Japanese Foreign Direct Investment in Indian Automobile Sector

Evolution and Practices

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Abstract

The paper aimed to examine whether the Japanese automakers find India an 'Investment Friendly Nation' based upon their experience in India so far. It analyses the 'Japanese Management Style' and observed the advantages and disadvantages it offers through a comparative analysis with the management style prevalent in the Indian auto companies especially in two major auto companies in India such as Maruti Suzuki and Hond. It sought to identify the major challenges faced by the Japanese car makers while investing in India and the steps taken in form of policies and practices to tackle such challenges. The findings included that Japanese companies would emphasise on long term vision and planning. Quality and customer satisfaction are key to their growth and market penetration. Japanese auto majors values 'trust' especially in joint ventures like Maruti Suzuki. Skilling workers especially at lower end is important for success in auto sectors. A small survey was conducted among employees and senior management to arrive at certain conclusive findings. Results of survey can be presented at the Conference.

Introduction

Allowing Suzuki Motor Corporation from Japan to set up a joint venture (JV) with Indian Maruti Udyog Limited in 1984 was a great leap in faith by the Indian Government which had then been following the policy of import substitution till then. Maruti Suzuki- the JV that was formed because of the alliance of Japanese Suzuki Motor Corporation and Indian Maruti Udyog Limited(MUL) stood up to its expectations by setting the stage for development of the entire automobile sector through its strategic investments in many complementary business functions like those of suppliers and dealers. It also influenced and attracted many Japanese automobile component manufacturers as well as global car makers to invest in Indian markets. The final thrust to the sector was provided by liberalization of the Indian economy in 1991 and de-licensing of the automobile sector in 1993. Though foreign direct investment (FDI) inflows increased significantly, but India failed to attract Japanese investments. The cumulative investment from 1991 to 1999 was only US$ 2.6 billion - just 4 percent of the total FDI that flowed in India in the decade. However, after years of stagnant investments flow, it again started gaining momentum in 2006 reaching 7% of the total cumulative FDI flow by Jan 2012.

Japanese FDI has been biased towards high technology sectors like automobile, electronics, electrical equipment, industrial machinery. Automobile sector has been the most attractive sector for Japanese investments. The automobile sector received a cumulative investment of US$ 1652.26 million during 2000-2011. Investment by Japanese Automobile companies in India has helped the development of both the Indian as well as Japanese economy. Moreover, India has recently been becoming an export hub for different automobile MNCs in India due to cost effective manufacturing and supportive Government. Besides this there is an ever increasing domestic demand with India set to become one of the largest consumer markets in the world. All this has made the Indian market very promising to the foreign players and hence the Japanese Automobile companies in India are set to grow in the years to come.

Objective

Ever since India decided to globalize, concentrated effort was made to attract Japanese participation through foreign direct investment. However, response from Japan has been rather subdued. This paper attempts to gain some insight into this reluctance of Japanese investors by studying the experiences of Suzuki and Honda in India. The article aims to address a number of research questions which include the sectoral as well as temporal trend of Japanese FDI in India over the years and to analyse the patterns if any; to understand the role of Japanese FDI in the evolution of the Indian automobile sector; to examine the reasons for the interest of Japanese FDI in Indian Automobile sector; and to observe any particular policy incentive given by the Government of India to facilitate the flow of Japanese FDI in India in general and to the auto sector in particular.

The paper further made an attempt to examine whether the Japanese automakers would call India an 'Investment Friendly Nation' based upon their experience in India; to analyze the Japanese Management Style and observe the advantages and disadvantages it offers through a comparative analysis with the management style prevalent in the Indian auto companies; and lastly to identify the major challenges faced by the Japanese car makers while investing in India and the steps taken in form of policies and practices to mitigate these challenges.

Research Methodology

The study initially conducted an extensive secondary research which provided existing gaps in the literature. This was followed by an in-depth primary research which covered interviews, qualitative interaction and viewpoints of key personnel from the organisations- Maruti Suzuki and Honda Cars India Limited. The interviews were based on a questionnaire that is available for reference in Appendix 1 at the end of the article. Prior to the interviews, the survey questionnaire was circulated among certain key personnel of these organizations. The questionnaire used open-ended questions since the main objective was to get the opinion of the respondents. Based on the secondary and primary data and interviews observations were made and certain conclusive findings were drawn.

Table 1[1]

Serial No	Name	Establishment Year	Nature of Presence	Location
1	Maruti Suzuki	1982	Joint Venture initially, now Subsidiary	Gurgoan, NCR

[1] Constructed by the author

2	Honda Cars India Limited	1995	Joint Venture initially, now Wholly Owned Subsidiary	Greater Noida, UP

Review of Literature

Most of the research studies have either focussed broadly on impact of FDI on Indian Economy or on the Japanese FDI in India and India – Japanese investment relationship. Also, there is another category of researchers that have focussed on the common practices of Japanese firms in India across sectors and often compared them with companies from other parts of the world. Finally the fourth category of researchers focused on the role of FDI in the evolution of Automobile sector.

Most of the researches in the first category i.e. on the Impact of FDI on Indian Economy have argued whether FDI is good or bad for the Indian economy. Walsh, James P. and Jiangyan Yu (2010) analysed various macroeconomic, development and institutional/ qualitative determinants of FDI in emerging as well as developed economies. Balasubramanyam V.N Sapsford David (2007) compared the levels of FDI inflows in India and China, and found that FDI in India is one tenth of that of China. He also found out that India may not require increased FDI because of the structure of its sectors and endowments of human capital. National Council of Applied Economic Research (NCAER) study on FDI in India and its growth linkages highlighted the benefits of FDI at both macroeconomic as well as microeconomic levels with emphasis on the impact of FDI intensive firms on output, capital and employment in the regions receiving FDI.

Most of the researches in the second category i.e. on the Japanese FDI in India have tried to understand the investment relationship between India and Japan by analysing the inflow of investments from Japan in India over the years. Some of the researchers also discuss about the preferential modes of entry followed by various Japanese firms, the challenges faced by the firms and the government initiatives in mitigating the challenges. ICRIER initiated a wide range of research activities on Indo- Japan bilateral issues to fill the existing research gap on this area. P.G Rajamohan., D.B. Rahut and J.T. Jacob (2008) in their working paper 212 analysed the relationship between India and Japan over the years, highlighting that though the countries have significant differences in terms of communication and distance, the changing international order- particularly the rise of China will see them come further together in the future. S.R. Choudhury (2009) tried to make a quantitative assessment of the business environment in India by a survey of actual firm level experiences of Japanese companies across different sectors. The study highlighted the productive experience of Japanese companies operating in India and helps dispel various misconceptions about the ease of doing business in India. Indranil Ghosh (2007) had studied sector wise and state wise trends of Japanese FDI in India over the years. She also highlighted how India‘s need for expansion and growth was satisfied by the investments in high technology sectors from Japan. B.A. Iqbal and F.N. Ghauri (2011) also analyzed the investments relationship between India and Japan and found that the strategic relations between the two countries is at low scale and building them further is the need of the hour.

Studies relating to the third category focus on common policies as well as practices followed by Japanese firms in India. N.S. Siddharthan (1999) in his study compared the working practices of Japanese with European joint ventures in India and tried to highlight industry specific characteristics.

Finally the studies in fourth category focused on the development of automobile sector in light of FDI from different countries, including Japan. Amar KJR Nayak (2005) in his study focused on the investment model of Suzuki Motors in India- its nature, timing and scope. The study also talked about a suitable investment model in India so as to ensure consistent growth and profitability.

