

INDIA-JAPAN RELATIONS: TOWARDS A NEW DAWN

By **Tarun Das** (Founder Trustee, Ananta Aspen Centre) &
Samarth Pathak (Program Officer, Ananta Aspen Centre)

INDIA AND JAPAN: A SPECIAL FRIENDSHIP

"India holds a special place in Prime Minister Abe's mind, and sky is the limit for the Delhi-Tokyo relationship.

This is India's Japan Moment, and Japan's India moment."

– TOMOHIKO TANIGUCHI, Special Advisor to the Cabinet of Prime Minister **Shinzo Abe**.

Ahead of Indian Prime Minister Narendra Modi's planned visit to Japan, power corridors in New Delhi and Tokyo are abuzz with expectations. Can India and Japan join hands to strengthen the Asian economy? Can Japanese investment into India be scaled up to \$100 billion over the next decade? Can "Modinomics" and "Abenomics" work in tandem to not only boost bilateral ties but also energize global markets?

Answers to a lot of these questions hinge on the broad roadmap of relationship that the two governments will chart out during Modi's visit. Diplomatic relations between India and Japan were established in 1952, and since then, the two nations have come closer. New opportunities to forge closer ties further emerged in the 1990s, with the opening up of the Indian economy, the end of the Cold War and the beginning of India's "Look East" policy. Over the years, bilateral economic ties have substantially expanded with increased trade, joint ventures and technical collaborations. The two countries are also engaged in wider issues such as nuclear disarmament, maritime security, UN reforms and other areas of regional and global importance.

This optimism in ties is supplemented by a deep political will. At several fora, the Prime Minister has been quoted as saying, *"Japan is my first love."* As the Chief Minister of Gujarat, Modi actively worked with Japanese government and corporates in areas of business, energy and infrastructure. He has also always indicated a keen interest in strengthening existing connections with the Japanese business community and attracting greater investment in Indian infrastructure.

Hence, renewed efforts aimed at bolstering strategic and defence cooperation, and securing a ten-fold rise in trade and investment between India and Japan, are imperative. Taking the relationship to newer heights would require out-of-the-box ideas. The discussion must shift from lauding the strength of bilateral ties to finding new avenues of cooperation—and now.

SCALING UP COOPERATION: EMERGING AREAS

1. Enhancing Trade

- Since the focus of both governments is on fixing the economies, the priority areas should include encouraging cross-border investments and capitalising on freer trade and markets. India should also reach out to Japanese

corporates more proactively. To develop, India requires foreign investments to the tune of \$1 trillion in infrastructure sector alone. A large chunk of these investments would need to come from the private sector.

