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Japanese and Korean Firms in India

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Abstract

Japanese and Korean firms have invested in India. Their investment methods have been different and are likely to produce different outcomes in the short and long term. Koreans have been more aggressive of late and have tasted success in electronics and electrical appliances markets where they have overcome Japanese firms. Their success can be ascribed to their strategic decision making where they saw India as an important market and moved quickly to make large investments. The Japanese have been more circumspect and have not adapted to India well. This could also be a strategic decision as they didn't see India as a large market for their relatively high end products. They also don't intend to use India as a base for production for exports. However, in the long run the Japanese investment may turn out be more fruitful. Since most of the Korean investment has come from business groups called Chaebols we include a discussion on business groups in general and Korean and Japanese business groups in particular.

Key words: Japan, Korea, India, business groups, investment, strategy

1 Introduction

India is the recipient of investment from both Japan and Korea. Japanese investments come in the form of official development assistance (ODA) and equity investments from Japanese firms. It is the largest bilateral donor and provides assistance primarily in infrastructure. Korean investment is smaller since it is a much smaller economy. Japan's GDP at current USD stands at 4.94 trillion in 2021 while Korea's is 1.81 trillion. Japan's per capita income is 39,312 USD while that of Korea is 34,997. However, Korea's economy has been growing while Japan has experienced a fairly long period of stagnation. They are quite similar in a number of ways. Both have a strong manufacturing sectors and suffer from problems like an ageing population. Also, they have both depended on business groups for their industrialization process. Japan had the zaibatsu and later the keiretsu. The keiretsu system, at least in its horizontal forms, has died out though the group names like Sumitomo and Mitsubishi still remain. The degree of coordination among members of the group is unknown. Korea has its Chaebols, like Samsung and LG which have a strong presence in the Indian economy. To some extent they were restructured following the Asian financial crisis, but they still retain the features of traditional business groups. India, of course, has its own business groups. We are all familiar with the Tatas and the Birlas, later Reliance, and now Adani. It would be interesting to compare the evolution of business groups in Japan and Korea and their strategies in India. There may be lessons on how Indian business groups are likely to evolve.

Japan was the first asian country to industrialize and become a modern industrial state at par with European countries and the USA. It also imitated European powers in forming colonies in Korea, Taiwan and parts of China. To some extent Japanese technologies and management practices permeated into its colonies. As these countries began their development process they loosely imitated the Japanese model of coordination between the government and industry backed by a degree of protection to domestic industry. As Japan quickly recovered from the devastation of the second world war it started investing in Asia and around the world. As wage costs rose in Japan it moved large parts of its production to Southeast Asian countries. Also some of the more low end, labour-intensive products became to expensive to produce. So production of these moved to other Asian countries. This is called the flying geese model in the literature. Industrialization moves south and east starting with Japan in Asia. The effect of Japanese investment in Asia is discussed by Encarnation (1999).

Given the interest shown by Japan in India of late a similar role is conceivable in the near future. It is also possible that the mantle has moved to Korea. If we look at trade between India and Korea it stood at 23.7 billion USD in 2021[i], while that between Japan and India were 20.57 billion USD. Maybe, Korea has a larger contribution to the Indian economy. On the other hand Japan is the largest contributes a lot in terms of ODA. So the effect of trade and investment between these two countries may be different.

There is a fair amount of literature on trade and investment between India and Japan. The literature related to Korea and India is smaller. Here we will concentrate on more micro issues of investment strategy and management practices. We will also discuss business groups in Japan and Korea. Korean business groups, called Chaebols, are dominant in Korea. Most of Korean foreign direct investment (FDI) in India comes from them. Japanese business groups, the keiretsu, are ostensibly dead. The old names like Mitsubishi and Sumitomo still exist but the linkages through mutual shareholdings and debt financing are gone. The groups operate like modern conglomerates with individual firms making their own decisions. However, some

linkages still remain though it is not clear how far they go. Japanese capitalism, resembles Western economies, according to the varieties of capitalism thesis (Witt and Redding (2014)). Korea has moved away from its state led developmental model and is now more of a regulatory state. However, it is yet to become a fully-fledged market economy. It may over time become more like Japan but its business groups are still going strong. It should also be remembered that Japan had family owned business houses like that of India and Korea, the zaibatsu, before the second world war. The American occupation administration disbanded them but they remerged as keiretsu.