The above review of literature is quite useful for setting the context of research by identifying the research gaps that exist currently. There are studies which evaluated the role of FDI in development of Indian economies. Also there are ample reports that study the trade and investment relationship between India and Japan. However, review of literature didn't focus on any study that considerably deals with the role of Japanese FDI in development of the Indian automobile sector. There are studies which aimed to understand the Japanese culture and managerial context, but there is not much literature present that evaluates it from the Indian perspective and that too in the automobile sector. This study not only tries to answer this question but goes a step further by understanding the challenges faced by Japanese firms today on the basis of their policies and practices in India and its implications for the future.

Foreign Direct Investment in India

A vast Indian growing economy with a politically stable democratic government having a well define rule of law has become a desirable and popular destination for FDI. India's ever-expanding markets, liberalization of trade policies, development in technology and telecommunication, and loosening of diverse foreign investment restrictions, have created a favourable environment for attracting foreign investors. According to a recent survey by the United Nations Conference on Trade and Development (UNCTAD 2011), India has conspicuously emerged as the second most popular and preferable destination in the entire world, after China, for highly profitable foreign direct investment.

Time Series Analysis of FDI in India

India has received a total FDI inflows of US$ 159.97 billion during April 2000- January 2012.[2] The year wise trend since liberalization in 1991 is shown in Table 2.

Table 2

Year	FDI (in US$ million)	Year	FDI (in US$ million)
1990-91	97	**1991-92**	129
1992-93	315	**1993-94**	586
1994-95	1314	**1995-96**	2144

[2] Reserve Bank of India

1996-97	2821	**1997-98**	3557
1998-99	2462	**1999-00**	2155
2000-01	4029	**2001-02**	6130
2002-03	5035	**2003-04**	4322
2004-05	6051	**2005-06**	8961
2006-07	22826	**2007-08**	34843
2008-09	41873	**2009-10**	37745
2010-11	34847	**2011-12**	46553

Source: Department of Industrial Policy and Promotion, Government of India

Investments peaked in 2008-09 after which the number of investments projects declined following the global financial crisis. The number of FDI projects again bounced back in 2011 increasing by 20 percent to reach 932 projects. So, despite the uncertain global environment and shelving of expansion/ internationalization plans of businesses, India has managed to not only increase the number of projects by 20 percent, but also increase the value of FDI inflow by 12 percent and the number of jobs by 15 percent.

Country wise FDI inflows in India

India attracts FDI from all the regions of the world, but more than half (51 percent) from the USA, Germany, the UK and France. From Asia, Japan and the UAE represents 15 percent of the total projects. The top 10 investors during the last three years in India are mentioned in Table 3.

Table 3

Top Investing Countries (in US$ million)	2009-10	2010-11	2011-12
Mauritius	10376	6987	9942
Singapore	2379	1705	5257
UK	657	755	9257
Japan	1183	1562	2972
USA	1943	1170	1115
Netherlands	899	1213	1409
Cyprus	1627	913	1587
Germany	626	200	1622
France	303	734	663
UAE	629	341	353

Source: Department of Industrial Policy and Promotion, Government of India

Sector wise FDI inflows in India

India's inward FDI activity is specialized on large industrial and back-office operations. In 2011, the country received 288 large scale manufacturing projects, creating an estimated 142,235 new jobs, mostly in the automotive, industrial equipment and metals industries. India also received 238 large back-office and business process outsourcing (BPO) projects creating 30,269 new jobs, mainly in the IT services industry. Top Sectors receiving FDI over the last three years is shown below:

Table 4

Major Sectors Attracting FDI (in US$ million)	2009-10	2010-11	2011-12
Services	4176	3296	5216
Telecommunications	2539	1665	1997
Construction Activities	2852	1103	2796
Computer Software and Hardware	872	780	796
Housing and Real Estate	2935	1227	731
Chemicals	366	398	7252
Drugs and Pharmaceuticals	213	209	3232
Power	1272	1272	1652
Automobile	1236	1299	923
Metallurgical Industries	420	1098	1786

Source: Department of Industrial Policy and Promotion, Government of India

FDI Policy Framework in India

There has been a sea change in India's approach to foreign investment from early 1990s when it started structural policy reforms. During the pre-liberalization period, independent India started off the path of economic development with strong state presence and import substitution strategy of industrialization. With the objective of becoming – self-reliant, there was a dual nature of policy intention – FDI through foreign collaboration was welcomed in the areas of high technology and high priorities to build national capability and discouraged in low technology areas to protect and nurture domestic industries. The regulatory framework was consolidated through the enactment of Foreign Exchange Regulation Act (FERA), 1973 which later on proved highly draconian.

In the post liberalization period policy framework became more flexible and investor friendly. India's current policy framework for inward FDI was introduced by the Industrial Policy

Statement of July 24, 1991. The main objectives of the policy were to dismantle the regulatory systems, develop the capital market and increase the competitiveness of industry for the benefit of the common man. The framework has subsequently evolved and expanded with the timely requirement of reforms and structural developments in the economy. The present policy allows foreign investors to invest in resident entities through either the automatic route or the government-administered route. Most sectors and activities qualify for the automatic route. This route allows investors to bring in funds without obtaining prior permission from the Government, RBI, or any other regulatory agency. However, invested enterprises are required to inform RBI within 30 days of receipt of funds and also comply with documentation requirements within 30 days of issue of shares to foreign investors.

The present policy also permits foreign investors to engage in collaboration with local partners as well as to establish wholly owned subsidiaries (WOSs). Both joint ventures and WOSs can be incorporated as resident enterprises under the Indian Companies Act of 1956. Foreign-owned enterprises can also be in the nature of liaison/project/branch offices. Commercial scopes of unincorporated entities, however, are narrower compared to their incorporated counterparts.

Progressive and enabling environment have resulted in aggregate foreign investment into India increasing from US$103 million in 1990-91 to US$ 62.1 billion in 2010-2011. It can attract much larger foreign investments given its distinct characteristics of large domestic market, rising urban based middle and upper class having increasing disposable incomes, developed financial architecture and skilled human resources.

Japanese FDI in India

India has received a total FDI inflow of US$ 159.97 billion during April 2000- January 2012. Out of this, FDI inflows from Japan (which now ranks 3rd) are US$ 12.10 billion, representing 7.56 percent of the cumulative inflows received.

In 2010 and 2011, Japan emerged as India's second-largest investor, in terms of the number of projects and jobs created. Leading Japanese companies such as Toyota and Suzuki have made substantial investments in India. The country accounted for 11 per cent of the investment projects (448), with more than 152,280 jobs created in India between 2007 and 2011.[3] Japanese investment in India was hit marginally due to the March 2011 earthquake; however, it has picked up momentum again. The Japanese investment in India since 1991 is shown below:

Table 5

Year	FDI (in USD million)	Year	FDI (in USD million)
1991-92	21.5	**1992-93**	233.2
1993-94	84	**1994-95**	127.8
1995-96	482.3	**1996-97**	432.8
1997-98	531.5	**1998-99**	324.8

