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INDIA: THE RISE OF A NEW ECONOMIC SUPERPOWER

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INTERNATIONAL COOPERATION

Prime Minister Modi has been driving India's economic growth since he took office in 2014.

INDIA:
The Rise of a New Economic Superpower

Many Japanese still have an image of India as a "mysterious country" with two sides to it: an "IT superpower" and a "place with poor sanitation." Under the leadership of Prime Minister Modi, however, India is now growing rapidly. In this issue's special feature, the head of the JBIC Representative Office in New Delhi delves enthusiastically into India's industrial structure and key investment issues. In addition, diplomatic and economic experts from the country's think tanks speak about India's diplomatic strategy and promising investment sectors.

RISING INDIA

Photo: Bloomberg/Getty Images

The government's strong push to make India the factory of the world is creating many investment opportunities

- Areas with high growth potential extend beyond IT to include manufacturing, agriculture, and other sectors, with economic growth still in its initial stages.
- The Modi government's key policy has shifted from "Make in India" to "Self-reliant India," and while focusing on strategic sectors, its eagerness to attract foreign investment remains unchanged.
- Business potential exists in all parts of the country, making it essential to understand the characteristics of each region and develop business accordingly based on Indian-style management. JBIC is also expanding its efforts here.

Chief Representative
JBIC Representative Office in New Delhi
KURIHARA Toshihiko

Joined JBIC in 2006 after working at a megabank. Assumed his current position in 2019 after assignments including the Mining and Metals Finance Department and Treasury Department. Also holds positions in India as Director of the Board, National Industrial Corridor Development Corporation Limited (NICDC); Visiting Fellow, Centre for Social and Economic Progress; Chair, Finance Committee, Japan Chamber of Commerce and Industry in India. Graduated from Keio University, Faculty of Business and Commerce, and received his MBA from the University of Southern California.

V-shaped recovery from the pandemic, healthy IT and strong public investment

"These four years have been quite the roller coaster," reflects KURIHARA Toshihiko, Chief Representative of the Japan Bank for International Cooperation (JBIC) Representative Office in New Delhi. He took up his current position in July 2019, and just as he was getting settled in, COVID-19 swept the world. "India went into a strict lockdown, almost like martial law. We were not allowed to go outside at all, not even to take a walk." But now that the pandemic is under control, it appears that India is flourishing. KURIHARA says that he had never visited India or had any particular attachment to the country before taking up his post. That's precisely why he can approach the reality of India's rise and carry out his work on the ground unhindered by existing images or preconceptions of the country.

Although India's economy contracted by 6.6% in 2020 when the pandemic began, it made a V-shaped recovery the following year with 8.7% growth. In 2022, growth was 6.7%. India's nominal GDP is some USD 3.38 trillion, surpassing that of the U.K., and reaching nearly 80% of Japan's. "The Indian government's policy is to stabilize the growth rate at 6-7% over the next 10 years or so," says KURIHARA.

What is astonishing is that such levels of growth projections are just the beginning. India will become the world's most populous country when it overtakes China this year. China's population has been declining since 2022, but India's is expected to continue growing until the 2060s. Moreover, as it is estimated that about 1 billion people, more than two-thirds of the total population, are still living in rural areas, there is huge potential for domestic demand to expand. When viewing the industrial structure, agriculture accounts for about 15% of GDP, but people employed in agriculture make up some 40% of the labor force. This means there is more than enough capacity to shift labor to the manufacturing industry, which is expected to contribute to future economic growth, as well as to other highly productive service sectors such as finance, real estate, and logistics. "Ownership of cars and consumer electronics has not yet penetrated rural areas, signifying that there is still much room for growth in economic and financial inclusion."

Public investment in infrastructure, which is showing a strong recovery, is also supporting India's remarkable progress. "In India, even basic infrastructure is not yet fully in place. The construction rush is continuing at a staggering pace, and the government budget for infrastructure investment is increasing at a rate of about 30% annually." Economic growth continuing at high levels and stable tax revenues from progress made in digitalization of government are supporting this aggressive investment.

"For a developing country, India has a reputation for its robust monetary policy. Backed by hefty foreign-exchange reserves, the Indian rupee's fluctuations against the dollar, yen, and other key currencies are surprisingly low, and few Western investors fear 'rupee risk.' Despite soaring resource prices, the inflation rate is also well within the economic growth rate range."

The IT industry, which has been a major driver of India's economy, remains strong. In May 2023, Amazon announced that it would invest INR 1.56 trillion (USD 19 billion) through 2030 in building large-scale data centers and other cloud-related infrastructure. This is projected to create hundreds of thousands of jobs a year in sectors including construction, equipment maintenance, and telecommunications. "Regarding IT, India has the very clear advantage of being the second largest English-speaking country in the world. In addition, behind India's development as an outsourcing destination was its national policy of fostering STEM (science, technology, engineering, and mathematics) talent and so it has a pool of human resources that can meet the standards demanded."

PM Modi's leadership and attraction of foreign investment The true aim of "Self-reliant India"

The leadership of Prime Minister Modi, who took office in 2014, cannot be overlooked when speaking about India's rapid progress. One of his first initiatives was "Make in India," a national policy to promote and strengthen the domestic manufacturing industry by attracting investment from around the world. KURIHARA says, "It was a very easy-to-understand theme and was fairly effective in announcing India's intentions," but, he points out, "It was not able to establish a strong Indian manufacturing sector."