Business groups dominate the business landscape in India. Their existence in India as well as in other countries are ascribed to market imperfections, like underdeveloped capital, input and product markets. As markets become more sophisticated the advantages of being in a business group fades away as they have done in advanced economies like Japan. Consequently, over time as the performance of markets improve business groups should wither away. India suffers from a plethora of market imperfections and business groups should have some advantages. So it would seem that Korean firms should be better placed than Japanese firms, which seems to borne out by evidence. However, the Japanese keiretsu system can be thought of as a hybrid structure, situated somewhere between a traditional, family owned one and a completely market driven modern conglomerate. It is possible that Japanese firms may resurrect their keiretsu structures to better compete in India as they did in Southeast Asia (Bassino, Jensen, Morini (2018)). It is also possible that Indian business groups may imitate some of the features of the keiretsu system as market imperfections diminish.

At the moment there seems to be very little interaction between Indian business groups and large Japanese conglomerates. Korean firms are already structured as business groups. Does this give them an advantage over Japanese firms? Casual observation suggests that for products like phones, televisions, air conditioners and washing machines (electronic and electrical appliances) Korea has the upper hand. Japan probably has an upper hand in automobiles, both at the low end through Maruti Suzuki and at the high end through Toyota. There are Indian firms like Tatas and Mahindra who also compete in automobiles, as well as others that compete with Japanese and Korean firms in electronic and electrical appliances.

There are several reasons why a study of Japanese and Korean firms may be useful. India would like to develop its own manufacturing sector as is evident in the "make in India" effort and the production linked incentives that the government has introduced. Japan remains a manufacturing power and in a number of industries like chipmaking Korea excels. So both countries could potentially help develop Indian manufacturing through technology transfer. It is also possible that Japanese and Korean firms will introduce management practices that Indian firms can imitate to improve productivity. Here interactions between business groups of Indian and Korean and Japanese firms could help swifter propagation of business practices.

Another reasons would be the different styles of corporate governance that is practiced. Japanese decision making is typically slow and requires a large degree of consensus. Korean and Indians are much more hierarchical. While this may be true in general it is likely that attitudes towards hierarchy are geographically heterogenous and may vary by industry and the age of the workforce. Japanese style management may suit Indians very well in some cases and may wish to adopt some of its elements. Indeed, Japanese firms have made strong efforts to introduce their practices into Indian firms since they largely rely on joint ventures.

We begin by discussing business groups in Section 2 and follow up with a discussion of Japanese and Korean business groups in Section 3 and 4. Section 5 is devoted to Japanese and Korean firms in India and their business practices and relationship to Indian businesses. Section 6 provides the conclusion. The analysis relies on secondary sources and industry reports, rather than on theoretical or empirical models. We will not discuss Indian business groups since their level of interaction with either the Japanese or the Koreans are minimal. Readers interested in Indian business groups should consult Sarkar (2014), Kakani, Sangem and Sethi (2015) and Jadhav and Reddy (2017).

2 Business Groups

Business groups as a phenomenon have existed in emerging economies for a while (Kolpan and Hikino (2010), Kakani, Sangem and Sethi (2015)). They are usually family or government owned and comprise a number of firms which operate under the umbrella of a business group, such as Reliance in India or Samsung in Korea. They are typically characterised by a large portfolio of unrelated businesses and complex shareholding structures. Business groups are often derided because they are seen as inefficient since the top management cannot deal with such a vast array of businesses. Also, they are often accused of using the complex shareholding structure, often pyramidal in nature, to enrich themselves at the expense of ordinary shareholders. Finally, they lead to the concentration of wealth and power which can be a cause for worry.

