



INDO-JAPAN CHAMBER OF COMMERCE & INDUSTRY

**Greater Japan-India
Cooperation
thro' SME Route**

by

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PREFACE

Rejuvenation of SMEs is an urgent need of the hour in both Japan and India. This Resource Paper on 'Greater Japan-India Cooperation thro' SME Route' tries to open up new avenues of cooperation between small and medium industries of Japan and India.

Ms. Suguna Ramamoorthy, Secretary General of IJCCI, is a double graduate in Economics and Commerce. She is with IJCCI for the last two decades and has developed a keen desire to build greater and stronger economic bonds between Japan and India with her association with Japan over the years.

We in IJCCI are confident that this booklet will stimulate greater enthusiasm among SMEs in both the countries to their mutual advantage.

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N. Krishnaswami

Greater Japan-India Cooperation thro' SME Route

The seeds of Japan-India relations were sown in 752 AD by an Indian Monk, Bodhisena, who performed the consecration of the towering statue of Lord Buddha in Nara, Japan. Indian culture, filtered through Buddhism, created great impact on Japanese culture. Buddhism is deeply rooted in the minds and lives of the people of Japan. Even today, 43 % of the Japanese people follow Buddhism and this is the source of Japan's closeness to India.

History speaks volumes about the close connections between Japan and India, in modern times. The first Peace Treaty of Japan was signed with India in 1952, and diplomatic relations between Japan and India was

established. India helped Japan with iron ore, to aid recovery from the devastation of World War II. The first Yen Loan was extended by Japan to India in 1958 and even today, Japan is the largest aid donor to India.

Though the historic, emotional and cultural connections are very deep, and the people of India consider Japan and her people special and unique, the relations between Japan and India has not assumed the expected significant level of closeness; a disappointment to great scholars and well wishers of both the countries, for a long time. Better late than never, the two countries should now forge close relations, considering the economic advantage that the two countries would enjoy.

Some of the positive factors about India for the Japanese :

India is a democratic country with no dispute - ideological, cultural or territorial ; a booming economy with huge potential - land and resources; a labour force - young, skilled and competitive, available in abundance; a huge market potential; a good base for foreign market activities ; the Indian labour force and the Japanese labour force share common values of high work ethics, dependability and high family values. These are some of the factors that favour India

being an ideal choice for Japanese investment. Further, the industrial policy of India has been formulated with a primary focus on deregulating India's industry and allowing it flexibility and freedom to respond to market forces.

Japan is the third largest economy in the world by nominal GDP, the fourth by purchasing power parity and the world's second largest developed economy. This augurs well for the future. However, the limitations, such as the increasing competition it faces from China and South Korea and the increasing cost of manufacturing in Japan, curtails its manufacturing activities to primarily focus on high-tech and precision goods like optical instruments, robotics and hybrid vehicles.

Increase in the ageing population is a big threat for Japan today. Nearly 26% of the population is over 65 years of age and 12.5 % of the population is aged 75 years and above. Also, the recent statistics reveals that the population of Japan has decreased by 0.17 % from a year earlier, as of October 2014.

Why Japan and India should work together?

India and Japan never had any pin pricks in their relations. In addition to the socio-economic factors listed

above, Japan is a country of SMEs, like India. The SMEs of Japan and India are the growth engines for the two economies. 99.7 % of enterprises in Japan and 95% of enterprises in India fall under the SME category. Famous large enterprises in Japan such as Toyota, Honda, Sony etc. originally began as back-street factories. Also, the products of a majority of Japanese large enterprises are made up of parts produced by SME subcontractors. The reliability of Japanese products is supported by the underlying strength of their SMEs.

Millions of SMEs in both the countries are not in good shape today. While the Indian SMEs are on the verge of extinction despite the support of the Central and State Governments, the Japanese SMEs are hollowing out to third world countries and a good percentage of them closing their operations, despite the support of the Government agencies in Japan.

However, the trend is slowly changing in India. In recent times, large companies that are globalizing are setting in place a support structure of SME ancillaries, to meet the global standards. Many new Indian entrepreneurs with great risk appetite are entering new market segments. It is the right time for the Japanese SMEs to grab the opportunity.

Today, in India, every State is vying with the other to be on the economic forefront. A new trend has emerged in the financing of SMEs. Both domestic and overseas funds are turning to Indian SMEs. The Government of Tamilnadu introduced, for the first time in the country, a Special Policy for Micro, Small and Medium Sector, as early as 2008. The State of Tamilnadu has come out with a legislation to facilitate a favourable climate for infrastructure projects, besides creating sector-specific and country-specific industrial parks and special economic zones. Every State in India is vigorously concentrating on the establishment of special economic zones and announcing special incentives to encourage industries, particularly SMEs.

A historic Japan-India Comprehensive Economic Partnership Agreement (CEPA) signed in February 2011, came into force in August 2011 to promote liberalization and facilitation of trade and investments between the two countries and strengthen the economic ties in wide-ranging fields. This CEPA is significant in terms of the sizable GDP of India and Japan.

Under CEPA about 94% of the tariffs between Japan and India will be eliminated within 10 years (about 97% by Japan and about 90% by India) on a trade value basis. Japan

agreed to eliminate almost all the tariffs on industrial products at the entering into force of this Agreement and also made commitments on agricultural products.

