FOREIGN DIRECT INVESTMENT IN INDIA FROM JAPAN: AN IMPACT OF CEPA

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INTRODUCTION

The interdependence and cooperation among the countries were sought to be accomplished mainly by three means, viz. aid, investment and trade. Ideally, all these three forms must complement one, another and the closer the actual conditions approximate this ideal, the better would be the prospects for the emergence of a truly international economy; when these fell far short of the ideal, international economic relations became strained and distorted.

Foreign capital plays a very important role in the economic development, both of developed and developing nations. Encouraged by the favorable business environment fostered by the global liberalization, the international private capital flows have been increasing rapidly with periodic downturns. Foreign capital now contributes a significant share of the domestic investment, employment generation, industrial production and exports in a number of economics. As 'Capital' is the core factor for growth and development. A developing country needs additional sources of capital for development, which can be borrowed from domestic and international agencies. While loans and aid by the governments of foreign countries are debt bearing, foreign investment is without any committed debt liability. So the development strategy is to attract foreign investment that will not only supplement domestic capital but also brings the benefits of advanced technology and management skills.

Today, every country over the globe is stepping forward to change the climate for attracting more investment. Opening up of doors by most of the nations have compelled them for adopting reforms. Although FDI began centuries ago, its biggest growth has occurred since the middle of the twentieth century. The statistics shows that between 1983 and 1990, FDI outflow grew at an average annual rate of 27 percent that was almost four-fold greater than the growth of world output and around three fold greater than the growth of world exports. Recent growth has resulted from several factors particularly the more receptive attitude of governments to investment inflows, the process of privatization and the growing interdependence of the world economy.

Thus the economic liberalizations that swept across the world, particularly since the late 1980s, have very significantly changed the environment for international private financial flows. The massive flow of international investment has resulted in a substantial increase in their role in global production, employment generation and trade. As renowned management Guru Peter Drucker in his book "Managing for the future" observes, “Increasingly World Investment rather than world trade will be driving the international economy. Exchange rates, taxes and legal rules will become more important than wage rates and tariffs. Thus each and every country over the globe is stepping forward to change the climate for attracting more investment. Opening up of doors by most of the nations have compelled them for adopting reforms.

The major chunk of FDI flows takes place between the developed countries. For nearly three decades till the early 1990s, about three quarters of the FDI have gone to the developed countries. Nearly two third of the flows take place between the countries of the Triad: the US, the European community and Japan. Most FDI occurs in developed countries because they have the biggest markets, lowest perceived risk and least discrimination toward foreign companies. Of the 100 companies that own the most FDI, only two of these are from emerging economies. During much of the post-World War II period the US was the dominant investor. However, its share has been falling as the share from other industrial countries, especially the UK and Japan has increased.

The developing countries have been receiving only a small share of the global FDI flows and their share has been widely fluctuating. Traditionally developing countries relied on FDI to supplement their domestic savings and capital and in bringing about new technologies but now they regard foreign investment as beneficial for development efforts and compete with each other to attract it. The reason behind this attitudinal shift lies in the change in political and economic systems that have occurred during the last two decades. The share of FDI inflows in India is very meager, though it is increasing.

In India, the inflow of foreign investment had been more or less static until it suffered from serious economic crisis during 1991, which was caused mainly by scarcity of foreign exchange reserves. The government then announced its open door or open arm policy in 1991 realizing that the liberalization of policies regarding foreign investment could supplement our domestic efforts to mobilize invest resource and improve the forex position. Since liberalization there has been a marked shift in the level and channels of foreign investment flows.

RESEARCH DESIGN

Present State of Knowledge

Although there is lack of research work carried out in the field of Foreign Direct Investment received in India from Japan even the researcher has tried to collect few researches and articles to enrich the present state of knowledge in the area. In pursuance of this philosophy, following studies are presented below.

CII (2007) in their study stated that Japan and India are natural partners, and their relationship is based on shared interest values and concerns. The study opined that India has looked at other markets for expansion of trade and has not focused on Japan. The study systematically explains that to upgrade the level of partnership from relatively low key to a comprehensive and strategic one, the two sides have agreed to launch negotiations towards a Comprehensive Economic partnership Agreement (CEPA).