Firms within a business group collaborate amongst themselves, though the dimensions along which they collaborate and the extent of the collaboration differ between business groups. Some may form a loose network, like the Japanese Keiretsu, with no particular firm in charge. Others are more hierarchical, with a clear definition of where the authority lies. These are usually family owned. The distinguishing feature of a business group is that interactions between firms are not necessarily based on price signals and economic considerations. Sometimes, they will bail out a group firm in trouble at the cost of their own profits.

2.1 Why do business groups exist?

The first reason suggested is market imperfection. These may be of many types. There may be imperfections in the product market. The market may be too small for a stand alone firm to enter. A business group may have the resources to enter and sustain losses for a while to expand the market. Also there may be distribution problems, particularly in rural areas, that small businesses find difficult to deal with. There may also be problems with input markets. Also, with imperfect capital markets, entrepreneurs may find it difficult to raise resources to launch their businesses. The other issue that is often a problem is to find the right personnel. Business groups can transcend this problem by transferring workers from one firm to another, even if temporarily.

The other reason is government policy. Often developing economies prefer to use valuable foreign exchange to buy capital goods. So they impose high tariffs on consumer goods or even ban their import altogether. Consequently, domestic producers with scanty experience move in to these industries. Also, governments sometimes prioritize the production of certain goods such as steel and fertilizer and provide financial and other incentives which are only available to domestic firms.

Another reason suggested is endogenous to the business group. Over time it may have developed certain capabilities that are difficult for other stand alone firms to develop. Among others it may include the ability to develop foreign markets and technology acquisition. They may also be better able to negotiate and manage relations with domestic and foreign governments and financial institutions to their advantage. Their size and expertise in different products and markets may provide them with better project management capabilities. Consequently, they may venture into unrelated industries because of their managerial capabilities.

The final reason for their existence may be the practice of controlling large businesses by the founder with only a minority stake in the entity. This is done through floating subsidiaries of the main business, which in turn have other subsidiaries, constructing a pyramid. These subsidiaries own shares of the main business, which in turn is owned by the founder. This practice also allows the founder to appropriate some of the profits to the detriment of other shareholders.

2.2 The Evolution of Business Groups

Given our previous discussion about market imperfections playing a central role for the existence of business groups we should expect them to disappear as markets become more competitive. Business groups have largely disappeared in Europe, Canada and the US. However, they are very prominent in Korea which is an advanced industrialised nation. The reason could be the weak institutions in that country. Senior executives of business groups have been pardoned after committing financial crimes. There is a strong nexus between the political class and senior management of Chaebols. So the evolution of business groups does not depend only on the market forces but also on political and regulatory institutions. Market forces may provide the impetus but political will is required as in the case of Japan’s successful deregulation. The impetus of the Asian financial crisis did not lead to stronger measures.

Over time old business groups have entered into areas such as information technology and financial services. As emerging economies grew, new products and services became viable and business groups could not afford to let these opportunities go by. At the same time this extended their portfolios and made management more difficult. One possibility for the founders is to stop running the business and opt for professional managers. This would change the structure of business groups as decision making would be market driven. Professional managers also may not have the same level of loyalty as that of members of the extended family. Another solution would be to arrange businesses into strategic business units with family members at the top and individual firms being run by professional managers..

3 Japanese Business Groups

The origins and evolution of business groups in Japan is unique. They began as diversified family owned businesses structured as pyramids that appeared at the time of the Meiji restoration in 1868. This was the beginning of Japan’s road to economic development which relied heavily on these zaibatsu. After the second world war they became more like a loose networks and were called keiretsu. They could be horizontally or vertically connected. Japan’s lost decades of zero or very low growth following the end of the bubble economy resulted in restructuring. From most accounts the horizontal keiretsu no longer exist and the vertical ones are also more market oriented. There is a vast literature on keiretsu structures. Flath (2014), Lincoln and Shimotani (2010) and Witt (2014) provide good summaries.