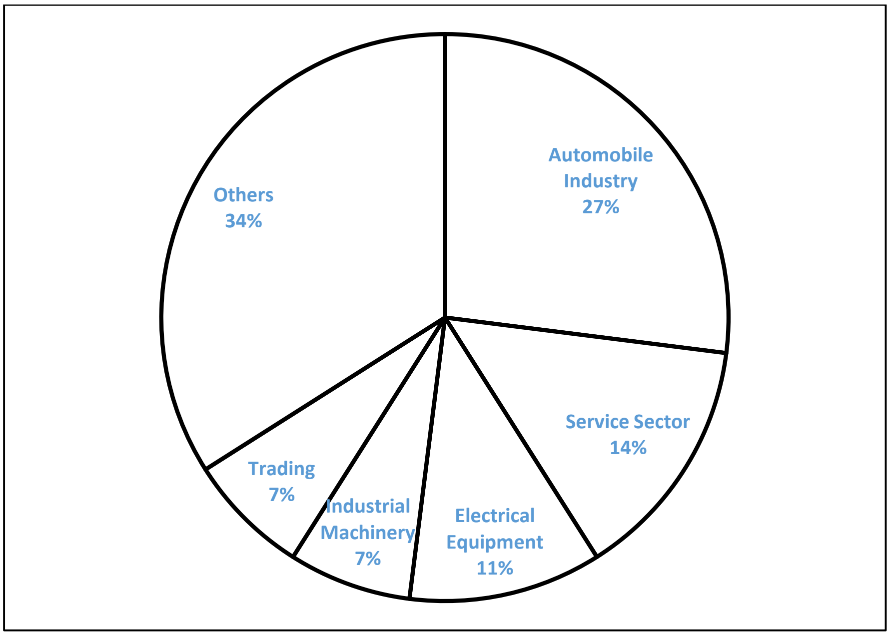
[3] Ernst & Young's 2012 attractiveness survey India

1999-00	379.7	**2000-01**	223.66
2001-02	177.68	**2002-03**	411.87
2003-04	78.86	**2004-05**	126.24
2005-06	208.29	**2006-07**	84.74
2007-08	815.2	**2008-09**	404.8
2009-10	1183.4	**2010-11 (upto Jan)**	1367.33

Source: Department of Industrial Policy and Promotion, Government of India

Japanese FDI has been biased towards high technology sectors like automobile, electronics, electrical equipments, industrial machinery, trading and service sector. Figure 1 shows the sectors that have attracted FDI in India.

Figure 1



Source: SIA Newsletter, Government of India

Today, over 800 companies are operating in India, focusing on automobiles, white goods and pharmaceuticals. There has been significant investment in important sectors such as automobile industry (27%), service (14%), electrical equipment (11%), industrial machinery (7%) and trading (8%) along with 448 investment projects from 2007 to 2011 . Technology transfer has taken place in the transportation industry, electrical equipment and chemical industry. Amongst the big Japanese- Indian tie ups are the Matsushita Electric Works Ltd – Anchor Electricals Pvt Ltd, Maruti Suzuki, and Tata Teleservices – NTT DoCoMo. Also significant is the tie up with pharmaceuticals sector between Ranbaxy Laboratories Ltd and Daiichi Sankyo Co. Ltd. for USD 5 billion. Though Japanese FDI in India have been languishing for most parts, it has lately been gaining attraction. The result is that the Japanese FDI in India has quadrupled even though there has been a fall in overall FDI in FY 2011. However, Japanese FDI has been biased towards high technology sectors.

Indian Automobile Sector- An Overview

Today India is a world‘s sixth largest producer of automobiles in the world with a turnover of US$ 73 billion in FY 2010-11. Indian automobile market is also the second fastest growing automobile market in the world with a growth rate of 14.25 per cent in the previous year. Automotive industry is one of the key drivers of the national economy providing large scale employment. Due to its strong backward and forward linkages with key sectors of the economy, it has a strong multiplier effect and is capable of being a driver of industrial as well as economic growth of the country.

FDI in Indian Automobile Sector

The Indian automotive sector has become significantly more attractive in the past three to four years, as evidenced by the number of investment announcements from global automotive companies.

This attractiveness is partly driven by the economic imperative of what is going on globally — growth has slowed down in the US and European markets, while Asia Pacific is gaining increasingly more attention. Also, automobile penetration in India is very low compared with mature markets. The four-wheel passenger vehicle market has grown impressively in recent years at the hands of the new middle class. By 2020, the overall passenger vehicle market is expected to grow to 9 million units from 3.2 million units at present. By 2020, India is also forecast to become the world's third-largest auto market. The main factors behind such growth are the increasing affluence of the average consumer, overall GDP growth, the opportunity to offer low-cost or competitive small cars, increasing capability of Indian manufacturers and the growing presence of global manufacturers, such as Ford, with products that consumers want and a large manufacturing presence to bring those products in India.

The automotive sector in India attracted 78 FDI deals during 2011, an increase of 28 per cent in comparison to the same period in 2010. The GOI created the Auto Policy 2002 to attract FDI to establish the country as a manufacturing and export base. The policy provides automatic approval of foreign equity investment of up to 100% for the manufacture of automobiles and auto components. India‘s automotive sector has five key manufacturing hubs — Chennai (Tamil Nadu), Pune (Maharashtra), National Capital Region (NCR), Pantnagar (Uttarakhand) and Sanand (Gujarat). These states have provided incentives to boost investments in manufacturing sector in general and in automobile sector in particular. Investors find India an appealing destination for automotive manufacturing given its skilled technical labour force, low-cost supplier base and strong domestic demand.

Japanese FDI in Indian Automobile Sector

Automobile sector has been the most attractive sector for Japanese investments. The automobile sector received a cumulative investment of US$ 1652.26 million during 2000-2011.

Investment by Japanese Automobile companies in India has helped the development of both the Indian as well as Japanese economy. With respect to India, it has produced an intimate relationship between parts industries and subcontractors as the Japanese manufacturers generally rely heavily on local Indian parts makers and subcontractors. This has resulted in successful transfer of technology and hence has improved the technology used by local Indian industries. Also, it has given an impetus to automobile manufactures from all over the world to enter Indian markets.

As for Japan, collaboration enabled Japanese automobile companies to establish a strong sales and services network in India, besides ensuring an efficient supply chain of dealers, ancillaries and vendors, saving costs and improving their bottom line.

India has the potential to become one of the world's leading consumer markets given the large consumer base and under penetrated markets. Moreover, India has recently been becoming an export hub for different automobile MNCs in India. Manufacturing is cost effective and government supportive. All this has made the market very promising to the foreign players and hence the Japanese Automobile companies in India are set to grow in the years to come.

Chronology of India's automotive growth- The impact of Maruti Suzuki Joint Venture

The first motor car was brought in India in 1898. Although imports of fully assembled cars began to grow slowly, there was no local assembly of cars in India until 1928. General Motors established an assembly plant in Bombay in 1928 to assemble cars and trucks using completed knocked down kits imported from USA. Following this, Ford Motor Company established its assembly unit, Birla Group established Hindustan Motors Limited and the Walchand Group set up Premier Automobile Limited and the Standard Motor Products Limited established its manufacturing unit.

After Independence, the Government of India considered passenger cars a luxury and did not regard the development of his industry as a matter of high priority. At the same time the Government did encourage the private investment in its local manufacturing. In 1953, the Government of India passed a regulation that if assemblers did not have a phased plan to manufacture cars locally, then should wind up their operations in India within three years. With the introduction of the above regulation, the big automobile assemblers like General Motors and Ford Motor ceased their operation in India and the passenger cars industry in India was left to Hindustan Motors and Premier Automobile. These companies produced cars that were large, expensive and had poor mileage. As a result not many people could afford to buy cars for personal transport and they were mainly used by the government officials and by a few rich people. Total cars that were sold in India during 1960-80 remained at lower than 50000 cars per year. The low volume of cars sold provided little incentives for the other entrepreneurs in the industry and hence the passenger car industry grew only at a snail's pace during those years.

Not until early sixties did the Government feel the need to produce small passenger cars. In 1969, the Government approved Maruti Limited, a company started by Sanjay Gandhi to produce small passenger cars in Gurgaon, Delhi. Although, the company started with great fanfare, it did not succeed to manufacture cars as planned. Finally, the company was liquidated in 1977. The Government of India acquired Maruti Limited in October 1980 and renamed the company as Maruti Udyog Limited (MUL).

Early in 1981, the Government of India while looking for foreign collaborators for MUL and made Suzuki Motors' a partner of MUL with 26 percent shareholding. The shareholding was increased to 40 percent in 1989 and 50 percent in 1992.

