India - Japan Relations:
Japan’s Contribution to India’s automobile Sector

Prof. K.V. Kesavan
Distinguished Fellow
Observer Research Foundation
www.orfonline.org
New Delhi - 110001
Ph:91-11-43520020
India-Japan partnership becoming more diversified

• Indo-Japanese relations one of the most rapidly developing partnerships
• Historical links further underpinned by many common strategic and economic interests
• Though strategic factors have become salient in recent years, complementary economic interests form the bedrock of the partnership.
The economic links form the bedrock

- Economic milieu- A comprehensive Economic Partnership Agreement (CEPA) 2011 set the stage for deepening economic relations
- PM Modi’s: “Make in India” policy; Japan + Scheme
- Japan-India investment promotion partnership
- ODA- PP Partnership - Mega corridor projects.
The growing automobile industry in India

- Indian automobile industry 6th biggest in the world
- Contributes over 7% to the national GDP
- Employs more than 20 million people
- Produces more than 20 million vehicles including passenger, commercial vehicles and two wheelers and three wheelers.
- Is expected to touch over $75 billion turnover in the coming years
- Automotive Mission Plans 2006-16 and 2016-26 to make India one of the three top auto makers of the world
Initial challenges to India

- Immediate post-independence situation: Challenges like economic backwardness, poverty, illiteracy, lack of industries, and unemployment.
- Country’s partition and the following confusion.
- Pressures from the two power blocs.
Economic Strategy after 1948

- Adoption of planned economy and import substitution in order to promote native industries and to attain a degree of self-sufficiency
- Foreign investment to be shunned
- The 1948 Industrial Policy’s restrictive measures-
  - Large scale state owned enterprises and their inefficient management
- Natural disasters, regional conflicts and political instability
- In 1980s economic situation in a precarious condition and the need to introduce sweeping reforms
Collapse of the cold war structures

- Many disadvantages - Deprived of the favourable terms of trade with the Soviet Union and the Eastern bloc
- The Gulf War and the sharp rise in oil prices - India’s currency situation and the serious currency problem
- Unprecedented economic situation and IMF conditionalities
- Far reaching economic reforms
India on a new reform path

- Announcement of a new Industrial Policy in July 1991- A major policy to deregulate and promote FDI put in place. Thirty six fields earmarked for automatic approval for FDI- Even important fields like mining, oil exploration, transport, communication, etc, now open to foreign investment.
- Private sector virtually could operate in all sectors except some strategic areas like defence and atomic energy.
- Need for licensing agreement removed-
- A special Foreign Investment Promotion Board established to speedily process FDI proposals. The Foreign Exchange Regulation Act (FERA) scrapped.
- The earlier insistence on local content also dropped
Several auto related measures attractive for foreign investors

- In 1991 the licensing requirement for commercial vehicles, public transport vehicles, two and three wheelers removed. It was extended to passenger cars in 1993.
- Automatic approval of FDI up to 51% accelerated the competition within the industry and contributed to enhancing standards. Nearly about twenty ventures involving foreign players emerged in the field.
- From 2004, 150% deduction of R&D expenditures from taxable income came as a significant stimulus for car manufacturers.
- Reduction of excise duty from 24% to 16% a big incentive for small car manufacturers. Further reduction in 2014-15.
- Government’s new auto policy in March 2002 with a vision to establish a globally competitive industry in India and to double its contribution to the economy.
- Automotive Mission Plan 2006-16 to make India a global hub for automobile manufacture- Followed by Automotive Mission plan 2016-26- a huge boost for “Make in India” programme.
India’s economic reform coincided with a global surge in FDI outflows. Japan’s emergence as a major supplier of FDI. In 1985, Japan’s global FDI was only $44 billion, but jumped to $293 billion in 1999. Out of this more than 2/3 went to the US and Europe. Asia and India got a small portion. In 1991 India received only $14 million and the volume rose to $227 million in 1999.
FDI in India after 2000 and Japan

- Change in the Indian FDI scenario after 2000: In 2001 the total FDI flows into India amounted to only $2.4 billion, but jumped to $30.9 billion in 2014-15. Except a few years like 2009-10, 2010-11, and 2012-13, the FDI trajectory was quite considerable.
- Japan’s FDI to India in 2000-01 was $223.6 million. It reached a high of $4,469 million in 2008-9, but later tended to fluctuate and registered $1,438 million in 2013-14.
Japan’s cumulative FDI in India during 2000-2015 was $18.81 billion. It accounted for 7% of India’s total FDI.