In 2020, the Modi-led government, then entering its second term, announced "Self-reliant India," an updated version of "Make in India." A major national strategy that goes beyond economic and investment policies to incorporate the concept of economic security, "this policy focuses on and gives priority to strengthening strategic areas that will contribute to a self-reliant India," says KURIHARA. For example, in the energy sector, India is almost 100% dependent on imports of oil, coal, and other resources. So, this strategic approach calls for a switch from these to natural gas, for which India is only about 50% dependent on imports, and renewable energy. In addition, regarding renewables, as India also relies on imports for solar panels, measures to promote their domestic production are being implemented, including the provision of central government subsidies and interest-free loans from state governments.

Prime Minister Modi has sent a strong message to the public and private sectors that actions not consistent with "Self-reliant India" will not be accepted. India is not alone in having government silos and approval barriers, but with clear top-down political leadership, a mood of cooperation and breaking with old habits is developing among ministries and agencies.

At first glance, these measures can seem protectionist. "It is true that this

POINT The Modi government's key economic policies

Make in India September 2014 –

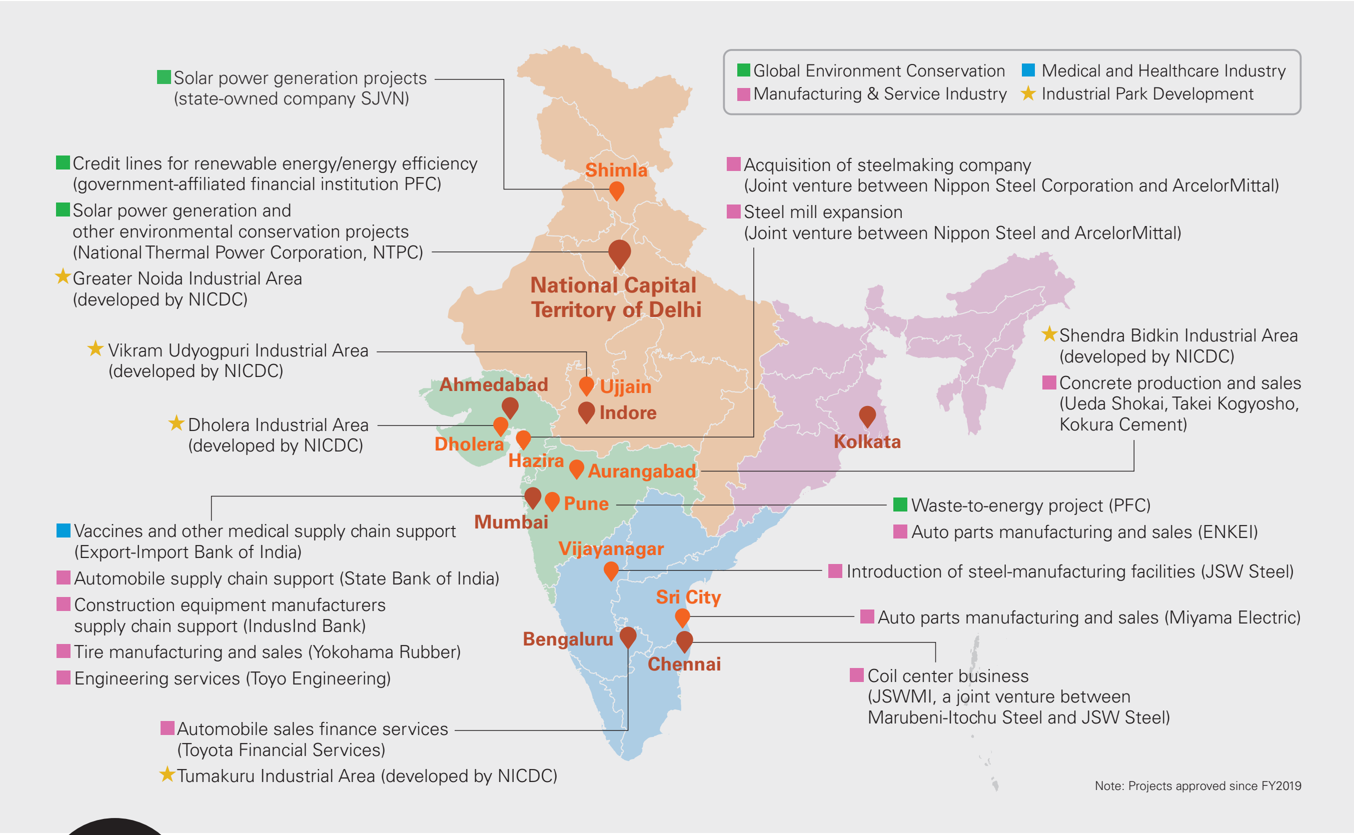
- Set targets for 12-14% manufacturing industry annual growth, and its share of GDP to rise from 15% to 25%.
- Aimed to establish a good investment environment, attract FDI (foreign direct investment), create jobs, and increase exports.
- On the other hand, measures such as tariff hikes were cited as protectionist.

Self-reliant India May 2020 –

- A grand economic and diplomatic strategy that adds economic security and reduced dependence on imports to the "Make in India" policy.
- Announced a special economic package on the scale of INR 20 trillion (about 10% of GDP).
- Despite protectionist aspects, India shows a strong will to play a major role in the global value chain.
- Policies include attracting investments in designated areas of manufacturing, building infrastructure throughout the country, and securing energy independence.