Soon after its agreement, Suzuki Motors not only invested in MUL, it also invested in many other automobile related businesses so as to produce the cars that could be afforded by the people in the middle-income segment, apart from meeting the local production requirement. Suzuki Motor invested extensively in the Indian component manufacturers to improve the quality of the components and to reduce the cost of its component procurement. It has also deputed its own manpower in many of its JVs both for manufacturing cars as well as components.

During 1988-2006, liberalization of Indian economy kick-started the much awaited reform for the automotive sector paving the way for the firms which were genuinely waiting for joint-ventures and private investments to get access to latest technology. During 1995-2000, leading international car makers entered the Indian market, a trend that continues to accelerate till this date. During this time advanced technology was introduced to meet competitive pressures and environmental & safety imperatives. The automobile companies started investing in service network to support maintenance of on-road vehicles and auto financing started emerging as an important driver for demand. Finally, Suzuki Motors brought with it not just the capital, but also technology, skills and efficient managerial style and creating a domino effect for other manufacturers from the world to follow suit and enter the Indian automobile sector. The result is that today India is one of the largest and fastest growing markets of the world, besides being an export hub for various global automobile manufacturers.

Factors Attracting Japanese FDI to India

The two most important factors attracting FDI in India are low cost of production and a growing domestic market. While these factors drive FDI from across the countries, there were many other reasons for Japanese firms to come into India. Though the major driving force of Maruti Suzuki was their foresight on the opportunities in India due to its vast size and under penetrated markets, Honda was primarily attracted by its peers doing wonders in Indian markets. The various reasons that made India an attractive investment destination are explored and highlighted bemow.

Low Cost Advantage: Located in South Asia, India has a large growing population and a sizeable people who are educated and technically skilled and where labour costs are relatively low. This has encouraged multinationals to set up operations in India. Japanese multinationals were no different. However for Japan there were many alternative destinations which could provide similar environment. By 1993, most South East Asian countries had seen influx of Japanese investment. Most of the ventures had been a win-win situation for both Japanese multinationals and the local host. Thus destination India had to provide a little more than this simple cost advantage.

Market: Indian domestic market with a growing consumerism was an important reason for many Japanese companies to look seriously at India. Suzuki invested in India because of its huge market potential and almost no competition. Its success motivated other companies to follow suit. In 1993, Honda took the risk of investing in India and set up its operations in 1995. Known for being a maverick company in Japan, Honda felt that early entry would help in penetrating the Indian market. Further, it had the foresight to rightly target the upper segment of the income group in India in which the desire for plush big cars had been curtailed during the past regimes. Toyota, felt the disadvantage of late entry as it basically targeted the value segment of the market which was dominated by Maruti Suzuki. However with in depth market study they were able to penetrate the Indian market. Hence, the late entrants were also motivated by their competitor's success. While Toyota's effort to establish itself was motivated by two main Japanese competitors namely Suzuki and Honda, while some others were attracted by global competitor's success in India.

Feasibility Study: Factors such as proximity to a national highway, port or airport, as the need might be, as well as the available infrastructure--from land to telephone connectivity, water supply, internal roads, sewage system, tax holidays, specific requirements and availability of low cost labour as well as skilled manpower are the most important factors for selecting a particular location for a manufacturing plant. Commitments and promises made by state governments at times play an essential role in deciding plant locations.

Physical Location: India is geographically located in an advantageous position as it lies between the East and West. Also it is closer to smaller economies of south Asia like Sri Lanka and Bangladesh apart from being close to the African Subcontinent. This helped firms in establishing their export base in India. India gained as it became a manufacturing hub for many global automobile companies.

Partnership: Suzuki took joint venture to enter the Indian markets and faced some bureaucratic problems initially till the time it bought out the Government stake.

Honda took joint ventures as an entry mode in India. It spent considerable time in identifying compatible business partners. Compatibility was sought not only in the financial capacity of the partners but also in their philosophy towards business, their attitude towards work and their interest in Japan and Japanese management. However, there have been a number of instances of Honda breaking its ties with its Indian partners. This was done to have better market access. For example its break up with the Munjals of Hero in FY 2011 helped them to enter the value segment of the market where it was restricted to just premium segment earlier. This would help in increasing their profitability by increasing the direct consumer base.

Both Suzuki and Honda chose greenfield areas for their operations in India because this gave them certain advantages. First, since all of them were major investors, the respective state governments were more cordial to their demands, giving them the advantage in negotiations. Second, greenfield areas have the advantage of raw talent, which helped the firms promote the Japanese method of management. Third, all of them positioned themselves in locations earmarked for industrial development or special economic zones, which helped them to take advantage of taxation and land utilisation policies. Japanese participation in the automobile industry brought significant changes to the structure of the Indian Automobile sector. The investment by Suzuki let to the development of the whole auto ancillary industry by encouraging both Indian as well as Japanese players to enter the market.

Besides, its success also gave a positive impetus to other overseas manufacturers to bet on the Indian growth story which resulted in the era of whole lot of OEMs entering the Indian market. Many of them are now increasing their capacity in India by using it as an export base to reach out South Asian as well as African Markets. Hence, Japanese investments in the very formative years of the industry resulted in its rapid growth and maturity.

Research and Development

Research and Development has been emerging as a new area for investment by the Japanese firms in India.

Maruti Suzuki

Maruti is gradually increasing its manpower in the R&D along with scaling up its R&D infrastructure to facilitate smooth scaling up of the development activities of new and more efficient cars in India. Maruti Suzuki has considerably improved its research and development (R&D) facility, dubbed as the largest Suzuki facility outside Japan for the design and development of new compact cars. The company has made substantial investments to upgrade its research and development centre at Gurgaon in Haryana for executing design and development projects for Suzuki. This includes localisation, modernisation and greater use of composite technologies in upcoming models. The company had been on a global hunt for more software engineers and technocrats to handle its R&D projects. Investment would be more in terms of manpower than in infrastructure, which is already in place. Apart from working on innovative features, the R&D teams focus on latest technologies using CAD-CAM tools to roll out new models that will meet the needs of MUL‘s diverse customers in the future.

Maruti Suzuki also established a new R&D centre at Manesar to strengthen its research and development base in India. The Manesar Centre, which is on par with the Suzuki Motor Corporation‘s (SMC) research centre in Japan, will develop new models for the Indian as well as the global markets.

Maruti Suzuki has laid the foundation stone for a new R&D facility in India- Maruti Suzuki Rohtak R&D Facility. It is set up under public private relationship and is spread over 600 acers of land and will attract an investment of Rs.2000 to Rs.2400 crore in the coming years by MSIL. The facility is an integrated facility for R&D, testing and evaluation of vehicles within the same facility which will help develop newer models in coming years.

Honda

Honda also has a research and development facility in India which is mainly carried out by its subsidiary Honda R&D (India) limited which is a wholly owned subsidiary of Honda R & D Co. Ltd., Japan, which is a group company of Honda Motors Co. Ltd., Japan.

HRID is formed to carry out Local Research and Development activities related to Motorcycle & Power Products on the directions provided by Honda R & D Co. Ltd. of Japan. HRID was initially set up in India in the year 1998 as liaison office of Honda R&D Co Ltd., Japan. Later a domestic company was incorporated in the year 2003 to carry out R & D operations in India. HRID focuses on the R&D activities for all the group companies of Honda in India. Each of the group companies of Honda has their own R&D centres catering to their specific requirements. For example after the break up with Hero Group, Honda Motorcycle & Limited is moving and expanding its R&D facility from Gurgoan to Manesar. The new set-up will move beyond developing minor model changes to styling and design, prototype development, testing & validation and component development with vendor to offer products faster at lower cost.

