

# Japan tests waters for investment in India

by Susan B. Maitra and Ramtanu Maitra

A 100-member high-level Japanese delegation headed by Dr. Rokuro Ishikawa, chairman of the Indo-Japan Business Cooperation (IJBC) and a close associate of Prime Minister Kiichi Miyazawa, spent the week of Jan. 23-30 deliberating on investment conditions opened up by India's economic liberalization policy, introduced by the ruling Congress Party government last July. After meeting Prime Minister Narasimha Rao and Finance Minister Dr. Manmohan Singh, the Japanese team submitted a list of 21 additional reforms needed for improving investment potential, but indicated that before 1992 is over, Japanese investment on a large scale will start coming into India.

The visit, highlighted by the presence of many top Japanese officials including Dr. Saburo Okita, chairman of Japan's Institute for Domestic and International Policy Studies, took place within a week after Indian Foreign Minister Madavsinh Solanki visited Japan. At a New Delhi press conference, Dr. Ishikawa (also chairman of Kajima Industries), said that the Japanese government and industry are willing to invest three decades' worth of surplus capital in mutually profitable ventures. "In recent years we have accumulated a lot of capital and I think it is our duty to recycle surplus capital. Whether it is in the form of investments, loans, or equities, we will help," he said. Yet he pointed out that many countries have shown interest in harnessing Japanese capital and, hence, India must come up with a competitive investment environment.

Among the 21 "requests" to India, the delegation listed the removal of industrial licensing in areas such as automobiles, consumer electronics and white goods (such as refrigerators), and allowing trading companies to raise their equity capital even to 100%, as opposed to 51% set by the new industrial policy. Pointing out that the word "request" may sound harsh and India may have similar "requests" to Japan, Dr. Ishikawa said that the policy reforms undertaken by the Indian government have been widely hailed in Japan. According to a recent survey, 11 of 53 companies that answered the questionnaire were contemplating investment in India, and 25 more were interested in studying investment possibilities.

Some other reforms, such as early formulation of an exit policy (taking care of excess labor from facilities which will be modernized and require fewer workers); removal of restrictions on emergency imports; reduction in import tariff

for capital goods; relaxation of import licensing; priority in budget allocation for improving industrial infrastructure such as power and telecommunications; looser restrictions on industry location; reeducation in protection for small-scale industry; and abolition of restrictions on banking activities, will pave the way for better economic collaboration between India and Japan.

India's response has been positive. According to a Planning Commission member involved in the talks, the Indian side convinced the Japanese delegates that at a similar stage of its own economic development, Japan had even more restrictions than India now does. They also pointed out that India is in the process of further consolidating economic reforms, most of which are included in the Japanese "requests."

Perhaps equally important as Japanese investment, is what kind of development Japan foresees for India. Dr. Okita, addressing an Indian Chamber of Commerce meeting in Calcutta, said that India should not be too dependent on monetary policies: Instead, India's economic plans should focus on social equality, effective use of resources and structural reforms. Dr. Okita underlined that the difficult situation faced by the Indian economy was no reason to doubt the efficacy of economic planning.

Emphasizing that there is no magic formula for economic development, Dr. Okita said that every country has its own history, customs, religion, and cultural traditions. These must be taken into account. "Though in the West it was believed that a market-oriented economy was superior to the controlled economy, it should be remembered that market mechanisms are not infallible. Instead, there should be a reconciliation of the two systems and a judicious combination of the market mechanisms and central planning," Dr. Okita added.

What makes India attractive to Japanese investors, Dr. Ishikawa added, is its large domestic market, the high level of science and technology, skilled manpower, and natural resources. With the relaxation of controls, the open invitation to foreign capital and technology, and disinvestment in the public sector, investment in India is becoming increasingly attractive. It has also been observed that the deteriorating investment situation in the United States and rising labor costs in Southeast Asia, are enticing Japanese investors to go to South Asia.

It is understood in New Delhi that Japan will drive a hard bargain. Indian officials cite the Japanese hesitancy to invest in Thailand for years before deciding to plunge deeply. The decision of the Nomura Securities Company to set up an office in Delhi is seen as a good step. Nomura not only has Japan's corporate heavyweights on its list, but led earlier Japanese foreign investment campaigns, as in China. What one scribe calls "the swallow that will give an indication of summer"—is the Japanese decision to set up an industrial model town in India, similar to one the Japanese set in Thailand before their heavy involvement there.