



## Rising and Shining: The Coming Bloom in Indo-Japanese Economic Relations

Peter Joy Hudson\*

Even as the debate on whether India and Japan are on the cusp of entering into a substantial strategic partnership goes on, the long wait appears to be over - almost - insofar as Indo-Japanese economic relations are concerned. Away from the spotlight and little discussed in the mainstream media, Indo-Japanese economic ties and technological cooperation have slowly but surely been moving forward and look set to come into their own.

The lull in bilateral relations due to Japanese sanctions on India following the 1998 Pokhran-II nuclear tests, was broken by the visit of Japanese Prime Minister Yoshiro Mori in August 2000. Significantly, Mori's visit was the first by a Japanese Prime Minister in a decade, after the one by Toshiki Kaifu in 1990. Mori and the then Indian Prime Minister Atal Behari Vajpayee agreed on establishing a 'Global Partnership in the 21st Century'. In subsequent high-level meetings, various measures were taken to move the relationship to a qualitatively higher level. The ground-work for enhanced cooperation between the two countries was essentially laid

during Prime Minister Junichiro Koizumi's visit to India in April 2005. The joint statement signed on the occasion, aimed to reinforce the strategic orientation of the partnership (Ministry of External Affairs [MEA] India, 2005). This was followed up by Koizumi's successor Shinzo Abe, during his visit to India in August 2007 (in his first short stint as Japan's Prime Minister). In an oft-quoted speech that he delivered at the Indian Parliament titled 'The Confluence of the Two Seas', he reiterated a strategic alliance between the democratic countries along the arc bordering the Eurasian continent, namely, the United States, Australia, Japan and India, that could form a role model for the countries in the region (Ministry of Foreign Affairs (MOFA), Japan, 2007). For a variety of reasons, the Indian government did not take this up.

However, both countries have upgraded bilateral ties and since 2007, Japan is one of the three countries with which India conducts regular annual summit meetings - the others being Russia and China. The only exception was 2012, when Manmohan Singh's proposed visit in

\*Research Associate, Institute of Chinese Studies, Delhi. The views expressed here are those of the author and not necessarily of the Institute.  
For feedback mail joy.peterhudson@gmail.com

November was postponed due to the announcement of general elections in Japan. In December 2011, a vision document was signed between the then Japanese Prime Minister Yoshihiko Noda and Manmohan Singh during the former's visit, to mark the 60th anniversary of the establishment of their diplomatic ties the following year (MEA, 2011). Since Abe's return to power in December 2012, both nations have demonstrated their interest in developing the relationship faster.

### **Economic Ties: Japanese FDI and its relevance for the Indian Manufacturing Sector**

Between 1951-2004, 53.6 percent of the FDI outflows to Asia were directed to the manufacturing sector (Lakhera, 2008:55). In the 1980s and 1990s, it was Indonesia and later Malaysia and then Thailand. Subsequently, Japanese businesses began to invest heavily in China. It is notable that though India was the first country to which Japan extended substantial Official Development Assistance (ODA) in 1957, even before China, this flow is still quite abysmal. However, following the rise of Chinese assertiveness in the region since 2010, including demonstrations and attacks against Japanese establishments in China, there have been increasing reports about the shift in Japanese FDI interest towards India. On the other hand, to sustain the growth of the Indian economy, which slowed down to five percent in 2012-13, from an annual average of eight percent over the last decade, New Delhi is clearly hoping for major investments from Japan.

The higher growth rates in the Indian economy over the last decade were essentially driven by growth in the service sector. For a developing country like India, it is the manufacturing sector, which should be the engine for growth and for generating higher employment. For the FY 2008-09, however, this sector contributed approximately 16 percent to the GDP<sup>1</sup> and a mere 12% to employment in India. The

---

<sup>1</sup> In China the manufacturing sector contributes about 34% to the GDP, whereas for India the share is 16%. China's share in world manufacturing is 13.7 %, up from 2.9 % in 1991 and the figure for India is a mere 1.8% (Planning Commission, India. n.d.).

Government of India aims to take this to 25 percent by 2025 (Planning Commission, India, n.d.). The Indian manufacturing sector's share in exports, does not fare well either. Though it increased after the liberalization of the economy through the 1990s, from 73 percent in 1990-91, to 80 percent in 1999-2000, it has declined to 66 percent in 2011-12.

