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The title "The Japan-India Investment Corridor" is displayed in a green, sans-serif font on a white, rounded rectangular background in the lower-left quadrant. The background of the entire page is a photograph of a large steel truss bridge at night, illuminated with a warm orange glow. The bridge's complex structure of beams and girders is the central focus of the image.

# The Japan-India Investment Corridor

Trends, challenges,  
and practical solutions

2023

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# Overview

With historical links said to stretch back to the sixth century since the introduction of Buddhism into Japan, the relationship between Japan and India encompasses more than simply economic interest, extending in recent times to long-term joint political and strategic goals.

Following the signing of a free trade agreement in 2011, both countries have sought greater bilateral commercial trade and investment, these ties strengthening after the reopening of borders post-COVID-19.

# Japan outbound investment

## What's driving outbound investment?

Although impacted by the challenges brought on by the COVID-19 pandemic, the trend of Japanese outbound investment remains steady due to many of the underlying factors that encourage this investment remaining unchanged. Among the numerous factors influencing investment decisions, several key drivers include:

**Domestic market saturation:** Despite Japan's GDP recovering to its pre-pandemic volume, the growth of Japan's domestic market remains slow and is widely considered to be saturated in various industries. Seeking new markets is key to sustain expansion.

**Demographic challenges:** Japan's demographic challenges of an aging population and shrinking workforce has been understood for some time. In response, Japanese companies are looking outside Japan, particularly emerging markets in South-East Asia in recent years, for younger markets in a range of sectors such as finance, technology, and real estate.

**Low interest rates:** Historically, Japan has maintained low interest rates, providing favourable conditions for Japanese companies to borrow funds for expansion and development.

**Resource access:** Japanese companies look to outbound investment as a means of securing stable access to resources. The energy sector in Japan in particular has shown sustained interest in outbound investment, largely due to the lack of domestic opportunities and resources.

**Cross-border synergies:** Mid-to-large size Japanese companies are generally receptive to the idea of outbound investment as a means to complement existing business lines or build up areas of their business that are deficient. This is particularly the case with companies looking to increase their technological, and research and development capabilities.

## Sectors of interest in India

Japanese outbound investment into India has steadily grown in recent years and interest among Japan's private sector in India continues to rise across a wide range of sectors, including the following:

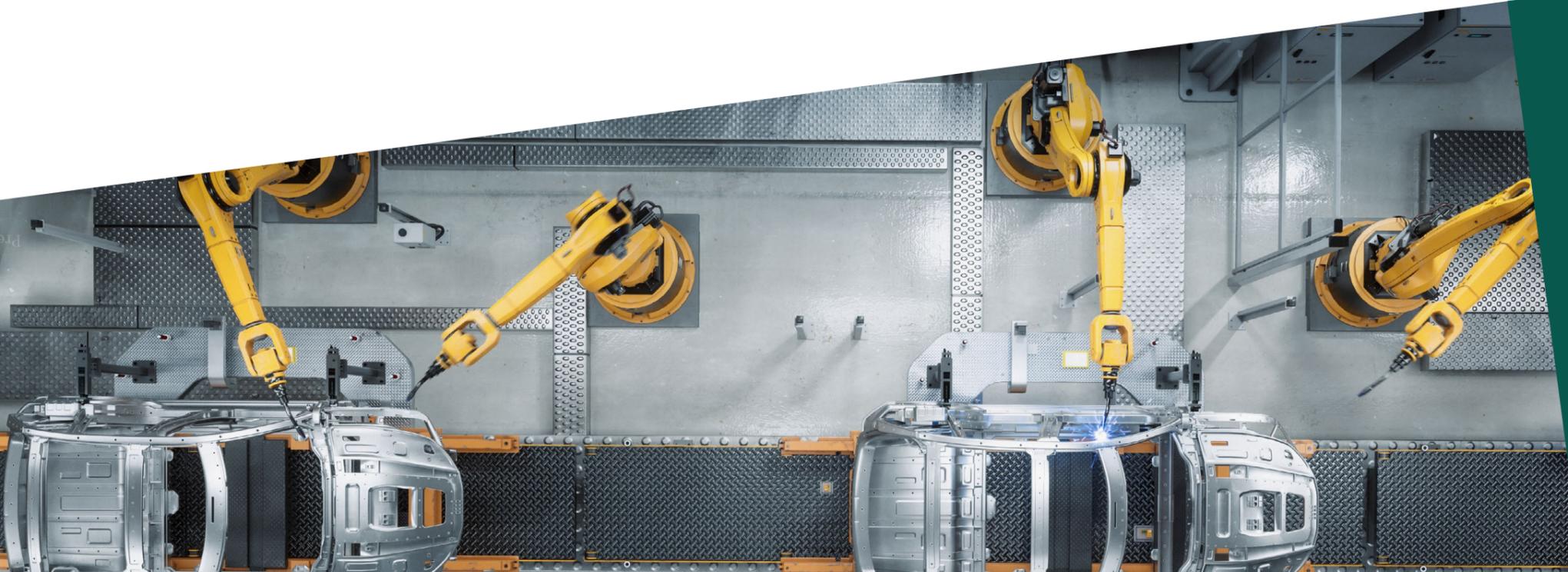
- **Automotive:** India is a major market for Japanese car manufacturers, both for sales and manufacturing. Major manufacturers such as Nissan, Toyota, Honda, and Suzuki have made significant investments and set up manufacturing facilities in India.
- **Manufacturing and technology:** Japanese private investment in India in the areas of electronics, precision machinery, and industrial automation continues unabated and includes investments by major brands such as Sony, Panasonic, Daikin, and Hitachi.
- **Pharmaceuticals and healthcare:** Japanese pharmaceutical companies have identified India's growing need for healthcare as being ripe for investment and export a variety of pharmaceutical products that are crucial for India's healthcare industry.
- **Energy and renewable resources:** India's renewable energy sector has received particular interest from Japanese companies, particularly with the promotion by each country of the "Clean Energy Partnership". Both countries may collaborate on EVs, EV charging infrastructure, solar sector development, biofuels, green hydrogen, and battery storage, amongst others.
- **Start-ups:** India and Japan have huge potential to collaborate in building the start-up ecosystem in the fields of technology, finance, and sustainable energy, amongst others. Recognising the potential, India and Japan start-up hub was established in 2018.
- **Infrastructure:** India is targeting infrastructure investments worth US\$1 trillion over a span of the next five years. It is an opportunity for Japan to build industrial townships, railways, highway networks, airports, multi-modal national parks, and health care infrastructure.
- **Finance:** Japan is an eminent global financial hub catering to financial services, such as commercial banking, investment banking, and insurance. The Gujarat International Finance Tec-City (GIFT City) is an attractive opportunity for Japanese companies looking to foray into the financial sector of India.