JBIC'S key support to India in recent years

JBIC holds a 26% share of NICDC, the National Industrial Corridor Development Corporation, which supports the development of industrial corridors throughout India. In addition to aligning with the Indian government's measures to promote the manufacturing industry and supporting Japanese companies entering the Indian market, a current key pillar of JBIC's operations is providing loans for green projects.



Where to set up business

▸▸▸ A look at this vast country by area

	Population	Regional GDP	Regional economy characteristics
North	507 million	USD 811 billion	Half of the Japanese residing in India live in and around India's capital, Delhi. Manufacturing industries are concentrated near Delhi, and there are many government agencies and state-run company centers.
West	186 million	USD 554 billion	Includes India's financial center, Mumbai, where there is a high proportion of automotive and other secondary sector industries and numerous Western companies, and Gujarat, the birthplace of Prime Minister Modi.
South	265 million	USD 747 billion	Includes the IT cities of Bengaluru and Hyderabad, and Chennai, where the automotive industry is concentrated. The level of education is high, making it easy to hire capable talent.
East	340 million	USD 390 billion	Has a high proportion of the agriculture, forestry, and fishing industries and the infrastructure is underdeveloped, but the government is especially focusing on developing the northeastern area. Proximity to Southeast Asia is also an advantage.

Source: JETRO

can be viewed as restricting foreign investment and free trade. That's where the government is very smart, however. It has been managing this in a balanced way by emphasizing the good sides of foreign investment and products. And what India especially wants to fix now is its dependence on one country, China."

Trade with China had steadily increased, but a trade imbalance existed with imports greatly outweighing exports. "A trend to buy anything at lower prices from China was emerging, but since this was directly linked to the trade deficit it was considered problematic," explains KURIHARA. Adding to this was the sudden spark of the India-China border clashes in 2020, which shifted public opinion against improving relations with China. Against such a backdrop came the "Self-reliant India" policy.

KURIHARA believes that from a geopolitical perspective as well, it was inevitable for India to reduce its economic dependence on China and strongly encourage a broad range of sectors to set up manufacturing centers in the country. "India is showing its strong ambitions to replace China as the factory of the world. There is also an emerging trend among Western countries to shift their global supply chains to India, and so to seize this opportunity as well, India thought it best to distance itself from China. Working to attract foreign investment from countries other than China is being consistently promoted under the Modi government."

Japan-India relations have also grown stronger. Amid the growing strategic importance of India, the results of a 2022 JBIC survey conducted of Japanese companies showed India topping China as the most promising country for business development over the next three years. Momentum is building for Japanese companies to set up business in India. "The Japan Chamber of Commerce and Industry in India has about 500 member companies, but we can sense this momentum with new membership increasing at an unprecedented speed—as many as five to ten companies a month."

Develop strategy for investment in India by understanding regional characteristics

So, what points should Japanese companies pay particular attention to when considering business expansion to India? "India is a huge country, so it will be easier if we divide the country into the four regions of north, south, east, and west, and look at their regional characteristics," explains KURIHARA. "There are about 10000 Japanese people in India, with about half of them living in the capital Delhi, and its surroundings. Naturally, this is the top location for Japanese companies entering the Indian market. It is the political center and also functions as a hub connecting to all areas of the country, so the conventional way to enter the Indian market is from northern India." Then, looking south, there are the IT city of Bengaluru, and Chennai, center of the automobile industry. Southern India is an area that focuses on manufacturing in addition to IT. "The level of education is high here, so it has the advantage of allowing companies to hire excellent talent at a lower cost than in the north. If another location is needed, southern India is a good candidate."

Western India has Mumbai, India's financial and economic center, home to numerous conglomerates. The state of Maharashtra alone, where Mumbai is located, has a population of over 120 million, but there are only 500 Japanese residents. "Eastern India, which is relatively underdeveloped, has even fewer Japanese. The only notable movement has been recent plans by Nippon Steel to enter the region." However, KURIHARA believes that from the Japanese perspective, eastern India and the northeastern states might also have great potential for growth. "Only about 4% of the population lives in northeast India, but the government has positioned it as a priority area, investing 10% of the national budget there. Japan is expected to be a partner in development projects, and since neither the West nor the conglomerates of India have focused on this region, I see potential here for first-mover advantage."

The next key point KURIHARA raises is the existence of a federal structure of government. India is a union of states, with 28 states and 8 union territories. "India's state governments have more authority than prefectures in Japan. Because of this, although the central government may approve a project, it could meet setbacks due to opposition by the state government. This actually occurred when a bullet train project promoted by Japan was almost stalled by a state government in western India (the problem was resolved due to a change in the ruling coalition)." It is important to keep in mind that there are areas where the central government cannot force state governments to act.

According to KURIHARA, another key point is the importance of management that respects the "Indian way." "Studies have shown that imposing Japanese or Western management styles is often not successful. Past experiences have also led in recent years to a majority of Western companies entrusting management to Indians with local experience, and this is also increasing among Japanese companies. A top-down management culture is mainstream in India, and personal relations with business partners are surprisingly essential. A great deal of importance is placed on how much the other party can be trusted." To that end, KURIHARA explains that rather than sending personnel from the head office to fill the top position, it is certainly worth considering the appointment of a highly capable local individual who has deep knowledge of the local landscape, and also understands Japanese and Western management styles.