The main reasons for investing in R&D are low cost involved in R&D and infrastructure in India as compared to other countries. The main reasons for surge in R&D expenditure by Japanese companies in India are many and varied. First. the primary reason for this is the availability of a cheap, talented labour pool with world class knowledge. Further, technocrats and scientists have been trained to have an eye for quality and to understand the importance of diligence. The capacity to absorb technology is very strong in this talent pool and its creativity can help adapt technology to the local environment. Second, the cost of establishing an R&D centre in India is one-fourth of the cost required in Japan and one-third of that required in the U.K. despite the ever increasing real estate prices and land acquisitions problem. Third, India is geographically located almost halfway between Japan and Europe. It has a blend of Asian and western cultures. Fourth, the Government support in form of incentives for in-house research and new product development to promote automotive R&D facilities in India which were announced in the new Auto Policy of 2002.

The image makeover of India, during the past decade, has contributed to making India a favoured destination for multinationals. With an international lifestyle available at relatively low cost, expatriate workers are also quite satisfied. All this puts India at an advantage in terms of attracting talent from the east as well as the west. The locational advantage also enables them meet the requirements of markets of South East Asia and Africa by setting up their export bases in India. This has helped India in getting more investments from Japan and moving up the value chain.

Public and Private Support to Promote FDI in India

In 1991 when India opened up its economy, Japanese multinationals were riding high on their success in transnational operations. India too was keen on Japanese participation as they had respect for Japan as an Asian giant as also because its political relationship with Japan was cordial. The Maruti Suzuki venture had also created a lot of trust for Japanese partnership. Thus in 1995 one saw many Japanese multinationals setting up manufacturing units in India. All the Japanese multinational chose green-field areas for their operations in India because this gave them certain advantages.

Government Support

The Government supports industrialization by the formation of special zones which get a number of incentives. There are broadly two types of zones namely, 'industrial development zones' to give impetus to certain prominent sectors like automobiles electronics and technology parks for the software industry and 'export processing zones' dedicated to those manufacturing units which plan to export some part of their products (Ministry of Commerce, Government of India).

Besides, the Government increased its commitment to the Automobile Industry in 2002 by announcing its new Auto Policy to improve the attractiveness and competitiveness of the sector. It was during this policy that Research and Development was given a thrust by announcing 150 per cent decrease in tax deductions on in-house research and development. The role of Government in promoting Japanese FDI in India can be studied at the two levels- State and Centre.

State Government Support

The State Governments favoured the Japanese firms as they were major investors and the respective state governments were more cordial to their demands, giving them the advantage in negotiation. Further, by positioning themselves in locations earmarked for industrial development or special economic zones, they took the advantage of taxation and land utilisation policies. Green-field areas also gave them the benefit of sourcing raw talent, thus helping them to promote the Japanese method of management. Many State Governments has also favoured the development of dedicated industrial clusters to attract Japanese Investors.The latest example for the same is that of the Neemrana Industrial Estate corridor, Rajasthan.

Neemrana Industrial Estate in Rajasthan about 122 kms from Delhi is an exclusive Japanese Economic Zone. Under the MOU signed between the JETRO and Rajasthan State Industrial Development and Investment Corporation in 2006 and further extended in 2008, the zone, spread over an area of 1200 acres, encourages the private investors to set up their bases in the region, even as they are being offered the incentives like tax breaks and slashed sales tax rates. As many as 28 companies have already set up their industrial bases covering 70 percent of the total area . While the rest 30 percent of the area is expected to be filled up within a few months.

Neemrana is locationally advantageous apart from being low cost and well connected to National Highway 8 of India. A plan to construct a cargo airport near it is also under consideration to facilitate the cargo transportation of the finished products. To connect this airport to Neemrana, a six lane dedicated road is also under proposal. Industrial Township is also planned.

Number one air conditioner manufacturer in the world- Diaken Air Conditioner has set up its first unit in India here at an investment of around Rs. 600 crore. Nissin Brakes India Pvt Ltd has invested Rs 240 crore and Mitubushi Chemicals Rs 400 crore. World‘s largest steel maker- Nippon Steel- is also setting up its unit here at an investment of about Rs 300 crore. Many more big companies are planning their units. India is and would be benefiting from increased Japanese Investments in manufacturing, retail and infrastructure sectors which could lead to creation of employment opportunities.

Some State Governments are also encouraging private sector developers to do the same by giving quicker clearances. For example The Andhra Pradesh Government has endorsed the development of new Japanese cluster by private sector developer Sri City.

New Japanese Cluster by Sri City SEZ

South India‘s largest SEZ, Sri City, is planning to set up a new ‘Japanese Enclave’ that will accommodate Japanese small and medium enterprises (SMEs). Sri City is a private sector multi-product SEZ with a Domestic Tariff Zone (DTZ) and a Free Trade and Warehousing Zone (FTWZ) built in functional partnership with the government of Andhra Pradesh. The SEZ is strategically located on the border of Tamil Nadu and Andhra Pradesh, and houses around 80 companies from 23 countries. Over 150 acre in the 300-acre SEZ has been allocated to existing Japanese customers and they plan to increase the size of the enclave to 500 acres to meet the increasing demand. They are also setting up ready-built factories (RBF), which will help these companies bring down capital costs and get their businesses off the ground quickly.

They had targeted Japanese companies because Tamil Nadu is becoming a hub for automobile majors, and many Japanese suppliers have shown interest in the SEZ. Besides, Sri City has a Japanese enclave established in 2010 and currently has 14 Japanese customers with three companies of the Kobelco group (part of Kobe Steel), and other companies such as Metal One, NHK Springs, Unicharm, Piolax, AISAN and Kusakabe. The majority of the Japanese companies are in the engineering and auto components sector. Many companies including automotive, engineering, aerospace and other industries are being supported by Japan External Trade Organisation (JETRO) to establish their units in the new cluster. A team of 65-members including JETRO Chief Director General Naoyoshi Noguchi, senior vicepresident, Takezo Yanagita and other officials visited the SEZ, spread in about 6,000 acres. Sri City has signed up with 22 companies from India and across the globe and a total of Rs.1,200 crore has been invested in the first phase.

Central Government Initiatives

The Central Governmental support came in the form of the Special Economic Partnership Initiative (SEPI). This has several high visibility flagship projects like Western Corridor of the Dedicated Freight Corridor (DFC) and the Delhi-Mumbai Industrial Corridor (DMIC). The total volume of Japanese Official Development Assistance (ODA) loan committed for the first phase of the Western Corridor is about 405 billion Yen. The DMIC is projected to attract foreign investment worth about US$92 billion and will be built around DFC and will include cooperation in development of sea ports on the west coast and industrial estates and Special Economic Zones with high quality physical and social infrastructure through collaboration between private and governmental sectors of India and Japan. A consortium of Japanese private sector companies is already collaborating with the DMIC Development Corporation as well as the Governments of the concerned states, in developing eco-friendly townships in the DMIC zone using Japan‘s best practices.

Another agreement that can be a potential ―game changers‖ for India-Japan economic relations is the India-Japan Comprehensive Economic Partnership Agreement (CEPA). Negotiations for a CEPA have been completed. As part of the

CEPA, India will eliminate tariffs on 90 per cent of its imports from Japan, and Japan will remove tariffs on 97 per cent of Indian imports on a trade value basis within 10 years. In addition the CEPA will relax barriers on investment, trade in services and movement of professionals, competition and improvement of the business environment by both sides, besides enhanced cooperation on protection of intellectual property. CEPA has the potential to provide the essential institutional framework to further accelerate and consolidate business activities between India and Japan.

Though over the years, the Government support has come in the form of dedicated Japanese industrial clusters, automobile policy and promise of faster clearances and transparent processes, there is a need for more focused improvements. There is a need for developments at the grass root levels- better infrastructure, faster clearances, better regulatory regime, better training institutes for access to high quality skilled workforce etc.