The above-mentioned study by the Planning Commission reveals that one of the reasons for this lacklustre performance, is the low technological depth of the Indian manufacturing sector and the lack of planning and coordination between the various stakeholders involved in the various projects, right from the planning to the implementation stages (Ibid). It is evident that a turnaround in the performance of this sector is essential for the overall economic growth and also to enable India to reap the benefits of its much-discussed demographic dividend.

India and Japan could benefit mutually in this scenario, since there is a convergence in their requirements and aspirations. However, to make use of the opportunity the Indian government has to address the needs of Japanese businesses that are willing to invest in India. Unlike Western multinational corporations, Japanese companies, take comparatively longer time to study the conditions and possibilities in the new markets. To instill confidence in the Japanese businesses looking towards India, Prime Minister Singh in his address to the Keidanren (Japan Business Federation), during his May 2013 visit to Japan, assured them that his government was 'setting up special mechanisms to ensure that various regulatory clearances do not lead to delays' (MEA, 2013). The undoubted superiority of Japanese technology and innovation is emphasized, in the Technology Balance of Payments ratings of OECD countries, which puts Japan at a higher ratio of 4.6 (compared to the US at 1.6 and South Korea at 0.33. As cited in The Japan Times, 27 May 2013). But this opportunity could be lost unless the Indian administrative machinery swiftly and effectively removes the oft-cited stumbling blocks such as lack of quality infrastructure, lack of skilled manpower and long bureaucratic delays for setting up businesses in India.

## Skill Development

According to the above-mentioned Planning Commission study, lack of adequate skill-sets among its engineers and managers, is one of the reasons for India's weakness in the manufacturing sector. By taking a cue from the Japanese 'monozukuri'<sup>2</sup> culture, India could re-orient the curriculum of its technical institutions and thereby aid the fostering of a vibrant and efficient manufacturing culture. Perhaps a befitting example of this Japanese endeavor is the Indian Institute of Information Technology, Design and Manufacturing Jabalpur (IIITDM-J) which was established in 2005, following the agreement signed during Koizumi's visit to India in April 2005. The course structure of IIITDM-J has been devised to focus on IT-enabled design and manufacturing and for effective implementation of the unique curriculum of this institute, the Japanese government has formed a consortium comprising six renowned universities and private sector companies from Japan (IIITDM-Jabalpur).

Japan has also been instrumental in setting up the Indian Institute of Technology, Hyderabad (IIT-H) in 2008, after an agreement to that effect between Shinzo Abe and Manmohan Singh in 2007. The IIT-H is cooperating with its Japanese counterparts to learn from their expertise in the fields of Nano-technology and Nano-science, Digital Communication, Environment and Energy, Design and Manufacturing, and Civil Engineering (IIT- Hyderabad). During Singh's May 2013 visit, Japan pledged another US\$179.45 million, towards Phase II of the IIT-H campus development project (MEA, 2013b).

Apart from this, Japan has been imparting training in the fields of management and engineering to Indians, as part of the Association for Overseas Technical Scholarship (AOTS) network, since the 1970s. Those who have benefitted from their exposure to Japan, have

---

<sup>2</sup> *Monozukuri* refers to part of a manufacturing process that requires skilled, hands-on human labour. Examples of *monozukuri* include assembly, industrial design and engineering (Japan External Trade Organisation (JETRO), n.d.).

formed their alumni networks in nine states in India and have been involved in dissemination of the acquired skill sets in India and to people from other developing nations <sup>3</sup>.

## Infrastructure Development

Of the various infrastructure development projects committed by Japan so far, the largest is the one-of-its-kind, Delhi-Mumbai Industrial Corridor (DMIC) and the Western Dedicated Freight Corridor between Delhi and Mumbai, which aims to replicate the kind of industrial growth Japan had experienced in the 1960s and 1970s in its Kansai region. The DMIC project, with an overall investment of US\$100 billion, envisages the development of the project influence area into a 'Global Manufacturing and Trading Hub', complete with industrial centres, international connectivity options and new age urban centers, conceived and built combining Japanese environment-friendly technological expertise. The 'smart cities' envisaged as part of the project would be sustainable, transit-oriented livable cities, based on eco-friendly mass transport systems. The planned projects include Asia's largest sea-water desalination project at Dahej in Gujarat, the Model Solar Project in Neemrana, Rajasthan and, a gas-fired independent power producer project in Maharashtra (MEA, 2013b). The project influence area spans six states in Western India, covering an area of 4,36,486 sq.kms, which is 20 percent more than the total land area of Japan. It envisages development within 150 kms on both sides of the 1,483km long freight corridor. (DIPP-MoCI, 2007).