3.1 Origins of the Keiretsu

The keiretsu descended from the zaibatsu which existed during the second world war and before. After the war the zaibatsu were disbanded by the American occupation as it was felt that they contributed to the Japanese war effort. However, as the Americans felt the need to foster economic development they allowed the zaibatsu to re-emerge as the keiretsu. The old names, Mitsubishi, Mitsui and Sumitomo were still there but they were no longer family owned. They typically had cross-shareholdings which prevented hostile takeovers. They traded with each other, transferred executives between themselves and coordinated their activities. Each keiretsu had a main bank which financed the operations of member firms and also provided a degree of corporate control. Later three more keiretsu appeared, centred around the banks of Fuji, Dai-Ichi and Sanwa. These were Fuyo, Sanwa and DKB Sankin. These comprised the top six horizontal keiretsu. It should be noted that these structures were very loose and there was no formal membership. The membership of any firm in a particular keiretsu was a matter of guesswork. Also, firms could join or leave a keiretsu so the structures were fluid.

We are probably more familiar with the vertical keiretsu which was the other kind of structure. It consists of a network of smaller producers of parts and components in a relationship with a large manufacturing firm. There could be layers of firms producing components. Tier I firms would supple relatively sophisticated products to the main firm, while sourcing components from tier II firms who in turn might have relationships with tier III firms. The vertical structure enables and requires better co-ordination between suppliers and end users to enable practices like low inventories. There is regular exchange of personnel between upstream suppliers and down stream producers and some amount of risk sharing. Firms could simultaneously belong to one horizontal keiretsu but also belong to a vertical keiretsu and therefor be connected to firms in another horizontal keiretsu. Thus, keiretsu structures could be complicated.

3.2 Impact of Keiretsu

Since the heydays of the keiretsu coincided with Japan’s “miraculous” growth following the devastation of the second world war it is tempting to attribute it to the keiretsu structure. However, the keiretsu structure came about because of administrative decisions. Otherwise we might have seen more traditional business groups like the Chaebols in operation. That said they did help overcome market imperfections. Japanese firms introduced new products into the market without the aid of venture capital. They also pioneered systems like Just-in-time and Kaizen which spread within the keiretsu structure and later across the world. The keiretsu structure made it easier to propagate improved business practices across a large number of firms. Vertical keiretsu established supply chains that the market could not provide. It also provided economies of scale and scope in production and distribution. All these effects should result in better performance of Keiretsu, but the evidence is mixed. For vertical keiretsu the evidence is more positive. The close relationships between upstream and downstream firms result in better inputs and efficiency. A testament to its usefulness is its adoption in a large number of countries.

The keiretsu structure came to an end in the 1990s. Japan’s prolonged downturn exposed the problems within the system. Firms had borrowed too much during the bubble economy and the banks were saddled with bad loans. For a while they continued lending to zombie companies, that were essentially bankrupt, but after a point the system was on the verge of collapse. The government had to intervene and the banking system was restructured by merging some of the

old banks resulting in the emergence of MUFJ, Mizuho, Nomura and SMBC. These were not tied to any keiretsu and that was the end of the main bank system. The keiretsu system slowly unravelled after that with bankruptcies and unemployment. This was particularly traumatic for a country where life-time employment was the norm. Some of the companies of old, Mitsubishi, Mitsui and Sumitomo still exist and probably retain some of their linkages. However, they no longer dominate the business landscape. Others, like Fuyo and Daiichi Kangyo were dissolved through restructuring. The vertical keiretsu proved more resilient though it has also undergone some changes with relations becoming more market driven (Aoki and Lennerfors, 2013, Matous and Yasuyuki (2015)). Toyota, part of a vertical keiretsu, is currently the largest firm in Japan based on market capitalization (Table 3.1). None of the members of old keiretsu are represented in the top 20 firms in Japan. New names like Recruit, Softbank and Fast Retailing (Uniglo) have come up. Banking consolidation was the main reason for the demise of the keiretsu, but the system had become too unwieldy and required change.