Japan ranking as 4th biggest investor after Mauritius ($ 89.6 billion), Singapore ($ 35.86 billion) and the UK ($ 22.86 billion).

Japan’s FDI distributed as follows:
1. Drugs and Pharmaceuticals (28%)
2. Automobile industry (16%)
3. Service sector (15%)
4. Metallurgical industries (9%)
5. Electrical equipment (4%)

The Nissan Motors, the Honda Cars, Maruti Udyog and Yamaha-and Escorts were the major recipients of Japanese FDI.
Entry of foreign manufacturers after reforms

- Reforms opened the doors for foreign car manufacturers
- Huge potential for their business
- Advantages: India a big market; a vast middle class with increasing purchasing power; Availability of cheap labour
- Leading Japanese car makers evincing great interest such as Toyota, Honda, Nissan in addition to others like Hyundai, Ford, GM, VW, etc
The emergence of Suzuki-Maruti as a catalyst and the “Maruti revolution”

- Maruti-Suzuki predated the economic reforms. In 1981 Maruti Motors set up- In 1983 a joint venture was set up between the Indian Government and the Suzuki Motors.
- A major objective was to respond to the needs of the people to have a personal mode of transport. Even in urban areas transport facilities were inadequate for people. Cars were still luxury items in India then.
- Suzuki Motors took 26% of the equity shares and agreed to provide the latest technology and management skills. Suzuki had the option to increase its equity shares in future and it did exercise to become the majority.
Why Suzuki and why not others? Many raised their eyebrows

- The selection process itself was prolonged and the initial efforts were made to fetch some western company from Britain, Italy, Germany or France. But the peculiar requirements of Indian conditions did not suit them. Further, the terms and conditions put by India were not acceptable to them.
- The Japanese car industry was emerging as a force in the global scene—India was also interested in fuel efficient, small cars—Among Japanese makers, negotiations were conducted with Mitsubishi, Daihatsu, etc., but Suzuki was chosen.
- Suzuki Motors Company even though not counted among the top Japanese car makers was known for its expertise in producing successful small cars. Suzuki was generous in its offers to India. Suzuki did not have any previous experience in India and yet struck a personal and friendly chord with the Indian negotiators.
- Suzuki’s Completely Knocked Down (CKD) kits were reasonably priced. Suzuki also offered to provide facilities for training Indian personnel both in Japan and India.
The first and foremost contribution should be seen in the emergence of what is generally known as Maruti Suzuki culture or Maruti revolution.

Maruti became a catalyst for the spread of a new work culture which rests on discipline, punctuality, productivity and quality.

Merits in appointments; discipline and cleanliness in the work-place- equality of all from top to bottom created a sense of oneness and strong commitment.
Economy of Scale

- One of the first steps Maruti took was to set a high target for its production. In the third year itself it produced 100,000 cars. Till then the two prevailing producers Fiat and Ambassador could not together produce 50,000 cars annually. There was deep skepticism about Maruti achieving its target. But when it did achieve, it raised the profile of the new joint venture.

- Maruti-Suzuki believed that the high volumes were needed to bear the cost as well as to enhance the quality.
• Maruti changed the process of selecting vendors.
• It changed the government’s practice of considering spare parts under the label of small scale industries. It brought immense benefits in procuring the right kind of components.
• Maruti adopted the Japanese practice of producing in-House only those which are essential for performance like engine, gearbox, and preferred to outsource the production of other components.
• Maruti changed the pattern of relations with vendors- no longer subordinates but partners-. Maruti helped them to form joint ventures with Japanese companies. Sona Steering for example. This idea of forming joint ventures came from Japan-
• Maruti impressed upon its vendors that its own growth depended on its good relations with the vendors. It emphasized the critical role of the vendors in the success of the company.
• 86% of Maruti’s supplier base is located within a hundred KM of the company. Vendors Conference met frequently to discuss various issues in their business activities.
Emphasis on quality

• One outstanding feature of Japanese management system is its emphasis on quality at all levels. Quality is an integral part of a continuous process meticulously monitored. Unlike in India where the quality is tested after the final product comes out of the line, the Japanese system believes that quality should be built into the whole process of production. So workers will have to implement the process.