## Solving common challenges in investing in India

Entering the Indian market poses challenges, especially for Japanese companies looking to expand, particularly through M&A. As with any market, the Indian market contains certain idiosyncrasies which Japanese companies must learn to adapt to, and factor in when considering entering the market.

- **Cost-consciousness:** Japanese companies entering the Indian market can be surprised to find the market as a whole more cost-conscious than expected, and that the degree of this can vary greatly based on regions within India. Regional differences within India can also impact consumer expectations with respect to quality and service levels, requiring a reconsideration of strategy and an understanding that a 'one-size-fits-all' approach will not necessarily suit the market.

- **Due diligence challenges:** A common issue that many Japanese companies face when investigating potential targets in India, is the difficulty in making a proper assessment of the target through standard due diligence. Inadequate document management systems and inaccurate financial information are some of the issues that Japanese companies have encountered, increasing the time required to complete the evaluation of the target and acquisition in general.
- **Developing market:** As with any developing market, India holds challenges for Japanese companies that may lack experience in outbound investment into such markets. India's infrastructure is cited as a challenge, with issues leading to project delays, inefficiencies, and increased costs, and its complex regulatory environment can be viewed by Japanese companies as overly time-consuming and involving a significant degree of paperwork.



As with entry into any new market, working with the appropriate advisors and building connections with industry associations and local experts are vital when investing in India.

# India outbound investment

## Sectors of interest in Japan

Japan remains an attractive destination for investment, either through direct acquisition or collaboration, and continues to look into ways to attract foreign investment. The Japanese government and business sector are both taking initiatives to reform both corporate governance and work culture to entice investment.

India boasts one of the world's largest and fastest-growing economies. With a burgeoning tech sector, as well as an economy that spans a broad range of industries, including agriculture, manufacturing, services, pharmaceuticals, and information technology, it contains a robust private sector. Many companies are looking to Japan for collaboration and growth, including in the following areas:

- **Technology:** Both India and Japan have strong technology sectors with there being increasing collaboration between Indian IT companies and Japanese businesses. Indian IT firms provide software development, maintenance, and IT consulting services to Japanese companies, a trend that is expected to continue.
- **Pharmaceuticals and healthcare:** Indian pharmaceutical companies have been exploring partnerships and investments in Japan's healthcare sector; in particular collaborations in research and development, as well as the export to Japan of generic drugs.
- **Automotive and manufacturing:** Indian companies are showing increased interest in Japan's manufacturing and automotive sectors, due in part to Japan's advanced expertise and technology, particularly with respect to electric vehicles and robotics.
- **Financial services:** Online payment systems, while used in Japan, are not nearly as prevalent as in India. This tech vacuum in Japan is an area of potential interest to Indian fintech companies.
- **Tourism:** Japan has been expanding its tourism sector by easing visa requirements, consumption tax exemptions for foreign visitors and building a strong transportation network. This expansion has created a thriving demand for restaurants and hotels. The Indian hospitality sector may explore profitable opportunities from this.