Table 3.1 Top Japanese Companies by market capitalization (2022)

Group Name	**Sectors**	**Market Cap (billion USD)**
Toyota	Automobile	276.74
SONY	Electronics, Movies, Music	156.01
Keyence	Technology, sensors, electronics	142.42
NTT	Communications, IT Services, technology	101.57
NTT Docomo	Telecommunications	101.26
Recruit Holdings	Outsourcing and staffing	90.23
Tokyo Electron	Semiconductors, technology	87.40
SoftBank	Mobile services, Investment	81.22
MUFJ	Banking, securities, asset management	78.84
Shin Etsu	Chemicals	71.31
KDDI	Telecom, internet, mobile services	68.13
Denso	Electronics, Automobile parts	35.78
Nidec	Industrial machinery, electrical products	65.39
Daikin	Air conditioners, refrigerators, home appliances	65.36
Softbank Corp	Telecom, IT	59.23
Nintendo	Gaming, electronics	54.63
Fast Retailing	Apparel (Uniqlo, GU, Theory etc.)	53.63
Chugai Pharma	Pharmaceuticals, health care	52.99
Hoya	Healthcare, electronics	51.22

Source: Value Today
https://www.value.today/headquarters/japan?title=&field_headquarters_of_company_target_id&field_company_category_primary_target_id&field_company_website_uri=&field_market_value_jan072022_value=&page=4

4. Korean Business Groups

Business groups in Korea, called Chaebols, are very much like Indian business groups. They started off as family owned businesses which diversified into a sprawling empires along the way. In 2021, the revenues of the top ten Chaebols comprised 58% of the GDP of Korea. The

top groups include Samsung, LG, SK, Hyundai and Lotte. They are usually of a later vintage than Indian and Japanese business groups, beginning their ascent in the 1960s. Gwon (2015) suggest that their origins may be traced back to the time Korea was a colony of Japan, from 1910-1945. Chaebols could be imitations of the zaibatsu and later the keiretsu. It is true that chaebol and zaibatsu mean the same.[ii] However, during the period of Japanese occupation there was hardly any industrial development, and whatever there was took place mainly in North Korea. So when South Korea became independent it had a very poor industrial base, mostly in light manufacturing.

4.1 Evolution of the Chaebols.

The rise of the Chaebols mirrors the development of South Korea and has a large part to play in it. Korea initially started with import substitution of intermediate and capital goods and soon ran into financial problems and so it turned towards export promotion. The government offered financial and other incentives to firms that were willing to export the goods that the government wanted to. Initially, it was focused on primary products and light manufacturing but soon it decided invest in heavy and chemical industries. It concentrated on industries like machinery, shipbuilding, electronics, steel and petrochemicals. Thus, development of Korean industry was very much a government led effort with incentives playing a major role. Businesses which took up the government's offer could get loans on preferential terms and access to technology and other support from the government. The founders of the Chaebols therefore entered into lines of businesses that were determined by the government and not so much by strategic and economic reasons. That is also how they became diversified. The 1980s saw the government pulling back from direct intervention in the market to a more regulatory role. It also decided to concentrate more on technological development and manpower training rather than on industry specific focus. The market oriented reforms probably did not go far enough which led to the upheaval following the Asian financial crisis in 1997. A number of chaebols went bankrupt including Daewoo. The others had to undergo a lot of restructuring, reducing their subsidiaries and streamlining their lines of business. Even then the chaebols still look as formidable as ever and are likely to maintain their dominance in Korea. The revenue of the major conglomerates as percentage of GDP in South Korea in 2021 was 58.3%.[iii] The 5 leading conglomerates commanded 50.5% of total assets, 54.8% of revenues and 57% of net income.[iv]

The emergence of the chaebols might be attributed purely to government policy but that would be inaccurate. Though there were political and financial relationships between Korean presidents and chaebols, they were not always beneficial. It would be more appropriate to attribute it to market imperfections in the capital, labour and product markets. First, in the absence of a private banking system and developed capital markets firms were dependant of the government and their own resources for capital for expansion and diversification. Firms within chaebols had access to capital that firms outside chaebols lacked. Similarly, they could access managerial talent from within the group. Finally, sometimes they diversified because they could not find suppliers for parts and components. They could realize economies of scale and scope and produce these at a lower cost. Sometimes, they would gain expertise in one industry and then move into another.