Growing expectations for JBIC, which is still currently in the learning stage

JBIC has also been rapidly expanding its efforts in recent years to promote collaboration between Japanese and Indian companies, protection of India's environment, and economic growth utilizing its various investment and loan programs. The support provided to date has been across a diverse range of sectors and areas. This has included manufacturing industries including automotive, construction machinery, and steel, to the development of several industrial parks, including the Dholera Industrial Area in the state of Gujarat in western India, through investment in the National Industrial Corridor Development Corporation (NICDC). There have also been investments in green energy such as solar and waste to energy, and projects supporting local companies that manufacture vaccines and therapeutic drugs. The role of JBIC is expected to expand further as Japanese companies are now moving into new fields including supply chains for agricultural equipment and agrochemicals. India's rural areas are, after all, true treasure troves of potential.

"India is a country that will continue to develop. As the ambitions of Japanese companies increase, JBIC also needs to take various initiatives to respond to their needs. In that sense, we realize that we are still in the learning stage. While constantly learning about the 'Indian way,' we wish to give our full attention to this country which has so much potential for growth."

Disclaimer: This map is for illustrative purposes only and does not indicate the view of JBIC on the legal status, borders or demarcation of any country or territory or the geographic names.

INTERVIEWS

India's place in Asia and its future in the world

Ananta Aspen Centre, established in 2004 in partnership with the American Aspen Institute, facilitates open dialogue on India's role in the world.
Its CEO, and veteran diplomatic analyst, Indrani Bagchi shared her insights on the geopolitical landscape surrounding India, the true objectives of the Quad, and the upcoming economic reforms.

Q» Can you talk about the diplomatic strategy of India under the Modi administration, which is currently enjoying a high profile as G20 chair and de facto leader of the Global South?

A» The core of the Indian government's foreign policy remains the transformation of India's economy and society. As for the rest, our history, which is often forgotten by the rest of the world, informs many of the decisions we take today. A civilizational state with thousands of years of history, modern India is one of the most heterogeneous, multi-ethnic, multi-religious groups of people governed by one constitution. That all goes toward making India the fairly complex country that it is.

India's greatest current geopolitical challenge is an aggressive and expansionist China. Traditionally, India has preferred to cleave the middle path, but the world is multipolar, and India can be one of the "poles."

Q» Why has India not joined other countries in imposing economic sanctions against Russia?

A» After India held its first nuclear weapons tests in 1974, it came under Western sanctions on technology for decades. During that time, the USSR, and then Russia, was helpful in the development of India's technology sector—nuclear power, defense, etc. India has reduced its defense dependency on Russia from around 70 to 50 percent, but it's still huge.

For the last 70 years we've had a continuous conflict situation with Pakistan, and a border dispute with China, which has intensified recently. Although it doesn't take from the fact that India has been very disturbed by Russia's actions in Ukraine, the narrative of the war is a little more complex than it is made out to be, and India has to consider its defense interests.

After war broke out, India was offered Russian crude oil at discounted prices and decided not to turn it down. The country's energy inflation would have been economically and politically unbearable, and India's oil purchases from Russia actually helped to stabilize global energy prices.

Q» How does India's border dispute with China impact economic relations?

A» For a long time, India and China operated on the understanding that their larger relationship could be insulated from the border dispute. Not anymore. India doesn't allow China to be an investor in any of its critical sectors, and came to the conclusion that China was using its apps and technologies to mine critical data about India's citizens. During the pandemic, we realized how dependent we were on China for some pharmaceutical ingredients. So, we have been diversifying our value chains, and Japan has been a key partner in that process.

Q» In terms of the Quad, India seems to differ from the other three countries in its thinking on cooperation. What is the Modi administration's view of the "Free and Open Indo-Pacific"?

A» I think there is some misperception there. Firstly, India has never been part of any military alliances, believing them to be Cold War constructs. Secondly, we believe the Quad is the most consequential grouping for the future of the world because these are four countries that can sit together across a table and make decisions on what I call the 'rules of the road.'

The future of international relations will be determined by technology, access to technology, and the rules that govern technology. That is the core of what the Quad is doing together, not what kind of military exercises we are going to have.

Then Japanese Prime Minister ABE Shinzo spoke of "the Confluence of the Two Seas" during his first visit to the Indian parliament in 2007, and that became the Free and Open Indo-Pacific, which India has been a believer in forever.

Q» What are India's economic security policy priorities and how will they affect foreign investment?

A» We have not been too much of a manufacturing power, historically. But in the last five years, we have changed considerably. Laws have become simpler and infrastructure is almost transformed. We have tried to position ourselves as one of the destinations for a China+1 strategy. The government has rolled out a production-linked incentive strategy to cover 14 manufacturing sectors to which India wants to attract investment to protect its economic security. Apple, for example, is now making many of its iPhones in India. Diversifying value chains and building resilient supply chains is extremely important to India and to the Quad.

Q» What is the outlook for India-Japan diplomatic relations?

A» I think that the India-Japan relationship stands for something much, much bigger than just a shared geopolitical challenge. We are two Asian powers at two different stages; Japan's demographics are in many ways a challenge, while we have a young population, which is an advantage. We are both technologically advanced countries. Indians have a view of Japan that is nearly 100 percent positive. I see us as civilizational cousins. I think the India-Japan relationship has still only partly fulfilled half of its potential.