India as an Opportunity

There has been an increase in awareness and acknowledgement of criticality of the Indian option. Financial Year 2011 survey report on Overseas Business Operations by Japanese

Manufacturing companies brought out by Japanese Bank of International Cooperation (JBIC) reveals that although China holds the top among promising countries for investments, other countries including India are fast catching up. The number of companies that considered India as promising is roughly the same as China. For such companies, the major reasons for attraction are future growth potential of the local market, inexpensive labour and skilled human resources. India also figures at the top rank as a promising country for small and medium enterprises in the medium term and even tops the list in long term prospects (over the next 10 years). The Japan External Trade Relations Organisation (JETRO) expects more investment in automobiles, infrastructure, raw materials, and food processing and service sector. Other prominent studies have also given India high ranking as an investment destination- just next to China. The World Investment Report 2012 UNCTAD reveals that India accounted for more than four- fifth of total FDI flowing in South Asia and is considered as the third most preferred FDI destination by Transnational Companies in the world after China and the USA. It also predicts an increase in FDI growth in the areas such as infrastructure and retail in both India and China. The findings of World Investment Prospects to 2011: Foreign Direct Investment and the challenge of Political Risk throw some more light on India as an investment destination-

- India ranks number three among the most preferred FDI locations.
- India is ranked second among the top recipient countries for new FDI projects.
- India business environment rank for the period 2007-11 is 54, eight places up from 2002-06 and just one place below China.

Both Honda and Maruti are optimistic about their future in Indian Automobile market. Despite the advantages of low cost and ever increasing domestic market demand besides the support provided by the Indian Government in terms of development of dedicated industrial corridors, the companies continue to face some challenges with their operations in India.

The challenges faced and the hardships suffered travel faster than the success stories affecting further investment from the host country. Though both the companies were quite satisfied with their performance in the past, they are betting on the Indian growth story to further their profits and meet their aspirations. So, the Government still needs to do a lot more in improving the overall milieu and climate to facilitate easy operation of Japanese companies in India. Both Honda and Maruti that India‘s are optimistic about their future in Indian Automobile market. Despite the advantages of low cost and ever increasing domestic market demand besides the support provided by the Indian Government in terms of development of dedicated industrial corridors, the companies continue to face some challenges with their operations in India. So, even though they both agree that ‘Doing Business in India’ has improved over the years but still lots need to be done.

Challenges Faced by Japanese Companies in India

Statistical evidence amply support that despite the much talked about attractiveness and potential of Indian markets, Japanese investment has been slow to come in (just 7.56 percent of the total cumulative inflow since 2000). Low volume of Japanese investment in India is one of the most notable weak link in India-Japan Partnership. Despite the potential of Indian market, Japanese investors have been uncomfortable in investing in India. The reluctance of Japanese firm investing in India has stemmed from the fact that they are uncomfortable with India as a host economy due to its lack of infrastructural facilities, inefficiency and bureaucratic rules, corruption and overall business milieu. Though progress has been made, it has been slow and does not seem to complement the kind of 'strategic and global partnership' that both the countries have envisaged. One of the key requirements therefore is to ensure that there is a significant improvement in the investment and business environment in India.

Land Acquisitions

Acquisition of land to promote any industry in India has become a huge challenge for companies. The process of acquiring land is complicated not transparent. Japanese companies, while deciding upon location, do place a premium on the issue of acquiring land. Maruti Suzuki faced problems in land acquisition in Manesar (State of Haryana in India) mainly because of the cost escalation. At the same time, Maruti is pressurising the Indian railways to provide effective railway network to a proposed automobile hub at Bijwasan near Gurgaon. This hub will facilitate easier transport of inventory from various units in the Gurgaon - Manesar industrial belt to the other parts of the nation. The auto hub policy was put in place by the Indian Railways back in 2010. Railways, attracted by higher margins, aimed to grab higher share of the automobile transport traffic. Under this policy, the loading and unloading facilities in the hub were to be provided by Railways, while the auto hub was to be developed by a private licensee.

Similarly Honda also viewed land acquisition as a major problem even though it has so many years of successful presence in India. It played safe by acquiring as much land as possible right from the beginning. However, when it wanted to expand in 2006-07, it had to go through the cumbersome exercise again.

Infrastructure Support and Connectivity

Apart from the basic infrastructure of roads, rails and highways, power and water were rated as vital by the companies. Maruti Suzuki's plan to dispatch 1/3 of its output by rail has come across a roadblock. The land required to lay tracks from Patli station in Manesar to the manufacturer's facility situated 18 km away could not be acquired by Haryana State Industrial and Infrastructure Development Corp. Ltd (HSIIDC). The car maker is eager to lower its reliance on road transport and wants to start transporting its output by rail to reduce transit time, costs and regular wear and tear. It is pushing the government to come up with a feasible option as it readies to increase its annual capacity to 3 million units over the next 3-4 years. According to Maruti Suzuki official, "Maruti alone will be manufacturing three million vehicles by 2015-16 and all these vehicles cannot go by road."

Honda like Maruti also faces difficulties because of infrastructural inadequacies specifically power. According to the Honda Official, "We do not have sufficient power. The power that is supplied to us is 40 per cent of our requirement, and this is not reliable. Regardless of our power need and supply from the government, we have to generate our own power. After electricity, the official said ―Roads, water, communication, railways and ports (both sea and airport) need substantial improvements in the decreasing order of priority."

Regulations

Both the companies felt that regulatory and procedural obstacles existed in all three tiers of governance. However, the cause of dissatisfaction varied. A major issue between the companies and the centre was taxation and custom duties. Apart from finding the tax system complicated, prompt disclosure and explanations about changes brought about in custom duties and taxation was found wanting. Both the companies have used better liaisoning capability with the state bureaucracy as a way to handle the problem. At the local level, where companies have to deal with authorities on a day-to-day basis, the main complaint was that there was a lack of transparency in the guidelines for approvals, leaving room for subjective interpretation by the person handling it at a particular point in time. This, companies felt, resulted in avoidable scrutiny of papers on irrelevant issues.

Taxation

Indian taxation also became a complex issue. Many components of taxation change every year, and this is not immediately notified through proper channels. Supplementary taxes like education cess, 5 per cent R&D cess on technology transfer, IT software duty of 8.24 per cent etc. add to operating costs. As for custom duties, the system is complicated by additional duties and countervailing duties. The process of getting refunds for special additional duty is cumbersome and often the cost incurred is more than the amount to be refunded, rendering the concept of refund meaningless. The corporate tax policy of differentiating between domestic companies (32.445 per cent) and foreign companies (42.024 per cent) is viewed as being discriminatory. Customs clearance is complicated because of certain procedures that have to be followed. For instance, there is a stipulation that the invoice of goods has to be registered twenty-four hours in advance of the arrival of goods. This becomes difficult in cases of emergency and when customs office is located at a distance.

Procedural Delays

By and large, the major complaint is that the decisions announced by the authorities are not acted upon with speed and clarity. As many initiatives are not announced through proper channels, the implementing agency often refuses to act. Bureaucratic delays invariably inhibit effective communication, and it rests on the companies to deal with technical issues that are again subject to interpretation.

Political Instability

The frequency with which political leadership changes at the centre and states are of concern but what causes greater concern is the way the administrative machinery always slows down before elections. It is also known that many policies are reversed when a different political party is elected to run the government.

Legal

In matters of the law and legal issues, India more or less follows western practice and this is perceived as an advantage by the companies. However, problems arise because there are far too many laws that are subjected to varying interpretations. The two courts that these companies have to face are the civil court and the labour court. Apart from the fact that hearings in these courts tend to take a long time to complete, cases often move up to the High Court and the Supreme Court where the verdict may vary.