Other important projects supported by the Japanese include the North Karanpura Super Thermal Power Project, Ganga Action Plan Project and the Uttar Pradesh Buddhist Circuit Development Project. Moreover, the Japanese government has extended soft loans to major urban transport infrastructure projects, notably the Delhi Metro Rail Project and to the other metro projects on the anvil in at least three other cities in India - Mumbai, Bangalore and Chennai.

---

<sup>3</sup> The original AOTS Japan has been reconstituted and is currently known as The Overseas Human Resources and Industry Development Association (HIDA), (AOTS-HIDA Japan, n. d.).

During Singh's visit the Japanese committed approximately US\$722.5 million to the Mumbai Metro Line III (MEA, 2013b).

The Chennai-Bengaluru Industrial Corridor is a new infrastructure development project, which is also of interest to Japanese investors. The Japanese are seeking to replicate their high-speed rail network, the Shinkansen (bullet train) in India; both nations have agreed to finance a joint feasibility study for the Mumbai-Ahmedabad stretch. However, Indian Railways is more interested in the cheaper option of upgrading the existing railway lines to run passenger trains at 160-200 kmph (semi high-speed railway system); a feasibility study has been already conducted by Japan's cooperation in the existing Delhi-Mumbai route, which will be running parallel to the Western Dedicated Freight Corridor.

## **Energy Sector**

By the end of October 2012, six rounds of discussions had been held as part of the Japan-India Energy Dialogue. At the last round of deliberations held in Tokyo, there were meetings of six Working Groups on energy efficiency and conservation, renewable energy, electricity, coal, petroleum and natural gas, and nuclear energy (MEA, 2012b). The talks are aimed at enhancing the capabilities of the central and state-level agencies in the areas of energy efficiency and conservation - the two highly-acclaimed, pioneering areas of Japanese expertise. These dialogues also aim to impart Japanese expertise to the private and the small and medium enterprises (SME) sectors in India, particularly in the energy-intensive textile industry. Other ongoing important projects, where again pioneering Japanese technology is being introduced, are the DMIC Smart Community Initiative to develop next-generation energy infrastructure in an integrated manner by the use of photovoltaic power generation, smart grid and smart urban transportation, as also water management, recycling and treatment (MEA, 2012a).

In the May 2013 summit-level meeting, both leaders agreed to restart talks on civilian nuclear cooperation that had been stalled after the

nuclear meltdown at the Fukushima Daiichi nuclear plant (*The Hindu*, 29 May 2013). Indian concerns regarding the safety and regulatory mechanisms in Japanese nuclear installations, halted further negotiations. To address these issues, both sides have agreed to restart negotiations along two tracks - one, on the transfer of technology and, the other, to alleviate concerns regarding safety and regulatory mechanisms - which should hopefully culminate in an agreement for cooperation in the 'peaceful use of nuclear energy' (MEA, 2013b).

India has not changed its position on nuclear nonproliferation agreements, but both sides have agreed to work together to get India a full membership of all four<sup>4</sup> of the export control regimes (*The Hindu*, 29 May 2013). Going by the pace at which Abe is promoting the sale of nuclear technology to other countries,<sup>5</sup> it is very likely that an agreement will be signed between India and Japan in the near future. The nuclear sector in India cannot shy away from cooperating with the nuclear industry in Japan, considering that over the last decade, the global nuclear industry has seen a spate of mergers and acquisitions between the nuclear industry divisions of Japanese industrial giants such as Toshiba, Hitachi and Mitsubishi, to form Toshiba-Westinghouse and GE-Hitachi, while the Areva of France has bought stakes in Mitsubishi's nuclear division.

## **Comprehensive Economic Partnership Agreement (CEPA)**

Though India and Japan are cooperating in many spheres, their current level of trade is not very significant, standing at just US\$18.6 billion for 2012-13, with little change over the

---

<sup>4</sup> The Nuclear Suppliers Group, the Missile Technology Control Regime, the Australia Group and the Wassenaar Arrangement.