CEO,
Ananta Aspen Centre
Indrani Bagchi

The outlook for India's economy shines bright

The Centre for Social and Economic Progress (CSEP) is a public policy think tank that conducts research on issues facing India and the world.
CSEP Associate Fellow Riya Sinha talks about India's connectivity with neighboring countries, liberalization of the economy, and strategies to attract foreign direct investment.

Associate Fellow,
the Centre for Social and Economic Progress
Riya Sinha

Q» The image of India's economy from overseas used to be ICT offshore and call centers. What are its major industries today and the prospects for future growth?

A» It has been a service-oriented economy dominated by the IT sector and BPO (business process outsourcing) to a point where India was known as the back office of the world. It was realized about a decade ago that while services constituted about 57 percent of the economy, they contributed about 28 percent to employment. Therefore, the government realized a need to strengthen manufacturing, and introduced schemes including 'Make in India,' with an emphasis on skill development. Another initiative is 'Atmanirbhar Bharat Abhiyaan,' which translates to 'Self-reliant India.'

Manufacturing in India has traditionally not been strong, but certain sectors have developed in recent years, including iron and steel, pharmaceuticals, and textiles.

Q» Could you delve into India's economic liberalization and the impact that is having?

A» It's a process that started in the 1990s, when due to the balance of payments crisis, the government decided it had to end the monopolies of many public sector enterprises in manufacturing sectors.

Recent schemes like 'Make in India' have identified 25 sectors, including automobiles, aviation, space, biotechnology, ports and shipping, and roads and highways. It's a very comprehensive list of sectors where India seeks foreign investment. Thirty years ago, or even 20 years ago, this was unimaginable. Then there are supporting schemes such as 'Skill India,' which is focused on youth, and 'Digital India,' that focuses on improving the public digital and financial infrastructure.

Q» In terms of India's domestic market and supply chain, what areas do you see as most promising for foreign investment in India in the future?

A» Infrastructure development is one of the focus areas, as well as developing different industrial corridors and end-to-end supply chains. The government is very welcoming towards inviting best practices from partner countries.

Q» India is of great interest to Japanese SMEs (small and medium-sized enterprises), what would you say to those thinking about investing in India?

A» India has been making procedural and regulatory improvements to attract investments in the country. A recent development is the National Single Window System (NSWS) platform, through which licenses and clearances that used to take six to eight months can now be done in 30 days or less. That is a significant development when it comes to welcoming SMEs to India.

Q» What are some of the biggest countries in terms of FDI (foreign direct investment)?

A» Japan is one of the biggest investors in India in terms of the diversity of sectors. In geopolitical terms, Japan is seen as a trusted partner of India so all the more welcome when it comes to investment. We're also negotiating a Free Trade Agreement (FTA) with Europe and engaged in talks about increasing FDI.

Q» What could India do to make itself even more attractive to FDI?

A» India was seen as a reluctant partner for a very long time and for justifiable reasons. But things have changed in the last ten years. India has a goal to become a USD 5 trillion economy by 2025, and it realizes that it cannot become that size of an economy by itself, it needs external investment. The number of overseas visits and delegations by the prime minister and the commerce minister is at its highest level in 30 years, an indication that India is now open to bilateral FTAs and economic partnerships. It did opt out of the Regional Comprehensive Economic Partnership (RCEP) but it is focusing on bilateral FTAs. Ten years ago, FTA was not a word you would utter in the corridors of the Ministry of Commerce and Industry.

Q» What do you see as the future prospects for Japan-India economic relations?

A» There are opportunities in states across the country. Efforts towards increasing investments in different areas have made the life of businesses which want to invest in India much easier.

Japan is a regional player in South Asia. Apart from India, it also has a presence in Bangladesh and is in a good position to help develop a regional connectivity plan. Trade with Bangladesh has been growing along with infrastructure linking the two countries in recent years. At one point, it used to take only one day for goods to move from India to Singapore, but up to five days to Bangladesh, which is next door. Defense manufacturing is another area I see potential for collaboration, especially in unmanned aerial vehicles and robotics, where Japan has expertise.

There is also scope for investments in skill development and capacity building. This is already happening through the Japan-India Institute for Manufacturing, but I think more could be done, particularly through leveraging India's youthful demographics and Japan's strengths.

JBIC engages in various projects around the world.
Senior JBIC staff on the front line share their thoughts and stories behind their projects.

Project Financing for a Subway Project in Toronto, Canada

Helping Japan's rail industry enter the Canadian subway sector and learning lessons from the pandemic

While Japan's railway industry boasts advanced technology, it faces fierce competition in winning orders overseas, especially in developed countries with mature markets. FURUYA Toshihiro and NIWA Hayato share the backstory of support for a Canadian subway project.

First loan to the railway industry in nearly a decade contributes to public transport and the environment

Japan's Hitachi Rail is part of a consortium constructing a new subway line in Toronto, Ontario, the largest city in Canada, to meet growing transportation demand. JBIC co-financed this project with Japanese private financial institutions and others, supporting the deployment of Japan's superb railway infrastructure technology across the world.