## Solving common challenges in investing in Japan

Similar to the Indian market, Japan contains its own identity, which any new entrant to the market must learn and adapt to, in order to increase its opportunity for success.

- **Business networking and relationships:** Building strong business relationships in Japan is vital for success and requires time and effort to establish trust and credibility with new partners. A patient approach is necessary, as this can often lead to longer sales cycles.
- **Language barriers:** While English is used in international business settings, language barriers can still exist, and English as a business language in Japan is still in development.
- **Adapting to Japanese management styles:** Indian companies entering in Japan can often require time to acclimate to Japan's management style, which generally emphasise consensus-based decision-making and teamwork. Understanding and aligning with these styles can foster smoother collaborations.

A key ingredient to success when investing in Japan would be to exercise patience, preparation, and understanding with counterparties, to ensure a smooth working relationship. Given the uniqueness of some of Japan's business practices, a degree of adaptability and openness on the part of any Indian investor would be invaluable in fostering a long-term position.

# Improving international relations

## Strengthening bilateral ties to create opportunities

The political relationship between Japan and India has deepened in recent decades, particularly in the area of national security with the two countries implementing various frameworks for partnerships and dialogues between the respective Foreign and Defence ministries.

The commercial relationship between the countries has similarly strengthened, leading to an increased volume of trade, evident not least by the signing of a free trade agreement in 2011. In fact, Japan now ranks as the fifth largest foreign investor in India as of FY2023, having made significant investments across the automotive, infrastructure, and telecom sectors.

Not driven solely by private sector activity, during a bilateral summit between Prime Minister Kishida and Prime Minister Modi held in March 2022, both leaders announced their shared intention to achieve JPY5 trillion of public and private investment in India from Japan over the following five-year period. The political commitment from both countries can also be seen in the actions by the countries to establish joint working groups to facilitate discussions on and foster greater connection on trade and investment matters. One such example of this greater political connection between

the two countries driving economic opportunity, is the Clean Energy Partnership, announced between Japan and India in 2022. The Clean Energy Partnership has the purpose of achieving sustainable economic growth while also addressing climate change through sustainable development, and reducing concerns over energy security in both countries.

India and Japan, along with Australia and the U.S., are a part of the strategic 'Quadrilateral Security Dialogue' and may continue to work together to enhance international peace and security. They have also signed a civil nuclear partnership deal, in which Japan promises to supply materials and technologies to build India's nuclear power programme.

In October 2023, India's National Investment and Infrastructure Fund said it was establishing a fund with the Japan Bank for International Cooperation. The India-Japan Fund will invest in India's environmental preservation sector, including renewable energy, e-mobility businesses, and sectors such as waste management and water. The Indian government will contribute 49 percent towards the Rs. 49 billion (US\$589 million) fund. The remaining 51 percent will be contributed by JBIC.

The possibilities for further investment and economic development between Japan and India remain substantial. With appropriate planning, patience, and an openness to new ideas and approaches, there is a wealth of opportunity for economic engagement for private enterprise to pursue.



# Hogan Lovells' strength in solving issues across the Japan-India market

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## One key factor in any successful investment is appropriate due diligence early in the planning and negotiation stages.

The focus of any due diligence exercise will vary based on the target and market, and knowing what areas to place additional emphasis on, and the right questions to ask, is invaluable. Due diligence is not limited solely to document review and, particularly in certain emerging markets such as India, strong anti-bribery and corruption due diligence investigations (including interviews of relevant members of the target) can be vital.

Further, as with any cross-cultural engagement, negotiation styles between parties will vary. While a deal can be reached by willing parties, having legal counsel that understands and can respond to the cultural nuances and negotiation strategies of the counter-party is necessary to successfully deal with any unforeseen, tricky, or delicate negotiations between the parties.

With over three decades of experience operating in Japan, and a dedicated India desk focused on both inbound and outbound deals, Hogan Lovells has a depth of experience in advising clients on achieving the optimal outcome in their investments between both countries.

This experience allows us to navigate all issues that arise throughout the course of a deal, including performing the appropriate degree of due diligence, as well as advising on negotiation strategies to ensure our clients achieve a fair and amicable agreement.

- **Stringent compliance regime:** Japan's compliance regime is one of the tightest in the world and the standards for compliance are extremely high. It would be prudent for Indian corporates to consult with counsel to ensure compliance with standards of compliance required in Japan.
- **Data protection:** If Indian investors aim to participate in the digitalization of Japan, then they must consider the importance of data protection as per Japanese standards. The Japanese data protection law, the Act on the Protection of Personal Information, is similar to the GDPR, and has extraterritorial reach (it applies to both companies that offer goods and services in Japan and are located within the country and those with offices outside it).



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