<sup>5</sup> Already Prime Minister Abe has signed agreements with Turkey and UAE on his visits to these countries in May 2013. In the first ever summit between the heads of states of the Visegrad group of Eastern European countries viz, Poland, Hungary, Czech Republic and Slovakia, and Japan in Warsaw on 16th June 2013, the leaders have agreed to deepen cooperation in the energy sector including nuclear and renewable energies. Further a nuclear energy pact with Saudi Arabia and Brazil is also under negotiation (*The Japan Times*, 17 June 2013).

previous year's US\$18.4 billion, with a slightly increased trade deficit of US\$6.45 billion in Japan's favour<sup>6</sup>. Crucially, Japan does not even figure in the list of India's top ten trade partners. Japan's import basket mainly consists of iron and steel, pearls and semi-precious stones, and aquatic and marine products, etc., while India imports industrial goods like boilers, iron and steel products, optical instruments, photographic films, automobile parts, etc.

The signing of the CEPA between India and Japan is a welcome step towards improving bilateral trade relations. Operational from August 2011, the agreement aims to improve the overall trade between the two countries and increase investment opportunities in both nations. Further, the Agreement envisages reduction or elimination of tariffs over the next 10 years in over 90 percent of goods traded. Significantly, the CEPA with Japan is the first such agreement India has entered with any of the industrialized countries. The pharma sector and rare earths are promising areas for future development. Japan imported 56 percent of its rare earths requirement in 2010<sup>7</sup> from China, which imposed restrictions on exports in 2010. Both governments have identified Indian Rare Earths Ltd. and Toyota Tsusho as the two organisations on either side, which would enter into an agreement to start production at the earliest (Ministry of External Affairs, 2013c).

### **People to People Interaction**

To understand the depth of interaction between the two nations, an important indicator would be the movement at the level of the people. There is a steady increase in the number of Japanese nationals who are coming to India for work or for travel. As on 1 October 2012, the number of Japanese nationals in India stood at 7,032, which is showing an increase of 21 percent over the previous year figure of 5,554 (Embassy of Japan in India, 2013). There is a steady increase in the

---

<sup>6</sup> Trade between India and Japan was at US\$ 10.9 billion in 2009-10, US\$ 10.4 billion in 2010-11 and US\$ 13.7 billion in 2011-12 (Ministry of Commerce and Industry, India. n.d.)

<sup>7</sup> China controls 90 percent of the globally traded rare earth minerals. Japan imported 56 percent of its rare earths requirement in 2010 from China which imposed restrictions on exports in 2010.

number of Japanese businesses as well which are registered and have offices in India. As on 1st October, 2012, the number of Japanese companies registered in India stands at 926 and the number of Japanese business establishments having offices in India stands at 1,804, compared to only 550 and 838 respectively as on 1st October 2008 (Embassy of Japan in India, 2013). For enhancing people to people contacts, Abe has expressed his intention to invite approximately 1,200 Indian youth to Japan, as part of the JENESYS 2.0<sup>8</sup> initiative. For a better understanding of the Japanese culture and its people, with assistance from the Japan Foundation, in 2007, the Central Board of Secondary Education introduced Japanese language as an optional subject from Class VI.

Arguably, at this stage of India's development and modernization, Japan is ideally situated - politically, economically, technologically and strategically - to provide India with the necessary inputs to accelerate its growth and impart momentum to its technological progress. Given the hurdles mentioned earlier, it will take some years before we see a turnaround in bilateral trade. But with relations between China and Japan plummeting since 2010, Japanese companies are looking at other countries to hedge their risks. India with its buoyant market can be an attractive destination for enterprising Japanese businesses. This may well constitute a far more meaningful and significant foundation for the strategic partnership, that is by all accounts, being pursued by the political and strategic elite of both countries.

### **References:**

- AOTS-HIDA Japan. (n.d.). Alumni Associations. <http://www.hidajapan.or.jp/en/network/alumni/index.html>
- Dept. of Industrial Policy and Promotion (DIPPP), Ministry of Commerce and Industry (MoCI). 2007. 'Concept Paper Delhi Mumbai Industrial Corridor', downloaded from. <http://dmicdc.com>
- Embassy of Japan in India. 2013.

---

<sup>8</sup> Japan-East Asia Network of Exchange for students and Youth (JENESYS). This programme was initiated by Abe himself in 2007 for fostering solidarity between the youth of the Asian countries, through exchange of youth on a large scale.