"The local government is totally committed to this project, and it seemed like it was on an accelerated time schedule," says NIWA Hayato of the Social Infrastructure Finance Department, Infrastructure and Environment Finance Group, who was in charge of this project. "But thanks to this, in a short period of about a year, I was able to experience the entire process, from the initial talks between JBIC and the project stakeholders, to finalizing the loan agreement." Since structuring project finance (PF) for transportation infrastructure is usually a long-term undertaking, NIWA says that he was very fortunate to have been involved in the entire process in just his second year at the bank. The experience was all the more memorable because his research at graduate school concerned transportation infrastructure in developing countries.

This is JBIC's first PF for a railway project since Hitachi's U.K. rail project in 2014. Market conditions and financing methods have changed considerably since then, so it could be said that this project has no precedent. In addition, railroad projects are complex, ranging from construction to operation, and collaboration with numerous stakeholders is also crucial (see the figure below). Reflecting on the process, FURUYA Toshihiro, Deputy Director of Division 1, Social Infrastructure Finance Department, says, "I believe we were awarded the project thanks to the collective strengths of all the stakeholders, including the sponsors and other lenders."

Population growth stemming from factors such as immigration has led to traffic congestion not only in central Toronto, but also on arterial roads connecting the city center and suburbs. According to estimates by the Government of Ontario, this project is expected to reduce traffic by 28,000 vehicles per day and fuel consumption by 7.2 million liters per year, cutting both congestion and greenhouse gas emissions. "From JBIC's perspective, this project will leverage advanced technologies to deliver significant environmental benefits, and so we are providing support as part of our operations to preserve the global environment, known as GREEN. We also scrutinized the whole project using our guidelines for confirmation of environmental and social considerations," says NIWA.

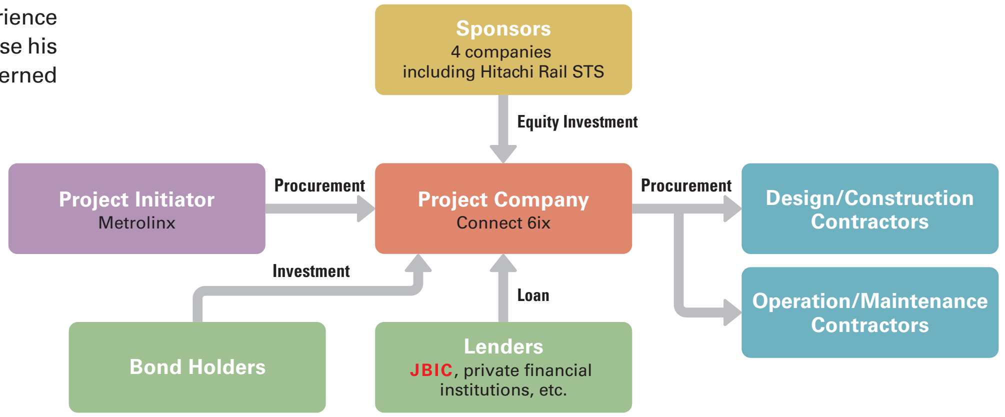
Online discussions during the pandemic led to greater solidarity after meeting face-to-face

The initiator of this public-private partnership (PPP) project is Metrolinx, an agency of the Government of Ontario; the project was awarded to Connect 6ix General Partnership, a Canadian consortium including Hitachi Rail STS S.p.A. of Italy, which is a wholly owned subsidiary of Hitachi, Ltd. Connect 6ix will supply rolling stock and systems for the 15.6-kilometer-long subway line, as well as handle its operation and maintenance for 30 years from completion.

However, the public bidding process for this project started in 2020, the same year as the COVID-19 pandemic, with talks with the project stakeholders beginning in 2021. JBIC was forced to work out the details through online meetings alone, with no face-to-face discussions. According to FURUYA, "Because of the large number of participants, we were holding these meetings with cameras turned off. But I think such circumstances also had a part in enabling more thorough and frank communications among us."

In September 2022, after Connect 6ix was selected as the "Preferred Proponent," the two went to Canada, and were finally able to meet the other stakeholders in person. This was the first time that they were able to match faces to the names of many of the individuals involved in the project. NIWA recalls, "It was also my first business trip. By personally meeting the many stakeholders, I felt that our solidarity for the success of the project was strengthened even more."

Toronto's new subway featuring the latest technologies of Japanese companies (CG rendering of completed line)



Deputy Director
Division 1
Social Infrastructure Finance Department
Infrastructure and Environment Finance Group

FURUYA Toshihiro

Joined the bank in 2008. After assignments such as representative in Mexico City, and in departments including the Oil and Gas Finance Department, he is currently involved in social infrastructure projects centering on rail and urban transit, as well as operations in the U.S., Canada, and other countries. Graduated from Keio University, Faculty of Economics.

Division 1
Social Infrastructure Finance Department
Infrastructure and Environment Finance Group

NIWA Hayato

Joined the bank in 2021. Is involved in social infrastructure projects such as rail and urban transportation, MaaS, water supply facilities, and waste treatment. Graduated from the University of Tokyo, Graduate School of Engineering. Was a member of the volleyball club during his university years.

Leading technology and JBIC: spreading Japan's strengths to the world's rail networks

This subway project will adopt the Hitachi Group's world-leading digital train control system—technology that enables advanced transportation services including with trains running as frequently as every 90 seconds. The project is also in the limelight for being in line with the Japanese government's "Core Japan" initiative, which promotes the use of leading Japanese technology to contribute to global decarbonization.