• Maruti has impressed on its workers that good quality products will ultimately lead to reduction in cost.

• Maruti has insisted on its vendors getting the ISO certification.

• Maruti vendors invited several Japanese experts to India to train their technicians in improving the system and educate their employees.

• The Company’s quality team visits its suppliers and monitors their performance. It has conducted 1500 such visits during 2014-15. In addition it has also conducted a number of training sessions to vendors to share best practices in quality system and manufacturing practices.
New Customer culture

- Maruti can claim to be the initiator of a new customer culture in India. In the past, the customers were ignored because it was a sellers’ market and the sellers dictated their terms.
- In 1981 Maruti took a pioneering initiative to conduct a survey to know the likes and dislikes of the customers.
- Maruti believed in “No sales without service”. Instead of itself getting involved in actual sales, it preferred to appoint private dealers to do that. Dealers were appointed on the basis of some strict criteria. Clear norms for their showrooms like their size and other facilities were prescribed. Maruti also provides guidelines on how to set up showrooms with bays, equipment, storage and handling of spare parts.
- Maruti Authorised Services, Maruti Mobile Support, Nexa, etc. are some of the best ways to cater to the changing needs of Maruti’s customers.
R&D a major source of strength for Maruti that has helped it to maintain its lead over other companies. Maruti’s K-series engines have set a benchmark in auto manufacturing.

A new R&D centre has been set up in Rohtak, Haryana, at a cost of Rs 6.6 billion. It is the first center outside Japan. Some of Maruti’s R&D achievements are:

1. Introduction of first two-pedal auto gear shift technology. Maruti’s Dzire is the first diesel car to be equipped with automatic gear system.
2. Development of 800 cc compact diesel engines for Indian roads
3. Achievement of 3 to 15% increase in fuel efficiency during 2014-15 across all models
4. All Maruti models have been made OBD II compliant.
5. Maruti Centre of Excellence provides support to tier I and Tier II suppliers to acquire world class standards in quality, cost, service and technology
6. Expenditure on R&D has been consistently increasing over years and in the Fiscal 2013-14, it reached Rs 6,576 million
Promotion of exports

- Maruti-Suzuki was started mainly to fulfill the domestic needs. But the issue of exporting the cars cropped up even in the late eighties. Exports to East European countries began gradually. With Maruti’s diversified approach, many West European countries started importing its cars.
- Maruti’s decision to make India an export hub for regions like Africa, West Asia, and Latin America. But there is a special focus on Africa where it wants to promote its own production and marketing practices. Since 2011-12, non-European countries have been buying more Maruti cars than European countries.
- In 2014-15, Maruti’s sales to non-European countries for the first time exceeded 100,000 units mark.
Maruti’s reputation for focusing on producing fuel efficient cars. In 2014-15 several refreshed models like Swift, Dzire, and Alto K 10 were launched with higher fuel efficiency.

By 2015, Maruti had sold 480,000 Compressed natural gas (CNG ) vehicles cumulatively. This had offset about 290,000 tons of CO2 which could have been emitted otherwise.

Maruti has also introduced several variants of CNG.

Maruti is also working on hybrid and electric cars.
• Aware of its responsibilities to the larger society, Maruti has generated wide awareness in road safety by conducting programmes. It has set up special schools to teach safe driving.

• Its interests go beyond automobiles to include subjects like water, sanitation, education and rural employment.
• Maruti has also built a wide distribution network in rural areas. In 2008, it had only about 200 rural sales outlets, but in 2014 it jumped to about 700.