Bureaucracy

Maruti is a very strategic investment for Suzuki as it is its largest company outside Japan. Initially Suzuki faced quite a lot bureaucratic hurdles even in day to day operations of Maruti since MUL was controlled by Government. However, after the disinvestment Suzuki became the decision maker at MUL reducing some of the challenges faced by it in its early days.The companies surveyed have the advantage of being large and thus had the resources to overcome the obstacles faced. Because of their stature, they could also absorb the costs incurred due to project delays caused by these obstacles. Maruti Suzuki faced lesser problems because of the Government holding and was invited by the Government of India but it had to invariably face many hurdles in bureaucracy; this in a way affected decision making process.

Honda, on the other hand, relied on its India partner to take care of regulatory and legal issues. They have wisely divided the operational responsibilities between the Japanese and Indian partners in the following manner: the Japanese partner concentrates on production, technical know-how and management of the plant while the Indian partner is responsible for liaising with the local, state and central government authorities, procurement, developing the goodwill of the local community, and industrial relations.

To overcome the lack of infrastructural facilities in developing countries, Japan had been following a two-pronged strategy of investing in a country while giving Overseas Development Assistance (ODA) in the form of tied-aid. In the first phase of the opening up of the economy for FDI, some Japanese ODA had been disbursed to India as tied-aid. For example, in the period 1996-1997, a bridge was built to connect Delhi to the Noida export processing zone to facilitate movement of both labour and material. This bridge (Nizamuddin Bridge, New Delhi India)) was built with the help of Japanese technology and the participation of Japanese construction firms because there were a sizable number of Japanese companies operating in the Noida export zone. However, as tied-aid is frowned upon by the Indian government, such deals have no longer taken place.

To handle legal obstacles, companies have legal consultants who are consulted on a regular basis, especially before striking any deal[4]. Before signing a vendor/dealer partnership, they follow a rigorous process of scrutiny and document all commitments made by either party to ensure a hassle-free relationship. Often, well-known consultant companies are engaged to do independent studies of the feasibility of a project or on other concerns of the organisation so that an objective view from an outside expert can be used to take decisions.

Critical Elements

Market

Certain other critical elements have been also significant in entry of multinational enterprises to India. Market is one of the significant indicators. Understanding the Indian market has been one of the most difficult tasks for the companies. Honda for instance, had through a survey in the auto expo held in Delhi in 1996, zeroed in on red as the most popular colour among car consumers. However, when they launched their car, white turned out to be the most popular colour. Maruti faces problems related to Brand Image with the Indian consumers. Maruti has always been identified as a traditional carmaker producing value-for-money cars and right now the biggest hurdle Maruti is facing is to shed this image. Maruti wants to change it for a more aggressive image. One of the earlier upmarket brands of Maruti was a Maruti Baleno a luxury car which failed because of a specific reason that customers could not identify Maruti with a

[4] Survey

car as sophisticated as Maruti Baleno. Maruti is looking forward to bring about a change in perception about the company and its cars.

Besides the dynamic nature of Indian consumers, there has been a constant increase in competition in the Indian market affecting the bottom lines. Also, there has been a sluggishness in the demand for automobiles on the backdrop of economic slowdown in both the domestic as well as the word economy. This is accompanied by increase in global oil prices and high domestic inflation driving up the prices of the raw materials. All this is negatively affecting the profitability of the companies and growth of the sector in general.

Human Resources

There has been a perception that the quality of human resource and existing labour laws has been important factors that have deterred many Japanese firms from investing in India. Most Japanese firms think that India has a smart and intelligent workforce but also feel that it is casual, lacks discipline and is argumentative. It is also felt that controlling them and getting work out of them is difficult. This is one of the reasons why both Maruti and Honda have faced labour trouble in the recent past.

Labour and Unions

The skill set of the labour is not up to the expectations of the Japanese companies. They believe that the curricula of Industrial Training Institutes[5] (ITIs) do not train them to face day to day operational challenges while working. The other problem encountered by these companies is that though private technical institutes have accreditation from the government, they do not produce students who are anywhere near desirable standards. Thus, the companies often lose valuable time and money during campus recruitment.

Japanese culture and its implications

Japanese firms are very concerned about the quality of their products and the customer. They believe these concerns are embedded in their management practices. Thus, there is a strong influence of Japanese management ideas not only in subsidiaries but in joint ventures too. All the manufacturing units are laid out in the same manner as their Japanese counterparts. Quality circles, suggestion schemes, an egalitarian system and consensus decision making are all part of the Indian operations in both the companies. Besides they also expect diligence, conformity and obedience as important characteristics of their workforce. The Indian employees in both the companies undergo regular training to help them imbibe the Japanese way. Thus, the Japanese partners prefer the full involvement of workers at the plant level. They also require Indian managers to bring a strong sense of commitment to the workplace.

Success of Suzuki in India can in some way be attributed to successful adoption of its culture by its Indian counterpart. During the pre-liberalization period (1983-1992) a major source of Maruti‘s strength was not only the wholehearted willingness of the Government of India to subscribe to Suzuki‘s technology but also its principles and practices of Japanese management that helped it to increase the efficiency and reduce the wastage.

[5] Industrial Training Institutes & "Industrial Training Centers" are training institute which provide training in technical field and constituted under Directorate General of Employment & Training (DGET), Ministry of Labour & Employment, Government of India.

Large number of Indian managers, supervisors and workers were regularly sent to the Suzuki plants in Japan for training. Batches of Japanese personnel came over to Maruti to train, supervise and manage. Maruti's style of management was essentially to follow Japanese management practices. Maruti adopted the norm of wearing a uniform of the same colour and quality of the fabric for all its employees thus giving an identity. All the employees followed the same work culture, work schedule. Employees reported early in shifts so that there were no time loss in-between shifts. The plant had an open office system and practiced on-the-job training, quality circles, kaizen activities,[6] team work and job- rotation. Near-total transparency was introduced in the decision making process. There were laid-down norms, principles and procedures for group decision making. These practices were unheard of in other Indian organizations but they worked well in Maruti.

Japanese companies put quality and customer care as the two most important driving forces. To achieve this, they require employees to follow instructions and show discipline and diligence. Many a times they face problems as Indian employees are individualistic and creative. Indian culture promotes power and hierarchy while Japanese culture is egalitarian in nature. All this has caused differences and conflicts not only at the labour levels but also at managerial levels in the past.

Constraints faced by the Japanese Companies

India lacks in providing favourable physical infrastructure to attract Japanese investment in significant numbers. Road and rail networks, power, electricity, water supply systems, warehousing are not state-of-the art. High tariffs, non-transparent tax structure, legal and regulatory framework, lack of transparency on requirements, decision making, documentation and procedural delays add up creating an unfavourable environment for investment.

Suggested Measures

It is vital to create better business environment to increase the overall investment. As noted above, India was ranked 54th in business environment ranks as for the period from 2006-11. This rating is a measure of quality of business environment in India. There is an urgent need to improve the same which can be created through joint contribution of both the Government and the industry. The concerns for major improvement that came out of the interviews and interactions with senior officials and mid-level management of both the companies to attract more Japanese investments in India are summarised below.

First, 'better infrastructure facilities' will act as a major pull for investments. Though, infrastructure development through public private partnerships has been constantly pursued by the Indian Government, the on-ground results are still languishing with most infrastructure projects seeing cost and time over-runs. Controlled and proper usage of scarce resources along with eliminating their illegal usage and wastage is the need of the hour.

Second, labour issues have disturbed the ambience of manufacturing and productivity of Japanese auto companies in India. This send wrong signals to Japanese investors. A well

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[6]'Kaizen' in Japanese means for betterment. It is 'improvement', or 'change for the better' which refers to philosophy or practices that focus upon continuous improvement of processes in manufacturing, engineering, and business management

calibrated labour laws having a welfare focus would be a favourable option for investors which would prevent such on-toward incidents between workers and management.