Participation in highly public railway infrastructure projects is not easy even for Japanese companies with their advanced technologies, unless they are comprehensively appraised for other merits including their experience, track record, financial strength, and reliability. It is also a fact that Japanese companies do not have a particularly large share of the global railway market. On the other hand, reflecting the shift toward decarbonization, railways are becoming valued again for their high environmental performance. Expectations are rising for the Japanese railway industry, with its advanced technological capabilities, to further expand business overseas.

According to FURUYA, "There is fierce competition among lenders for infrastructure projects in developed countries. Through this project, we were able to raise JBIC's profile and let the world know of our position as a Japanese policy-based financial institution. That is a very promising development for the future." NIWA also says firmly, "We want to also raise Japan's presence in the railway industry in countries that are projected to develop." In order to deliver Japan's strengths to the world's railway networks, these young leaders are now moving on to their next challenge.

Including SHIMMEI Shiori, who provided clerical support such as system registration, the three worked as a team on the project. FURUYA's commitment to giving young staff members more responsibility in work was evident here.

Project Summary

In November 2022, a loan agreement was signed for a maximum of CAD 450 million (JBIC portion) with an affiliate of Hitachi, Ltd. for a subway project in Toronto, Canada. This loan is co-financed, bringing the total amount to CAD 1.1 billion.

Press release on this project ▸▸▸

Chairman
HIROYUKI Co., Ltd.
NAKATA Hiroyuki
Born in Yangon, Myanmar. Came to Japan in 1991 and later obtained Japanese citizenship. Established Hiroyuki Industries (M) Sdn Bhd in Malaysia in 2001. Became the president of HIROYUKI through acquisition of shares in 2006 and has been chairman since 2012. Still travels around the world to expand the business.

HIROYUKI Co., Ltd.

Southeast Asia's first food grade PET bottle manufacturer to bottle recycler, also focuses on raising local awareness

With its production base located in Malaysia, the company manufactures and markets packaging materials and plastic resins. While continuously developing eco-friendly products and expanding its business in Southeast Asia, the company also strives to promote local awareness of recycling.

Focusing on the recycling of PET bottles with the aim to be a planet- and people-friendly company

"Plastic is a very eco-friendly material if it is properly reused," says NAKATA Hiroyuki, Chairman of HIROYUKI Co., Ltd. Paper products have come to be widely used in recent years as substitutes for plastic products. However, he questions this, "A lot of trees are cut down to make paper, and in the end, paper is incinerated as trash without being recycled. Is that really good for the environment?"

With a production base in Malaysia, HIROYUKI manufactures and markets packaging materials and plastic resins both domestically and abroad. Under its corporate philosophy of "Always providing products that take the global environment and costs into consideration," the company is the first in Southeast Asia to manufacture food grade—safe enough for packaging foodstuffs—recycled PET (polyethylene terephthalate) resin from used plastic bottles alone.

Key product PP (polypropylene) strapping band is used in a wide variety of applications.

A Myanmar native who became a naturalized Japanese citizen started a business in Malaysia

HIROYUKI took a unique path to where it is now. The current chairman, NAKATA Hiroyuki, was born in Myanmar. When his university was shut down in the crackdown on the pro-democracy movement, he came to study in Japan in 1991. Acquiring Japanese citizenship after graduating, he began working at a company that handled packaging materials. During his work there, he became aware that packaging materials of the quality found in Japan were not manufactured in Southeast Asia. And so local subsidiaries of Japanese companies were importing them from Japan.

"There is demand for products made locally if we can provide the same quality as Japan," he thought. With that in mind, in 2001, NAKATA himself established Hiroyuki Industries in Malaysia, where it was easy to procure the raw materials required.

From the start, the company has focused on the development of products with a low environmental impact. For cast stretch film, a packaging wrap used to secure materials and packages, the company reduced the thickness of the wrap's paper core to around one-tenth that of conventional products, resulting in reduced use of paper. This revolutionary product was the first of its kind in Southeast Asia.

Sales, including exports to Japan, were growing steadily when the company was approached by a business partner, a Japanese packaging materials company, which was interested in being acquired. NAKATA became president, and later chairman, of this company and made the Malaysian operations, Hiroyuki Industries, its production base. Aiming for further expansion, the company name was changed to HIROYUKI in 2009, followed in 2012 by the establishment of local subsidiaries in Myanmar and Vietnam, and sales offices in Vietnam and Thailand.

In 2018, a facility was built in Malaysia to collect post-consumer PET bottles and produce food grade recycled PET resin from them. Used bottles were thus able to be recycled into materials for new PET bottles. The first business of its kind in Southeast Asia, it was also boosted by the fact that China restricted imports of waste plastic in the previous year and was no longer accepting recyclable waste from overseas. HIROYUKI also utilizes recycled bottles to manufacture PET strapping bands for packing lumber and other materials.

Malaysia's low recycling rates and raising awareness at elementary schools

HIROYUKI's environmentally friendly products have a good reputation and are now widely exported to countries such as Canada and Australia, in addition to Japan and Southeast Asia.

Meanwhile, according to NAKATA, "The recycling rate of PET bottles in Malaysia is only 16 percent. Used PET bottles are still not sufficiently circulating in society." Anticipating further growth of the recycling business in Malaysia, HIROYUKI plans to expand its production facilities for recycled PET resin. A JBIC loan will support this effort.