4.2 Characteristics of Korean Business Groups

The chaebols were different from the keiretsu in its workings in a number of ways. First, unlike the keiretsu, there was no main bank system. The banks in Korea had been nationalized and so owning a bank for financing was not possible. Financing was provided internally through Non-

Banking Financial Companies (NBFC) and through pricing. Secondly, this meant that bank driven monitoring was not possible. In keiretsu individual members of a keiretsu were left to their devices with the main bank providing some degree of monitoring since it typically owned shares in a keiretsu. In chaebols, the head office performs the monitoring function. So chaebols are much more centralized than firms within a keiretsu.

Both Japan and Korea had a policy of lifetime employment. Korea has mostly done away with it particularly after the Asian financial crisis as a number of Chaebol became bankrupt and there were mass layoffs. In Japan it is nearly impossible to fire a full-time worker.

Management in Korea is much more hierarchical. Managerial decision making for the whole group is done at the headquarters and mostly by the family members of the founders. Japan has a reputation for making decisions through consensus. So decision making can be slow but once decisions are reached they stick to them. Koreans are likely to be more flexible. Finally, chaebols have come under criticism for their overwhelming influence over the economy and society. There is a certain degree of resentment and anger against chaebols, much like Indian suspicions of business groups.

Table 3.1 Top Korean Companies by market capitalization (2022)

Companies		Market Cap (billion USD) Jan 22
Samsung Electronics	Electronics, home appliances	438.84
SK HYNIX	Energy, Petroleum, chemical, telecommunications	78.83
Samsung Biologics	Pharma, healthcare	46.57
Coupang	Chemicals, Petrochemicals	45.48
LG Chem	Electronics, chemicals, telecommunications	44.15
Naver	ICT	42.08
Hyundai Motor	Automotive	41.03
Kakao	Software and IT	36.17
Samsung SDI	Batteries, materials	35.11
Kia Motors	Automotive	29.02
Kakaobank	Financial services, banking	21.79
Celltrion	Pharmaceuticals	21.21
Hyundai Mobis	Automotive parts	20.46
LG Electronics	Electronics	19.60
POSCO	Steel	19.20
KB Financial	Financial services, banking	18.41
SK Innovation	Energy	17.21
Shinhan Financial	Shipbuilding	16.47
Samsung C&T	Construction, trading, fashion, resorts	16.01
LG Household	Cosmetics, Household goods, beverages	15.43

Source: Value Today
https://www.value.today/headquarters/south-korea?title=&field_headquarters_of_company_target_id&field_company_category_primary_target_id&field_company_website_uri=&field_market_value_jan072022_value=&page=1

5. Japanese and Korean firms in India

The Japanese embassy and the Japan External Trade Organization (JETRO) reported that the "total number of Japanese companies registered in India is 1439" at June 2022[v] and the total number of business establishments stood at 4,790. Both of these numbers registered a small decline compared to previous years. The majority of business enterprises are in Northern India (includes the Northeast) at 1647, followed by the South at 1481 and the West at 1275. The largest individual states are Maharashtra (787), Haryana (600), Tamil Nadu (565) and Karnataka (512). So most Japanese firms are fairly evenly distribute across India except in the East. We are familiar with firms like Toyota, Suzuki, Honda, Sony, Panasonic which have a presence in India. They have been joined by Rakuten and Uniglo. TCS is probably the most notable Indian firm in Japan, though other IT majors and banks also have operations in Japan.

Table: 5.1 FDI from Japan, 2000-2019

Rank	Sector	Million USD	Percentage
1	Automobile Industry	6608.97	19.93
2	Services	5087.96	15.34
3	Drugs and Pharmaceuticals	4468.34	13.47
4	Metallurgical Industries	2667.06	8.07
5	Telecommunications	2159.29	6.51