Singh Lakhwinder (2007) and Rajan S Ramakishan et al. (2008) examined current status and future prospects of the Indian economy with special reference to the role of foreign direct investment in achieving higher rate of economic growth and the removal of structural constraints. They agreed that FDI inflows have been increased in the post-reform period, and India now seems to be quite attractive place for such kind of investments, but in quantitative terms, India’s global share of FDI is still very low. What India needs is to put in place a comprehensive development strategy, which includes being open to trade and FDI.

NatrajGeethanjali (2009) holds the view that the Foreign Direct Investment (FDI) environment in India has undergone a sea change since the inception of economic reforms in 1991. She observed that in the context of the present global economic crisis, financial flows in the form of FDI to developing economies might be expected to slow down, but India is expected to continue to fare better due to huge domestic demand and investor-friendly policies.

Rajmohan PG et al. (2008) and Kesavan KV (2010) took note of the critical changes that occurred between Indo-Japan interactions since the turn of the 1990s. They stated that the end of the cold war proved to be propitious for Indo-Japan relations since many common factors and concerns which had remained dormant for years began to manifest themselves sharply in evolving new regional environment and the relations entered a new and positive phase after 2000.

VyasAbhishek Vijay Kumar (2015) views that foreign capital is seen as a way of filling in gaps between domestic savings and investment. The researcher opines that FDI is always helps to create employment in the country and also support the small scale industries and helps country to put an impression on the worldwide level through liberalization and globalization.

Seshdadri V.S.(2015) made a critical appraisal of the progress made in the implementation of the CEPA made with Japan and assesses to what extent the two sides have been benifitted.And the report concluded with the recommendations on how to strengthen the trade, investment and cooperation provisios of the CEPA.

TariqZafar S.M.,HmedatWaleed and Ahmed Syed Ashfaq(2017) examine and evaluate the impact of amendments and policy initiatives on nation’s economy. The study concluded that with the efforts of GOI and policy initiatives FDI inflows increases astonishingly.

Need and Objectives of Study

India’s success in recent years in attracting foreign investors can be attributed primarily to the strong macro-economic scenario and the progressive liberalization of the FDI regime. Japan, however, has been slow to take advantage and its share in total FDI coming in to India has not matched the potential. Though Japan had been one of the top five investors in India for long, its share in India’s total FDI inflows has been dwindling since 2000.Other countries have surpassed Japan in terms of their investment and market share in the Indian economy. In this context, this study attempts to analyze the constraints on Japanese investment in India. Also in view of paradigmatic changes in Indo-Japan bilateral economic relations the last two decades the researcher tries to study the trend and pattern of flow of foreign direct investment in India from Japan. Moreover, the paper also traces the likely impact of Comprehensive Economic Partnership Agreement between India and Japan on the FDI received by India from Japan.

Research Methodology

The study is based primarily on secondary data. It has used documents and reports with government and private sources to collect information on Indo-Japanese investment relations. Data sources used include the Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce and Industry, Government of India, which collects and maintains data on FDI inflows into India, and one of its wings, the Secretariat of Industrial Assistance (SIA), Reserve Bank of India (RBI) reports and bulletins, Japan External Trade and Research Organisation (JETRO), World Investment Reports etc. The time series data pertaining to FDI from Japan is considered for the period 2000-01 to 2017-18 in US dollar to remove effect of changes in exchange rate. To make study more accurate and scientific and to make the findings logical, the collected data is analysed using T test of significance available in Microsoft Excel.

INDO-JAPAN RELATIONS: AN OVERVIEW

Over the last few centuries India has proved to be the favorite hub for countries willing to invest internationally. The growing economy, conducive political conditions and skilled manpower are a few reasons for making India an attractive investment destination. In this scenario, while other countries are trying to gain a foothold over the virgin soil, Japan is way ahead of trying to create a niche for itself. The relationship between India and Japan transcends economic bonding. Many centuries ago, religion played an important role in bringing the two countries – India and Japan together. Ties were established between the two countries with the spread of Buddhism via the Korean Peninsula. The Meiji Era (1868-1912) witnessed further cementing of relationships through cultural bonds. Finally, the end of World War II set the stage for international fraternity between the two countries.