Indian Institute of Information Technology, Design and Management-Jabalpur (IIITDM-J). (n.d.). Indo-Japanese Collaboration, <http://www.iiitdmj.ac.in/IIITDM/IJCollab.html>

Indian Institute of Technology (IIT)- Hyderabad. (n.d.). IITH-Japan Collaboration, [http://www.iith.ac.in/other\\_links/iith\\_japan\\_collab.html](http://www.iith.ac.in/other_links/iith_japan_collab.html)

Japanese Prime Minister's Office. (n.d.). 'Japan Revitalization Strategy, Japan is back'. [http://www.kantei.go.jp/jp/singi/keizaisaisei/pdf/en\\_saikou\\_jpn.pdf](http://www.kantei.go.jp/jp/singi/keizaisaisei/pdf/en_saikou_jpn.pdf)

Japan External Trade Organisation (JETRO). (n.d.). [http://www.jetro.org/documents/Monozukuri\\_Definitions.pdf](http://www.jetro.org/documents/Monozukuri_Definitions.pdf)

Lakhera, M. L. (2008). Japanese FDI Flows in Asia: Perspectives and Challenges. Palgrave Macmillan.

Ministry of Commerce and Industry, India (n.d.). 'System on Foreign Trade Performance Analysis (FTPA). <http://commerce.nic.in/>

Ministry of External Affairs (MEA), India. 2005. 'India-Japan Partnership in the New Asian Era: Strategic Orientation of India-Japan Global Partnership', 29 April, <http://www.mea.gov.in/>

-----, 2011. 'Vision for the Enhancement of India-Japan Strategic and Global Partnership upon entering the 60th Anniversary of the Establishment of Diplomatic Relations', 29 December, <http://www.mea.gov.in/>

-----, 2012a. 'Joint Statement on the 5th India-Japan Energy Dialogue', 30 April, <http://www.mea.gov.in/>

-----, 2012b. 'Joint statement of the Sixth India-Japan Energy Dialogue between the Planning Commission of India & the Japanese Ministry of Economy Trade & Industry', 10 October, <http://www.mea.gov.in/>

-----, 2013a. 'Address by the Prime Minister at the luncheon hosted by the Nippon Keidanren', 28 May, <http://www.mea.gov.in/>

-----, 2013b. 'Joint Statement issued by Japan and India after the May 2013 visit to Japan by the Prime Minister Manmohan Singh', 29 May, <http://www.mea.gov.in/>

-----, 2013c. 'Transcript of the media briefing by Foreign Secretary in Tokyo on Prime Minister's Japan visit'. 29 May, <http://www.mea.gov.in/>

Ministry of Foreign Affairs, Japan. 2007, 'Confluence of the Two Seas', 22 August, <http://www.mofa.go.jp/>

Planning Commission, India. (n.d.). The Manufacturing Plan: Strategies for Accelerating Growth of Manufacturing in India in the 12th Five year Plan and Beyond. [http://planningcommission.nic.in/aboutus/committee/strgrp12/str\\_manu0304.pdf](http://planningcommission.nic.in/aboutus/committee/strgrp12/str_manu0304.pdf)

The Hindu. 2013. 'India, Japan to speed up talks on nuclear deal', 29 May, <http://www.thehindu.com/>

The Japan Times. 2013a. 'South Korea's export crisis', 27 May, <http://www.japantimes.co.jp/>

The Japan Times. 2013b. 'Abe cements energy ties with East European leaders', 17 June, <http://www.japantimes.co.jp/>



- No. 8 April 2013 : China's Military Power**
- No. 7 Mar 2013 : Self-immolations, the Tibet Question and the Way Forward**
- No. 6 Aug 2012 : China and Revival of the World Economy**
- No. 5 May 2012 : The US-China "Strategic Distrust": Perceptions from New Delhi**
- No. 4 May 2012 : Chinese Reactions to India's Agni-V Test Firing**
- No. 3 April 2012 : Bo Xilai's Exit : Some Interpretations**
- No. 2 April 2012 : China, India and the Indian Ocean Region: Need to Move from  
Balance of Power to Cooperation**
- No. 1 Nov 2011 : Postponement of the 15th Special Representative-level Talks:  
Possible Causes and Implications**