Third, India has a young, well equipped and skilled human resource. This workforce needs to be adequately trained so that optimal utilization can take place. There have been, for example, instances where Japanese companies have faced problems due to inappropriate handling of the cargo during custom clearances and inspection, leading to damage and losses. Behavioural work issues like punctuality, orderliness and discipline is also a big concern. Besides the technical skill gaps need to be plugged by setting up of more ITIs and updating their curricula. In the Bachelor‘s and the Master‘s degree of engineering courses too, the need is to develop curricula by inviting industry feedback.

Fourth, Indian government needs to ensure proper utilization of the Japan Cell in the Indian Ministry of Commerce and Industry by spreading information about its role and functions. Success stories of Japanese companies in India need to be proliferated to the Japanese Business Community through electronic as well as print media. Seminars promoting 'Doing Business in India' providing significant networking opportunities should be organized both in India as well as in Japan.

Fifth, wider sectors should be encouraged to invest in India. Micro and Small Medium Enterprises (MSME) should in particular be targeted. This will help to bring in expertise and capital in MSME sector of India generating employment opportunities among the section of the society that is unskilled and untrained. The International Division of the Japan Finance Corporation for Small and Medium Enterprises (JASME) should be tapped for the same.

Sixth, it is very critical to take steps towards homeland security in India. Terrorist attacks and insecurity arising because of law and order problems are a deterrent for investors. The Indian administration should also become more e-enabled to facilitate faster operations.

Seventh, creating transparency in its procedures and empowering local authorities to deal with each project on the basis of merit is crucial. Giving assistance to new investors in the form of easy availability of information, office space and hand-holding of new entrant into India with respect to identifying location, setting up distribution channel etc. can help attract investment. Training ground level administrators to become sensitive and proactive to companies needs would be an added advantages.

Conclusion

The paper concludes India has taken major steps to integrate with the world economy; its foreign investment policies are gradually proving more investor friendly. The Indian government and other bodies involved in policy making have become active in addressing the needs of foreign companies. Issues regarding bureaucratic delays, infrastructural improvement and labour issues are finally being addressed, a fact testified to by the fact that newer entrants have had far fewer issues to contend with as compared to earlier entrants.

The success stories of these companies also show that many of the perceptions about investing in India are either unfounded or outdated, including those regarding the quality and attitude of the workforce and Indian partners.

Japanese companies are long term orientated with a strong commitment to 'quality' and the 'customer' and they try to fulfil this commitment by embedding the Japanese style of management into their operations. Among other factors, Japanese firms seek trust in their partner and each of the companies that have a joint venture in India spent a long time in deciding about the partnership. Labour unions continue to remain a threat, despite their increased focus on providing better working conditions and opportunities. Skill gap at the lower end of the employee order is a concern and the response has been to participate in skill enhancement. Though there are obstacles that continue to impede smooth operations, the Japanese firms that were studied have acquired a greater understanding of the Indian market. The achievements of these firms show that many of the perceptions about investing and operating in India are unfounded and/or outdated. The success stories of these companies should help attract more Japanese firms into India.

APPENDIX 1- QUESSTIONNAIRE

1. Name of the Firm............................

2. Name and Designation of Respondent......................

3. What is the most important reason of your company to choose India as a destination?

	Most Important	Some What Important	Neutral	Somewhat less Important	Not Important
Reaction to competitors' strategy					
India Market Potential					
Market Expansion Strategy for company					
Location Advantage offered by India					

4. Rate your satisfaction on the following parameters based on your experience in India?

	Very Satisfied	Satisfied	Somewhat Satisfied	Neutral	Not Satisfied
Sales Performance					
Export Performance					
Cost Optimisation					
Manufacturing Facilities Operations					
Overall Performance					

5. Do you think that government support a critical success factor?

   - Yes, It is very important as it determines the firm performance

- Yes, to some extend
- No, it is not really important

6. Which government support is more important and critical according to you?

Home Govt (Japanese)	India Govt	Both	None

7. What are the major factors considered by you while choosing the Indian partner?

	Most Important	Some What Important	Neutral	Somewhat less Important	Not Important
Financial Strength					
Right Technology					
Right manufacturing capabilities					
Proactive Management					
Compatible values and matching ethos					

8. Do your company prefer an Indian MD vis-a-vis Japanese MD/ Chairman?
   - Yes, an Indian MD can better understand the Indian Market dynamics
   - No
   - Nationality is not an important factor

9. Rate the following factors on their importance in deterring your marketing decisions in India?

	Most Important	Some What Important	Neutr al	Somewhat less Important	Not Important
Lack of basic hard infrastructure facilities					

Lack of soft infrastructure connectivity					
Power supply related problems					
Inefficiency in the system					
Bureaucratic Hurdles					
Custom Clearances take too much time					
Institutional Delays					
Complex Taxation Laws					
Government Policies related uncertainty					
Ambiguous laws and guidelines					
Land Acquisition Delays					
Work Ethics and culture difference					
Low skill set of Skilled Labour					
Increasing labour cost					
Difficulty to secure management level staff					
High attrition rate					
Archaic Labour Laws					
Difficulty in access to cheap capital					

Rising inflation driving up the cost of raw materials					
Costly capital					
Issues with vendors					
Lack of Professionalism in most businesses					
Increasing competition					
Political Instability					
Inefficient Judicial system (Politicalisation, delays)					
Technological Obsolesce					
Lack of Proper Information Sharing					
Constantly changing consumer preferences					
Constantly changing market dynamics					
Shrinking Margin					
Currency Related Unstability (Recent Rs depreciation)					
Slowing growth rate					

10. Rate the following factors on their importance in deciding your marketing decisions in India?

	Most Important	Some What Important	Neutral	Somewhat less Important	Not Important

High Consumerism					
Attractive Export Base					
Cost Effective Manufacturing					
High Growth Economy					
Increase in Indian Working population					
Increase in disposable income					
Favourable Govt Support					
English Speaking People					

11. What are your priority areas to production in India?

	Most Important	Some What Important	Neutral	Somewhat less Important	Not Important
Product Development					
Process Optimisation					
Cost Optimisation					
Capacity Augmentation					

12. Are you planning to add Research and Development facility in India?

- Yes
- No

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13. What is your satisfaction with India market operation of your company?

Very Satisfied	Satisfied	Somewhat Satisfied	Neutral	Not Satisfied

14. Rate the following on the basis of degree of desirable Government Support?

	Most Important	Some What Important	Neutral	Somewhat less Important	Not Important
Simplified Taxation laws					
More Transparency in process of approvals					
Remove infrastructure related bottlenecks					
Enhanced State Partnership					
Revised Labour Laws					
Revised Land Acquisition Laws					
Easy access to capital					
Increase attractiveness for R&D by taking proactive policies					
Speedy approvals and clearance					
Improve overall business Milieu					
Ease Custom Clearances					
Technical Education system to be mapped to the industrial need					

15. What is your satisfaction level with the support you get from Indian Government for your India market operation?

Very Satisfied	Satisfied	Somewhat Satisfied	Neutral	Not Satisfied

16. What is your view on 'Doing Business in India'- has it improved over the years?

Yes, Have Improved a lot	Yes, have improved a bit	No change	No, has become slightly worse	No has become very difficult

17. What according to you will be most important measure to reinforce the attractiveness of governance in India?

	Most Important	Some What Important	Neutral	Somewhat less Important	Not Important
More transparency in decision making					
Encourage anti-corruption practices					
Speedy environment related approvals					
Easier land acquisition					
Infrastructure Development					

18. Can you list some of the challenges faced by the firm that continue to affect India operation?

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