• In 2009 rural areas accounted for 8% of its total sales, but in 2014 the percentage went up to 31.9
Honda Cars in India

- Honda Cars India started briefly as a partner with Usha International in a joint venture, but soon became fully a subsidiary of Honda Motor, Japan. It was established in 1995. The main objective was to provide cars with the latest technology. Located in Greater Noida, near New Delhi – Capacity to produce 100,000 vehicles annually.
- Second Plant set up in Tapukara, Rajasthan – integrated manufacturing plant with many facilities like forging, press shop, paint shop, engine testing. It is now planning to set up its third plant in Gujarat.
- In addition Honda is also having a big profile in the manufacture of two wheelers – it had a long tie up with Hero Motorcycles which broke up in 2014. Since then Honda has its own subsidiary and a lucrative business.
Growing profile

- Primarily a manufacturer of premium cars like Honda City, Honda Brio, Honda Accord, Honda Amaze, Honda Mobilio, Honda CRV, etc. It sold 50,000 Honda city cars in the first year itself. Despite its good image, it remains a low key player. Fukushima crisis (2011) affected its supply chain. Honda cars wholly petrol-driven. When the demand for diesel cars suddenly rose, Honda was handicapped.

- Honda plans to increase its production in both plants to 300,000 units annually. Wants to make India a hub of exports. Honda has invested Rs 3,500 crore in its Rajasthan plant to produce components like engines, manual gears, axles, etc, which are also exported to different countries like Thailand, Japan, Indonesia, Brazil, South Africa, Mexico and the UK. Honda wants to take advantage of Prime Minister Modi’s ‘make in India’ policy.
Honda has set up an independent R &D facility called Genbetsu at a cost of Rs 500 crore to help the company in its indigenization efforts and also in providing designing support. It has developed a very efficient diesel engine – It has also brought out Mobilio a multi-purpose vehicle and the Jaaz, a premium hatchback. It is now concentrating on its foray into small cars where Genbetsu could play a key role.
Other Japanese auto producers

- Toyota Kirloskar Motor Private Ltd was set up in 1995 as a joint venture with Toyota having 89% of share and Kirloskar a minority share of 11%. Basically producing premium cars – of late it has entered the compact segment also –

- Promotes human resource development by sending its personnel to Japan for training. Toyota’s Technical Education Programme (TEP) has done a lot improving the technical skills – Toyota Technical Training Institute was set up in 2007.

- Toyota wants to make India a major source of auto components-It has set up Toyota Kirloskar Auto Parts which manufactures transmissions since 2004. It has started exporting its Etios to South Africa.

- Toyota wants to double its market share to 10% by having a tie-up with the Daihatsu Motor to produce small cars.
For Nissan too, India is a major hub for investment. Its plant in Chennai is one of the largest with a capacity to produce 480,000 units. It exports 85% of its production.

In 2013-14, Nissan exported 1.18 lakh units. It is hoping to increase its exports with the addition of Datsun models. It also exports engines and auto parts to countries like the UK, Brazil, Mexico and the US.
Concluding Observations

• In the last over thirty years, a major transformation in the Indian automobile sector thanks to the role of foreign investors. In particular, leading Japanese companies have played a significant role.

• Maruti-Suzuki a catalyst in the whole transformation. It introduced many new managerial practices and technologies. It set a benchmark in areas such as work culture, economy of scale, producer-vendor partnership, emphasis on quality, a new customer culture, research and development, export promotion, fuel efficiency and social commitment. Other companies more or less have adopted all these features.

• Cars no longer luxury items- India has become a buyers’ market mainly because of the foreign investors who have provided a wide range of options to the consumers. As the people’s purchasing power has increased in the last several years, their desire to buy more spacious and comfortable cars has also grown and the companies have changed their own strategies to meet their changing preferences.

• The government has also pursued a positive approach to the development of the auto industry in India and this has encouraged companies to come forward to make India a hub of their business interests. Automotive Mission Plans 2006-16 and 2016-26

• There are still a few irritants that stand in the way of speedier growth of the auto industry like labour issues, lack of infrastructure facilities, bureaucratic red tapeism, and rigid tax regime. But all these issues could be addressed effectively over a period of time.
Concluding Observations

STRONG TURNAROUND
During April-July, Maruti had a 47.51% share of the total passenger vehicles sold in the country.

- Industry sales (left-hand scale)
- Maruti's market share (right-hand scale)

Source: Siam, Mint research