Japan has scrapped import duties on 87 percent of goods that it imports from India with immediate effect while India has dropped tariffs on 17.4 percent of goods that it imports from Japan. A large number of the 87 percent items are of India's export interest e.g. seafood, agricultural products, instant tea, beverages such as rum, whiskies, vodka etc., textile products such as woven fabrics, yarns, synthetic yarn, readymade garments, petrochemical and chemical products, cement, jewellery, etc.

India is the first CEPA partner of Japan with whom it has agreed to commit on the approval procedure of Generic medicine. Japan will provide “National Treatment” to Indians for the application of approvals for release of generic medicine, and complete the procedures within a reasonable period of time.

Japan's major exports to India:

Heavy machines; electronic gadgets and spares; toys, gaming systems; pharmaceutical products ;biotech products and transport equipments.

India's major exports to Japan:

Agricultural products such as fresh fruits and dried fruits, fruit juices and concentrates, vegetables, oilseeds, vegetable oils and fats, edible nuts, sugar and honey, grains and pulses, wheat, tea, coffee, spices and herbs; Marine products; leather garments and goods; carpets and handicrafts; cotton and animal feed.

The following statistics proves that there is ample scope for taking the trend forward:

	2010	2011	2012	2013	2014
	(In Billin Yen)				
Trade from India to Japan	497	543	579	703	726
Trade from Japan to India	792	882	842	824	900

During the period June-September 2014, the FDI inflow from Japan amounted to US \$ 618 million, against US \$ 273 million for the corresponding period in 2013. Further, the FDI inflow of US \$ 103.14 million took place in October 2014. In October 2014, the number of Japanese companies registered in India reached 1,209, 13 % higher over the same period the previous year. Various States of India are conducting road shows and international investors'

meetings, to showcase their economic potentials for exploitation by foreign investors.

The July 2014 survey by the Japan Bank for International Cooperation (JBIC) reveals that the Japanese manufacturing companies consider India a top investment destination and that Rs.75,000 crore investments are being planned in the next 2-3 years by the Japanese companies.

The Government of India has set up a 'Japan Plus', a special management team to facilitate Japanese investments. The team is actively interacting with Japanese companies and handholding them through various approval processes. 'Japan Plus' will help develop Japanese integrated industrial parks. Discussions are already on with Japanese companies and the concerned State Governments.

The coming together of SMEs of Japan and India

For the Indian SMEs:

Doing business with Japanese takes a lot of time. Patience and perseverance can only bear fruit. The mindset of 'think international' must reach the Indian SMEs and developing the SME units to international standards is of utmost importance. Market research and market

information exercises should be done adequately. Exploring the possibility of new product line, new partners, adapting to new technologies, quality consciousness to meet international demand and competition are all mandatory requirements. Once the ground work is done sufficiently well, SMEs should take it forward, with the help of Government/economic organizations with a clear and transparent project proposal and knock on the doors of potential Japanese SMEs.

It is to be borne in mind that the Japanese take a long time to be convinced. They might ask for a lot of information related to the project and some times, much to our annoyance, visit their counterparts in India a number of times. The Japanese do these exercises only to understand their counterparts better and try to come closer, without revealing their minds. Some strong advice to the Indian SMEs - never promise a deadline that you cannot meet to impress the Japanese counterpart or try to clinch the deal in a hurry. Never promise what you cannot deliver. Present the problems in an acceptable manner by the Japanese counterpart and supplement it with facts and figures. The Indian SMEs must try to understand and absorb the Japanese culture and business values. Japanese, by nature, are shy and

reserved. According to them, there are only two sets of people - *Nihonjin* (we the Japanese) and *Gaijin* (the foreigners). This *Nihonjin* syndrome can be broken if a little bit of care is exercised in learning Japanese language, and trying to address the communication gap that exists with the counterpart. Also, one must understand that the Japanese are tough bargainers. Finish your deal on a win-win basis. Once your Japanese counterpart is happy, he will support you and stand with you even during tough times, and help you come out of your crisis.

For the Japanese SMEs:

Things are changing in India. What was seen, what was said, what was experienced a few years ago need not be prevalent now. Japanese SMEs should not be prejudiced with the opinion of some Japanese who claim to be 'know-all India'. India is a vast country and its people are heterogeneous. Similarly, each State in India has its own policies and procedures. Discuss the matter in confidence and transparently with the right organization, clarify your doubts, seek the help of nodal agencies and non-profit organizations who can give you a candid picture.

Remember India is a fast growing economy. The inordinate delay in decision making may turn out to be a loss of a good opportunity and your counterpart in some other country might be waiting in the queue, and would make good use of your opportunity. There are problems and hiccups, everything may not be in line with your expectations. Do not wait for all the issues to be sorted out to get into action. Do remember that the Indian entrepreneur shares the common ground with the Japanese. While the Japanese think of a life-time employment, the Indian SMEs think of not only a life-time partner, but a partner for generations.

In conclusion, we have Federal and Prefectural/State Governments both in Japan and India, working for the welfare of the people. Besides the government bodies, several economic organizations such as Chambers of Commerce and Industry, Management Associations, Research Organizations etc. are also trying to work towards the same objective. But they suffer from paucity of information, published and unpublished. There is a tendency of late to consider any statistics as 'confidential' in both the countries. “Development” is a joint effort embracing all well-meaning economic bodies,

including governments. Efforts must be made to disseminate all relevant economic information to such economic bodies as committed bilateral organizations working for the strengthening of Indo-Japan economic cooperation. These small economic bodies will help the small and medium industries to grow and help each other in the long run.





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