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## **India's Breakthrough and Japanese Companies' Perspectives**

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India is making remarkable progress. India's nominal GDP in 2022 was \$3.38 trillion, ranking it fifth in the world, and its economic growth rate in 2023 was 6.3%, much higher than that of any other major country, and more than double the world's average. Goldman Sachs predicts that India will overtake the United States to become the world's second largest economy after China by 2075.

In terms of human resources, India is also attracting global attention: India overtook China to become the world's most populous nation in 2023. India is also a veritable treasure trove of human talent. The heads of Microsoft, Alphabet (Google), IBM, and the World Bank are all Indians who were born and grown up in India. Recently, India became the first country in the world to successfully land a satellite on the south side of the moon, once again demonstrating to the world the excellence of its science and mathematics talent. In the field of politics, it is also well known that the Prime Minister of the United Kingdom and the Vice President of the United States are of Indian descent.

India, an economic powerhouse and a treasure trove of human resources, is also increasing its presence in the diplomatic arena. As the chair of the G20 last year, India represented the voice of developing and emerging countries as a leader of the "Global South". The United States, which had previously objected to India's human rights issue and its relations with Russia, has come to avoid such criticism.

India is often compared to China in terms of the size of its GDP, which may still be much smaller, but many believe that India will catch up in the long run. India's democratic status is a major factor for Western countries, including Japan and the United States, to see India as a partner. An investment bank analyst praised India, saying, "India has everything that China does not have".

Prime Minister Narendra Modi is striving to foster the manufacturing sector under such slogans as "Make in India", "Self-Reliant India" (Atmanirvar Bharat), and "Skill India", acknowledging the weakness of their manufacturing sector. A bright sign in this context is the

expansion of smartphone production in India. In addition to smartphones, the Indian government is aiming to attract investment through the Production-Linked Incentive (PLI) schemes, which provides financial incentives for domestic production in key industries such as automobiles, auto components, electric devices, semiconductors, and pharmaceuticals.

Since the Modi administration took office in 2014, Japanese investment in India has grown rapidly. According to the Embassy of Japan in India and JETRO, as of 2022, there are 1,400 Japanese companies (4,970 offices), and 8,145 Japanese residents in India. According to a JETRO survey in FY2022, 72.5% of Japanese companies in India said they plan to expand their business in coming years. Suzuki, which controls 40% of the passenger car market in India, plans to construct a new plant with an investment of more than 600 billion yen, and Nippon Steel Corporation is also moving forward with plans to make a huge investment in partnership with ArcelorMittal. Dialogues to collaborate in the semiconductor sector are also going on.

In the field of Japanese Official Development Assistance (ODA), India is also a top priority destination: India is the number one recipient of yen loans in terms of cumulative amount. There are several mega projects, such as the Delhi Metro, the Delhi-Mumbai Dedicated Freight Corridor, and the Mumbai-Ahmedabad High Speed Rail Corridor. No doubt that Japan is the most important partner for India in its infrastructure development.

Despite all these seemingly good things about India, Japanese people are mixed in their evaluation of India (and Indian people). Many conversations about how difficult it is to do business in India are still heard all over. Quite a few Japanese who have been sent to India complain about the working and living conditions in India.

According to the JETRO survey in FY2023, India's advantages as an investment destination for Japanese companies are, in order, market size and growth potential, low labor costs, language, stable political and social situation, and concentration of business partners. But there are also risks such as a complicated taxation system, cumbersome administrative procedures, high labor costs, employee turnover, and opaque policy management by the local government. As a result, there are some Japanese companies who are seeing their profits deteriorate.

In my recently published book, "India: the Superpower of Global South" (Chukoshinsho), I listed several factors common to successful companies in India: building good relationships with business partners, promoting localization, positioning India in the global business, and assessing employees from a long-term perspective. Successful companies like Suzuki, Honda, Daikin, and Unicharm are doing all the right things, but there are many other examples of failures. While successful companies are often quiet, bad stories on India told by companies that failed tend to spread over.

Not only the business strategies but also personal factors matter: success is often attributed to personals of Japanese expats who execute business in India. It is important because their likes and dislikes are more apparent in India than in other countries.

In this context, the contrasting personalities of Japanese and Indians cannot be ignored. From the perspective of the Japanese, who are meticulous and punctual, it is not uncommon for them to find Indian sketchiness and lack of punctuality unbearable, while from the Indian perspective, it is often frustrating to deal with the Japanese who keep discussing about details, stick to formality, and are unable to make quick decisions.

Japan has long been requesting India to improve its investment climate. However, from the Indian point of view, other countries like the U.S., Germany, and South Korea do not complain to India for its investment environment like Japan does. Same Japanese requests for investment improvements in India are viewed differently from, say, Vietnam and Thailand. Also, while Japanese investments in India concentrate in automotive and related sectors, India is seeking Japanese investment in other industries such as defense and semiconductors.

It goes without saying that India is a pro-Japanese country, but it must also be said that human exchange between the two countries has fallen far short of its potential. To give one example, the number of foreign students from India in Japan is only 0.6% of the total, which is not only incomparable to the number of students from China and Vietnam, but also lower than even Nepal, Sri Lanka, and Bangladesh. This contrasts with the 180,000 Indian students in the entire world every year and the number of Indian students in the U.S. has overtaken China to take the top spot.

Along with the apparent slowdown in China's economic growth, Japanese businessmen are more interested in India than ever before. Sharing common values, Japan and India have overcome the ordeal of the assassination of Prime Minister Abe, who laid the foundation for today's Japan-India relationship. Both countries are further strengthening ties.

Whether the Japanese like India or not, India is on its way to becoming a future economic superpower. Successful Japanese companies in India don't talk much and focus on expanding their business, while complaints from struggling Japanese companies spread over. In the long run, the performance gap between them may widen. Hopefully, Japanese companies will grab the business opportunities in the fast-growing market in India.

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