkar Nagar

The relationship between Japan and India has a long history entrenched in spiritual similarity and strong cultural ties. Both the countries stand with democratic values and humanity. At present, India is the largest democracy and Japan is the most affluent country in Asia. Bilateral ties have been exceptionally free from dispute either it is ideological, cultural or territorial. The link between these two countries is unique and one of joint reverence expressed in plentiful gesticulations and sentimentalities. After World war II, India signed a peace treaty with Japan 09 June 1952 after Japanese sovereignty was granted by allied occupation forces, shaping a significant moment in the bilateral relations and beyond.

In the first decade after diplomatic ties were established, several high level exchanges took place, including Nobusuke Kishi visit to India in 1957 as Prime Minister and return visit of Indian Prime Minister Jawaharlal Nehru to Tokyo the same year. Japan has been extending bilateral loan and grant assistance to India since 1958. Japan is one of the largest bilateral donor to India among many Indian trading partners. Japanese Official Development Assistance (ODA) supported the efforts for accelerated economic development particularly in priority areas like transportation, power sector and environmental projects in India. Furthermore, the ODA of Japan, compatibly continued to flow for economic expansion in India. Japan was among the few countries that helped India during the balance of payment crisis in 1991. In the early 21<sup>st</sup> century, the Japan-India Global Partnership was major turning point for the bilateral cooperation, which were reflected in the statement jointly issued by Prime Minister Manmohan Singh and Shinzo Abe in 2006 (MOFA, Basic Data, Sept. 2017).

#### **Japanese Investment in India**

Japan and India wished to promote Japanese investment in India and vice-versa. India has become a striking investment target with simple investment processes from end to end in a single window clearance. Policy linked with trade has been relaxed to assist the investment in India. Foreign Direct Investment from Japan to India risen from US \$139 million in the year 2004 to US\$ 815 million in 2008 due to the agreement mostly by the acquirement of Daiichi Sankyo for the Ranbaxy. In 2012, Japanese FDI into India augmented with 19.8%, even though it accounted for only 2.3% of overall FDI discharge in 2012 of Japan. FDI from Japan in India was US \$1.7 billion during 2014-15 and there were many establishments of Japanese businesses operating in India- a rise of 56% compared to the year 2012-13.

In 2011, a Comprehensive Economic Partnership Agreement (CEPA) was concluded between Japan and India to strengthen the partnership as well as to promote the liberalization and facilitation of trade and investment. The signing of the historic CEPA and its implementation in August 2011 was anticipated further to speed up the growth of trade, economic and commercial relations between the two countries (MOFA, Japan, Feb 2011). The ODA of Japan in India, continuously provided the long-term loans for infrastructural development and in

March 2017, Japan International Cooperation Agency (JICA) assisted India with US \$278.51 billion (Press Release, JICA, April 2017). Likewise, the metro rail transit system (DMRC) has been realized with the Japanese assistance, which helped to conceptualize and execute the admired project in Delhi. Prime Minister Shri Narendra Modi visited Japan from 30 August-03 September in 2014 for 9<sup>th</sup> Annual Summit Meeting with Prime Minister Shinzo Abe. Japan and India decided to elevate the relationship to a 'Special Strategic and Global Partnership' and launched a Japan-India Investment Promotion Partnership in which Japan stated to invest in India approximately US \$35 billion in the five years (MOFA, Basic Data, Sept. 2017).

Japanese assistance for the Western Dedicated Freight Corridor (DFC), the Delhi-Mumbai Industrial Corridor (DMIC) with eight new industrial townships, the Chennai-Bengaluru Industrial Corridor (CBIC) will transform India in near future. In 2013-14, Japan-India bilateral trade reached US \$16.31 billion, which was 11.8% and the export from India was raised by 4.36% (The Hindu, Sept. 2017). The Indian embassy in Tokyo brought the report that the share of the Japan-India bilateral trade was approximately 1% of Japanese total foreign trade. It is worth to mention that the trade between India and Japan after 2014 is slightly declined in terms of export and import fragment. Japanese and Indian total bilateral trade was US \$15.52 billion during 2014-15. Primary exports to Japan by India have been non-metallic mineral ware, petroleum products, chemical compounds, fish, ores, scraps, clothing, iron and steel products, textile, yarn and fabrics.

In 2015, 4,417 Japanese companies' business establishments were working in India (ET, May 2017). The number of establishments increased about 40% from a 2013 and had roughly tripled since 2008. This development was sustained in 2014-15, when different other Japanese businesses have moved into India. Corporate procurements by Japanese companies were more active in 2014-15. Moreover, Hitachi decided to acquire of about 76% stake in Micro Clinic India to enhance its operations in India. Meidensha decided to take a 23% stake in Prime Electric, which sells electric transformer and procurement deals are also seen in the service sector. Japanese investment has been decided in food companies in India with enthusiasm of the growth middle income group. For a moment, Toyo Suisan and Ajinomoto Co. established an instant-noodles production joint venture, Maruchan Ajinomoto India, in Chennai in the southern state of Tamil Nadu in 2017 (TOI, 01 March 2017). The company aimed to produce in large scale of instant noodles. The Nissin Foods has been working in Odisha as Indonissin in 2014, included Bangalore and Rewari as well, and this instant noodles production includes masala-flavored noodles specialized for Indian food culture. Shachihata is increasing its stationery business in India and Kokuyo Camlin is also accumulative its sales for notebooks and other stationery articles. East Nippon Expressway took a 9% interest in Pune-Sholapur Road Development, a fully-owned special

purpose company of IL&FS Transportation Networks (INTL), largest road PPP operator in India. East Nippon Expressway (NEXCO East), a government owned corporation, thereby entered a road PPP project in India on a trial basis.

#### **Conclusion**

In a nutshell, it could be observed that a specific type of global capital move, which has received escalating attention, the for the most part among policy makers of developing countries, is FDI. In the intense phase of globalization, global capital flows are going faster and countries are expanding their investment and trade relationships. It is worth to state that Japan presently ranks as the third major investor in India and highest investor as the single country source. The collective Japanese FDI in India is US \$25.67 in between 2000-2107. The ups and down of bilateral businesses between both the countries shows, there are policy related hindrance present in the path of investment. India has to ensure smooth functional of trade related policies that would be more suitable for Japan for compatible investment.

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