What began as simple import of cotton from India, in the pre-war days, gradually changed and in 1952 multiple avenues were created for diplomatic, business and technical relationships. The year 1957 witnessed a momentous alliance between India and Japan. Closely following the visit of Japanese Prime Minister NobusukeKishi, Japan extended its first yen loan to India in 1958. The year marked greater strengthening of economic ties and relationships between the two countries.

The happy and long standing relationship between the two countries soon acquired a new name, "Samurai and Swami" which emphasized the positive economic and cultural growth and the "policy similarities" linked to existing energy policies, security of sea lanes and opposition to spread of weapons of mass destruction.

By the early 1970s several Japanese firms had entered into technical collaboration and/or joint ventures arrangement with Indian firms. Indian policy maker saw Japan essentially as a source of bilateral assistance and largely ignored the trade and commercial possibilities it offered. Japan has shown interest in portfolio but FDI and trade have been substantially below expectation.

At the start of the 21st century, with a view to further enhance their friendly cooperative relations that had been nurtured historically, both the countries agreed to Japan-India Global Partnership in August 2000 on the occasion of Prime Minister Mori's visit to India. Furthermore, the two countries issued a joint statement called the "Japan-India Partnership in a New Asian Era" on the occasion of Prime Minister Junichiro Koizumi's visit to India in 2005. In 2007, both governments held "Japan-India Exchange Year 2007" to commemorate the 50th anniversary of the Cultural Agreement. In October 2008, Japan and India signed a Joint Statement on the Advancement of the Strategic and Global Partnership between Japan and India and a Joint Declaration on

"Security Cooperation between Japan and India". Finally, Japan and India signed the much-awaited "Comprehensive Economic Partnership Agreement" on 16th February 2011 that would abolish duties on more than 90 percent of trade for 10 years. In Sep 2014 Prime Minister NarendraModi and Japanese Prime minister agreed that Japan-India relationship was upgraded to "Special Strategic and Global Partnership". They agreed to set a common goal of doubling Japan's direct investment and the number of Japanese companies in India by 2019 in order to build a win-win relationship through synergies between Modinomics and Abenomics. Thus Japan and India have continued to develop their friendly relations founded on a long history of exchanges.

TREND AND PATTERNS OF FDI IN INDIA ESPECIALLY FROM JAPAN

In view of paradigmatic shift in Indo-Japan bilateral economic relations in the last about two decades like Economic Reforms in India, Global Partnership Agreement 2000, Joint Statement towards India Japan Strategic Partnership 2006, Indo-Japan Friendship Year 2007, Comprehensive Economic Partnership Agreement between India and Japan 2011 etc. The present objective deals in interrogating the trend of FDI in India from Japan.

Table 1: FDI Inflows in India and Share of Japan Apr2000- Mar2018 (US$ millions)

Year	World	Japan	% share of Japan	% change of Japan's FDI
2000-01	4029	175	4.34	-
2001-02	6130	150	2.45	-14.29
2002-03	5035	146	2.90	-2.67
2003-04	4322	124	2.87	-15.07
2004-05	6051	139	2.30	12.10
2005-06	8961	266	2.97	91.37
2006-07	22826	512	2.24	92.48
2007-08	34843	1506	4.32	194.14
2008-09	41873	5551	13.26	268.59
2009-10	37745	3664	9.71	-33.99
2010-11	34847	2864	8.22	-21.83
2011-12	46556	2326	5.0	-18.78
2012-13	34298	2802	8.17	20.46
2013-14	36046	2155	5.98	-23.09
2014-15	45148	2408	5.33	11.74
2015-16	55559	-1041	-1.87	-143.23
2016-17(P)	60220	4105	6.82	-494.33
2017-18(P)	61963	1060	5.0	-74.18