At the root of Malaysia's low recycling rate is a lack of awareness. As a result, used plastic bottles are not properly collected and are often simply treated as garbage. "Firstly, I would like to teach children about the importance of recycling," says NAKATA. So, HIROYUKI launched "The Rescue PET Bottles School Project" recycling project at about 60 public elementary schools in the state of Johor, where its manufacturing plant for recycled PET resin is located. Through this project, children brought as many as 500,000 used plastic bottles to school between April 2021 and November 2022. The same program has been expanded to middle schools from April 2023.

"I would be happy if in five- or ten-years' time, they realize that they are contributing to society," says NAKATA with a smile. His eyes are set on the future as he aspires to engage in the recycling business and to raise environmental awareness not only in Malaysia, but also in Vietnam and his home country of Myanmar.

HIROYUKI Co., Ltd.	
1938	Predecessor company founded
2001	Launched the manufacture of high-quality PP and PET bands
2005	Business partnership with Hiroyuki Industries
2009	Changed name to HIROYUKI, current company name
2012	Established Hiroyuki Myanmar and Hiroyuki Vietnam
2014	Launched the manufacture of stretch film and PE tying twine
2018	Established Plant 2 in Malaysia Launched the Bottle-to-Bottle recycle business
2019	Established Plant 3 in Malaysia

Plant 3 in Malaysia completed in 2019. Its main operation is the manufacture of food grade recycled PET resin (left) from used PET bottles.

Loan Summary

In July 2022, a loan agreement was signed with HIROYUKI's Malaysian subsidiary, Hiroyuki Industries, for a loan up to EUR 2.56 million (JBIC portion). This loan is provided for the overseas business development of this Japanese company in growing markets such as Southeast Asia.

1973

Skyrocketing inflation and Japan's economic slowdown The global oil crisis and JEXIM's efforts

The first oil crisis of 1973 prompted Japan to change its energy policy. JBIC's predecessor, the Export-Import Bank of Japan (JEXIM), helped bring the financial side of the situation under control.

The oil crisis caused public panic, with consumers rushing to hoard goods (November 1973). The following year, Japan experienced its first economic contraction since the end of World War II.

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Surging oil prices and an abrupt shift in the booming economy Japan's economy also saw "soaring prices"

The 1970s saw the world economy facing stagflation—simultaneous inflation and weak economic growth. This was triggered by the first oil crisis in 1973 when the Organization of Arab Petroleum Exporting Countries (OAPEC) decided to drastically raise the price of oil and restrict its supply in support of the Arab side in the fourth Arab-Israeli War, which broke out in October. The official price of oil quadrupled in less than three months, sending shock waves across the world.

The impact on the Japanese economy in particular was enormous due to the country's heavy reliance on resource imports. The boom that had delivered Japan's rapid growth and transformed it into an economic powerhouse abruptly ended. Fear spread among the public, leading to panic buying of goods including petroleum products, toilet paper, and detergents. In 1974, the economy contracted for the first time since the end of World War II, ushering in an era of low growth for the Japanese economy.

To facilitate cooperation between industrialized countries, they held the first G6 summit in Rambouillet, France, in November 1975. Following this, the first oil crisis appeared to be resolved, with the Middle East oil-producing countries easing production cuts and lifting the embargo against the U.S. However, crude oil prices stayed high, and rises spread to coal, natural gas, uranium, and other energy sources. The second oil crisis, when the price of oil increased 2.7-fold in about three years, was triggered by the Iranian Revolution of February 1979 combined with the Iran-Iraq War that broke out in September 1980. Prices rose again in Japan, but major disruption was avoided due to the energy conservation, economic, and financial measures implemented after the first oil crisis.

The first oil crisis drove change JEXIM law amendment contributed to controlling the situation

In light of the impact of the first oil crisis, the government compiled the "Basic Direction for the Comprehensive Energy Policy" in December 1975. Energy policy was further strengthened as Japan sought to reduce dependence on imported oil and to diversify its alternative energy sources. To that end, JEXIM expanded loans related to resources such as petroleum, liquefied natural gas (LNG), and coal. JEXIM funds were also used for oil diplomacy: securing oil supplies through economic cooperation with petrostates.

There were also major changes in Japan's industrial structure. Energy conservation pressure led to some industries suffering sharp drops in profitability and structural decline, along with the emergence of SMEs eager to embark on overseas trade and investment to tap into international markets. In response, the government bolstered the financial support system by JEXIM. In 1976, the Export-Import Bank of Japan Act was amended, raising the borrowing cap, allowing foreign currency bonds to be issued for raising capital, establishing a system for SMEs to more smoothly utilize JEXIM funds.

Energy supply stability is a vital determiner of a country's future. The challenges that Japan faced due to the oil crisis prompted a major energy policy shift, and provided an opportunity to strengthen the presence of JEXIM's domestic financing.

The oil crisis and response by the Japanese government and JEXIM

1973	October	Outbreak of the fourth Arab-Israeli War (1st Oil Crisis)
	November	Panic buying in Japan
	December	Drastic rise in the official price of oil
1975	November	1st G6 Summit
1976	June	Partial amendment of the Export-Import Bank of Japan Act
1979	February	Iranian Revolution (2nd Oil Crisis)
1980	September	Iran-Iraq War

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