Source: https://dpiit.gov.in/sites/default/files/Japan_iii_2019.pdf

There are comparatively fewer studies on Japanese involvement in India, both at the macro-trade level and at the firm level, compared to similar literature pertaining to China or Southeast Asia. Horn and Cross (2016) find that Japanese multinationals exhibit a tendency to locate in regions of India characterized by high GDP levels. This finding holds irrespective of industry affiliation. However GDP per capita has only a small effect on investment numbers and regional growth figures also don't seem to drive investment. Japanese corporate behaviour in India is driven more by labour productivity than wage considerations. Indicators for quality of human capital at the state-level show that higher the availability of educated personnel the more likely that Japanese FDI will occur. Surveys of Japanese companies often flag poor infrastructure as a cause for concern. However, Horn and Cross find no such effect. The existence of EPZ or SEZ seems to have a positive effect on investment as does the presence of manufacturing activity. By far, the most important factor seems to be prior Japanese investment. Firms tend to locate where other Japanese firms have located. It would be interesting to figure out the contours of this agglomerative effect. The effect seems to be more pronounced for IT firms, possibly because of the need for skilled personnel. Also, the effect is more pronounced for Japanese firms as compared to other nations.

Most Japanese investments in India have been through joint ventures. Of the 71 investment activities reported by FICCI between 2014 and 2016, only 18 have been solo Japanese investments (FICCI 2017). Mitsubishi has been the most prominent investor, followed by Softbank and Mitsui. Sumitomo in involved in only one transaction. The only two prominent Indian business groups involved are Mahindra and Mahindra with Mitsubishi Agricultural Machinery and the Adani group with Softbank and Foxconn to produce solar cells and panels.. Thus there seems to be very little interaction between Indian and erstwhile Japanese business groups.

In terms of merger and acquisition activity, the report documented 29 transactions. There were five in manufacturing, five in e-commerce and four in automobiles. In terms of fresh investment and expansion there were 42 transactions. Of these ten were in electronics communication and Information Technology, ten in automobile, eight in manufacturing, and five in Finance. The bias towards manufacturing and IT is evident from these numbers.

The top FDI equity inflows between 2000 and 2019 included the following.

1. Tata Teleservices Ltd.
2. Ranbaxy Laboratories Ltd.
3. JSW Steel Ltd.
4. MCPI Private Ltd.
5. Suzuki Motor Gujrat Private Ltd.
6. Reliance Nippon Life Asset Management Limited
7. Reliance Life Insurance Company Ltd.
8. Air Water India Private Ltd.
9. Toshiba Transmission and Distribution System
10. Goisu Realty Private Ltd.

It is unfortunate that the first two investments ended in failure. Tata Teleservices teamed up with NTT to provide telecommunication services in India but could not make it work. Daiichi Sankyo's exit from Ranbaxy was even more traumatic and there were accusations of fraud. One instance of a Japanese business group working successfully with an Indian group is that of Tata Consultancy Services and Mitsubishi. It is strange that the same organization couldn't make another alliance work.

The literature on Korean firms in India is almost non-existent. Gill (2014) analyses FDI from Korea to India and Banik and Kim (2022) assess the Comprehensive Economic Partnership Agreement (CEPA) signed by the two countries. So we will have to rely on newspaper articles and reports by industry bodies such as FICCI and embassy websites.

The number of Korean companies seem to be more than the number of Japanese companies. This is surprising given that the Korean economy is smaller and the number of globally known firms are smaller. This may be due to strategic decisions by the Japanese and Koreans. Till 2020 there were a total of 4183 registrations and 1292 new companies, including 66 in 2020.[vi] In comparison the number of Japanese firms have remained steady around 1455. The Koreans seem to rely mostly wholly owned subsidiaries (88%) with the rest being joint ventures. Samsung and POSCO have been among the largest investors. The sectors which attract the most FDI are manufacturing, wholesale and retail trade, financial and insurance activities and electricity, gas and water supplies. The Korean companies, like the Japanese, prefer the West (Mumbai and Pune), the South (Tamil Nadu) and the NCR region. They are also concentrated in Bangalore for IT. In terms of location Korean companies follow a similar trend to that of Japan, though they tend to be more concentrated.

Sectors attracting FDI from Korea (2000-2015)

Rank	Sector	FDI equity inflows (million USD)	%age
1	Metallurgical Industries	357.90	21.43
2	Automobile Industry	196.26	11.75
3	Prime mover (Other than Electrical generators)	144.70	8.66
4	Machine Tools	110.68	6.63
5	Hospital and Diagnostic Centres	89.09	5.33

Source: https://dpiit.gov.in/sites/default/files/fdi_synopsis_korea.pdf

The top FDI inflows into India from Korea between 2000 and 2015 according to FICCI (2018) are.