Source: JETRO, Japan & Handbook of Statistics on Indian Economy, RBI

From the above table we can easily analyze that the FDI flow to India from Japan is not constant, it is showing many ups and down. During the period under analysis the percent share of Japan were 4.34 in the year 2000-01 which reached to 5 percent in the year 2017-18.The highest percent share of Japan is in the year 2008-09 i.e. 13.26 percent and lowest in the year 2006-07 i.e. 2.23 percent. During the year 2015-16 Japan also made some disinvestment in India. The maximum positive change in the Japan's FDI can be seen in the year 2008-09 that is 268.59 percent and negative percentage change in the year 2016-17 that is -494.33 percent.

Table 2: Top Ten Investing Countries in India Apr 2000- Mar 2018 (US$ millions)

Rank	Country	Amount of Investment	% Share in FDI equity inflows
1	Mauritius	127,578	34
2	Singapore	66,771	18
3	Japan	27,286	7
4	UK	25,438	7
5	Netherlands	23,482	6
6	U.S.A.	22,417	6
7	Germany	10,845	3
8	Cyprus	9,573	3
9	France	6,237	2
10	U.A.E	5,754	2

Source: Department of Industrial Policy and Promotion Fact Sheet June 2018

Among countries, Mauritius has been the largest direct investor in India. Firms based in Mauritius invested over US$ 127,578 million in India between April 2000 and March 2018, which accounted for 34 percent of the FDI inflows. Mauritius has low rates of taxation and an agreement with India on double tax avoidance regime. Though Japan has remained one of the top ten investors into India since the 1990's, its contribution to India's FDI inflows slipped from the fourth position in the 1990's to the sixth position in last decade but after signing of CEPA between them Japan move up to third position. The share of Japan is only 7 percent whereas Singapore which, was not an investor in the 1990s, now has reached to second position. This shows that whereas the "look east" policy of India did find takers in countries like Singapore, it did not impact the mind set of Japanese investors.

IMPACT OF COMPREHENSIVE ECONOMIC PARTNERSHIP AGREEMENT ON INDO-JAPAN INVESTMENT RELATIONS

In this section, an attempt is made to examine impact of Indo-Japan Comprehensive Economic Partnership Agreement (Feb 2011) on FDI received from Japan. For this purpose the FDI received from Japan is divided into two categories, that is FDI data for ten years prior to signing of agreement from 2000-01 to 2010-11 and seven years after the signing of agreement 2011-12 to 2017-18 (Table 3). The statistical tools used for examining the impact includes T test of significance.

Table 3: Japan's FDI in India (Pre and Post Global Partnership Agreement Era)

Pre-Agreement Era		Post Agreement Era	
Year	**Japan's FDI**	**Year**	**Japan's FDI**
2000-01	175	2011-12	2326
2001-02	150	2012-13	2802
2002-03	146	2013-14	2155
2003-04	124	2014-15	2408
2004-05	139	2015-16	-1041
2005-06	266	2016-17(P)	4105
2006-07	512	2017-18(P)	1060
2007-08	1506		
2008-09	5551		
2009-10	3664		
2010-11	2864		

Source: JETRO, Japan

To testify the impact of Comprehensive Economic Partnership Agreement on FDI received from Japan, the researchers framed the hypothesis as "By and large there is no significant impact of Comprehensive Economic Partnership Agreement on FDI received from Japan." To test the above stated null hypothesis, the researchers calculated the 't' value for FDI received from Japan at the 95 percent confidence level. The 't' test results are contained in table 4.

TABLE 4: Showing the description of T test of significance for India and Japan

	Variable 1	Variable 1
Mean	1372.454545	1372.454545
Variance	3443112.073	3443112.073
Observations	11	11
Hypothesized Mean Difference	0	
Df	14	
t Stat	-0.72789402	
P(T<=t) one-tail	0.239338268	
t Critical one-tail	1.761310136	
P(T<=t) two-tail	0.478676535	
t Critical two-tail	2.144786688	

Source: Author's Own Calculations

The t test results show that corresponding p-value (sign.) is 0.47 which is less than 0.05.Therefore we can reject the null hypothesis at 5% significance level, which means that there is significant impact of Comprehensive Economic Partnership Agreement on FDI received from Japan.

CONSTRAINTS IN JAPANESE INVESTMENT IN INDIA

As mentioned earlier, several countries have overtaken Japan in terms of their investment in the Indian market. According to a recent report submitted to the Department of Industry Policy and Promotion, the Japan Chamber of Commerce and Industry in India (JCCII) characterizes the Indian business environment as "tough". Some of the constraints that need to be removed to generate greater Japanese interest in India are as follows:

- Japanese investors describe the tax system in India as too complicated and difficult to understand.
- India's land acquisition and utilization procedures are also cited as major obstacle to Japanese investment in India because they are both complicated and non-transparent.
- Infrastructure as an obstacle is a major concern among FDI players. Among the infrastructural obstacles, power and water are vital.
- The unresolved issues include taxation, infrastructure, logistics, intellectual property rights, regulations of foreign capitals, visa issues and also administration's inefficiency and non-transparency with respect to various rules and provisions.
- Many clauses in contract with the industrial parks are not honored such as supply of power, water, drainage, and so on.
- Almost all Southeast Asian countries received Japan's ODA on a large scale and many of them utilized it in such a way that generated avenues for Japanese FDI. But India, which has also been a major recipient of economic aid from Japan, failed to make such effective coordination.
- The high-tariffs levied by the government and their (Japanese) inability to freely import the requisite components.
- They also hold that the investment climate is not uniformly good throughout India and that southern states are more investment friendly than others. They further refer to the complex centre-state relations. The failure of the Enron venture in the power sector caused considerable anxieties in their minds.
- The Japanese companies requests improvement of insufficient protection of intellectual property rights in India. Adequate and effective protection and enforcement of IPR are essential for fair economic activities by the industries of both countries.
- Restrictions on establishment of branches of Foreign Service providing companies
- Japanese companies have requested for simplification and speeding up of procedure for applying various permissions related to construction.

- Language is a major barrier and restricts easy interaction between the business representatives of India and Japan. There is lack of awareness and information about each other's market.
- Outdated impressions of the quality of Indian products and the reliability of the Indian suppliers continue to persist.
- Changes in the political leadership at centre and state level is of great concern. In this uncertain environment the companies find it difficult to make long-term strategic decisions.
- Corruption in the public which ultimately leads to loss of time, extra financial burden and ambiguity over the fate of the investment.

CONCLUSION

The FDI inflows to India have been satisfactory. However an assessment of the current requirements reveals that Japan should reduce the ODA and begin to concentrate on investments in India so that it is able to capitalize on the knowledge intensive and manpower rich country. There is immense scope for Japan to concentrate on sectors like telecommunications, manufacturing. However search for innovative and new sectors will give Japan an edge over other countries. . The past successes of Japanese companies in India and the vast potential untapped and unexplored in India would probably raise hopes to foster further ties between Japan and India. Now, India has proved itself with an impressive performance of the economy in the Asian region. In this backdrop of the changing global image of India and the recognition for its competency, Japan can revive its economic relationship with India has also taken several steps to promote Japanese investment in India and vice-versa. India has become an attractive investment destination with simplification of investment procedures through a single window clearance. Trade policy has been liberalized to facilitate investment in the country. There are laws in place to protect intellectual property rights; financial sector reforms have helped reduce the anomalies that existed in the capital market and the liberalization of foreign exchange regulations etc. have helped promote FDI in the country. Further, the Secretariat of Industrial Assistance provides information to investors. The Indian government has established the Foreign Investment Implementation Authority (FIIA) to facilitate implementation of FDI projects by helping investors get the required clearances. The Indian government has also set up a dedicated "Japan Cell" in the Department of Industrial Policy and Promotion to promote and facilitate Japanese investment in India. We can say that India can become the next global manufacturing hub and Japanese manufacturing skill can create a platform for India to meet the global expectations.

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