1. POSCO
2. TEDO
3. Samsung
4. Myoung Shin Automotive
5. Hyundai Mobis
6. Mirae Asset Mangement
7. Doosan Heavy Industries
8. Korea Western Power
9. Pyunghwa
10. Hyundai Heavy Industries
11. Myunghwa Automotive
12. Mondo Automotive
13. Hyosung
14. Lotte

There are two major trends that can be discerned about the behaviour of Japanese and Korean firms. The first is the relative success of Korean firms. Even though they entered late they managed to capture a large part of the Indian market in electronics and other appliances[vii]. Companies like Sony and Panasonic have lost ground to Samsung and LG. Price could be a reason but features are also an issue. The Koreans seem to understand the market better. The other trend is that the Koreans rely mostly on wholly owned subsidiaries while the Japanese rely on joint ventures, at least in the initial phases.

An explanation for this phenomenon can be found in the global strategies pursued by Japanese and Korean companies. The Japanese were the early leaders in industrialization. With the passage of time, due to rising input costs, it lost its competitive edge in some products to firms in South Korea and Taiwan. It also moved a lot of its production to countries in Southeast Asia like Thailand and Malaysia. They continue to retain their production capacities in these countries. Another reason for the relative lack of interest in India is the size of the Indian market particularly at the high end. The Japanese had a relative advantage in producing technologically sophisticated products even in appliances and electronics. The markets in North America and Europe seemed more promising. They kept a foot in India given the size and potential but were wary of making large investments. The Korean were naturally attracted to India when they expanded. They would find it difficult to compete with established Japanese products in Europe and North America but India was a good fit for their mid-range products with lower prices. They also localized their products through extensive market research.

The Japanese also probably suffered from their management methods. Higher level decisions are the prerogative of high level managers in Japan. The Koreans are similar. Consequently, communications and decision making is slow. The Japanese dependence on consensus building requires a lot of time. The Koreans who had more feet on the ground and whose decision making was centralised, moved faster. A combination of strategic intent and a more nimble management style led to their relative success in the Indian market.[viii]

Gravity models of trade suggests that trade should depend on distance (physical or otherwise) and size. India should be trading more with Southeast Asia and East Asia and be an integral part of production networks. This has not happened. Korean and Japanese investment may be a route to making that a reality. The kind of approach that either country takes is also important. The Japanese have contributed more at a governmental level with ODA. A number of India's infrastructure projects have been funded by them. At the individual firm level they have been relatively weak. However, they continue their presence through joint ventures, technology transfers and training are likely to contribute significantly to the productivity of Indian firms in the long run. Korea is more likely to contribute more in the short run but if it continues with its practice of wholly owned subsidiaries it would probably not have the same effects as Japanese firms. The other factor we should consider is the outward FDI of Indian business groups. Barring TCS there is hardly any Indian investment in Japan. Korea has seen investment by the Tata group when they bought Daewoo and Mahindra and Mahindra has acquired SsangYong Motor.

6 Conclusion

Japan has been among the biggest investors in India for a while. Korea, whose development model was based on Japan has also made investments. In some ways it seems to be overtaking Japan, at least in terms of the presence of products and companies, particularly in areas like electric appliances and electronics. Japanese firms like Sony and Panasonic have given way to Samsung and LG. Even so Japan is still the largest contributor in terms of ODA and contributes heavily in infrastructure projects. Thus, both of their investments contribute to Indian development, but in different and complimentary ways. Korean investment is likely to provide jobs which we sorely need. However, their current business practices may not lead to upskilling and technology transfer. Japan's business practices may be more transformative for India. Japanese companies attempt to run their ventures in India using Japanese methods. They are often frustrated but they still retain an interest in India. In the meanwhile they contribute in other ways. Japan remains a world leader in advanced products like composites, lithium ion batteries and robotics and continued association with both countries would be useful.

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