- Currently, Japan is involved in nearly 70 infrastructure projects in India, and has invested \$4.5 billion in the Delhi Mumbai Industrial Corridor. Indian infrastructure has also benefited from the \$2.32 billion aid extended by Japan in 2013. Moreover, Japanese companies such as Mitsubishi, Suzuki Motors and Toshiba Corporation have been investing in the Indian markets and collaborating across sectors. Despite such high-ticket projects, bilateral trade between India and Japan stood at only \$18.5 billion in 2012-2013. Though the trade volume has nearly tripled from \$6.5 billion in 2005-06, it barely scratches the surface, given the limitless canvas of opportunities that the two nations have to offer.
- At present, over 1000 Japanese companies are based in India. To ensure this number goes up to 5000, the government would need to smoothen the ease of doing business in India. Some of the measures towards this end can be to establish a 30-day time limit for approvals, and provide assistance to Japanese companies with their meticulous research. On the flip side, there are a very few Indian companies operating in Japan. The joint venture between Tata Consultancy Services and Mitsubishi this year is a big symbolic step in this direction. The two sides should now work on multiplying Indian presence in Japan through this route of more joint ventures, especially in water projects, NANO technology, satellite and communication equipment, biotechnology, industrial parks and townships. Apparel industry is also a lucrative sector—Japanese retail giant 'Uniqlo' recently announced its plans of setting up a thousand stores in India. Joint efforts in sourcing and procurement of goods and services could also prove to be beneficial for both sides.
- On the ASEAN front, affinity between India and Japan is vital to facilitate integration of multilateral interests. Counter-terrorism and economic exchange are also areas where greater synergy can be mobilized. However, promoting freer trade in the region will hinge on injecting power into instruments such as the Regional Comprehensive Economic Partnership (RCEP)—this is something that needs a joint push from the two sides.
- Despite warming of ties between New Delhi and Tokyo, China continues to be Japan's largest trade partner. According to a Japan External Trade Organization (JETRO) release, Japan's total trade with China dropped 3.3% to around \$333 billion in 2012, marking the first drop since 2009. Imports from China rose 3% to \$189 billion, setting a record high with single-digit growth. The increase was noted in Japanese imports of communication devices (smartphones and tablet PCs), car components, and processed meat. Essentially, mineral fuels, machinery and heavy equipment, textiles, food, chemicals and raw materials constitute Japan's chief imports.
- Raw materials and textiles are key sectors where India can boost its exports to Japan. Tokyo's imports of clothing and accessories from China have significantly declined, both in financial terms as well as quantity. This can be attributed to the fact that manufacturers are increasingly shifting production from China to other nations to reduce costs. At present, Japanese garment buyers are looking towards Pakistan and Vietnam in a bid to reduce textile-import dependency on China. India must tap into this demand pool by setting up dedicated garment producing units for export to Japan. Raw cotton, finished garments and "khadi" are also export-worthy goods that can be injected into the bilateral trade mechanism.
- Similarly, India can tap into its own resource base to supply more raw materials—iron ore, coal, cotton, latex and timber—to Japan. It may be noted that New Delhi had inked a landmark treaty with Japan in 1946 to provide essential raw resources that helped kickstart Japanese industry following the Second World War.

2. Boosting Investments

- An interesting idea that may be worth exploring is the creation of Special Economic Zones for Japanese companies to complement India's investment needs. In the past few years, Neemrana, a small town in western

India's Rajasthan state, has emerged as a successful investment hub for Japanese companies. Creation of such SEZs, dedicated exclusively for Japanese investors, will go a long way in driving infrastructure and manufacturing in the coming years. Work should also be expedited on the Delhi Mumbai Industrial Corridor, which is a symbol of major Japanese investment and participation in India. On similar lines, there is scope to work on other heavy duty projects as well, such as the Amritsar-Delhi-Kolkata Industrial Corridor or the Mumbai-Bangalore-Chennai Industrial Corridor.

- Collaborations on high-speed trains must remain high on the agenda for both countries. Indian Metro is a landmark sector for mutually-beneficial collaboration. The recently opened Metro network in Mumbai was made possible through a Japanese loan worth \$753 million. Besides the proposed tie-up on creating an Ahmedabad-Mumbai link, Japan and India can work jointly in creating the Mumbai-Bangalore-Chennai network—a task that can be given to Central Japan Railway Company for a feasibility study. At an Ananta Aspen Centre discussion earlier this year, **Mr Yoshiyuki Kasai remarked**, *“India has a strong conventional railway network. However, there is immense potential for high-speed trains in an industrialising India. There will be cost implications to setup a high-speed railway network between important Indian towns and cities lying within a 300-600 kilometre radius, but the long-term economic and social impact will be huge.”* However, financial burden incurred in setting up bullet trains and high-speed railway networks in India can be significantly reduced by using Public Private Partnership model.
- Further, greater cooperation can be fostered in India's Micro, Small and Medium Enterprises (MSME), since every large Japanese company investment brings with it huge development of MSMEs. Such measures will lead to an explosion of SME growth, because entrepreneurship comes naturally to Indians. In the manufacturing sector, Japanese systems and practices are one of the best in the world. Successful initiatives like the Visionary Leaders' for Manufacturing Program (VLFM)—conducted jointly by the Confederation of Indian Industry (CII) and Japanese management expert Prof. Shoji Shiba—need to be continued and expanded.
- A core demand of Japanese businesses' is the inclusion of “rollback” provision in the current Advance Pricing Agreement (APA) Scheme. The APA Scheme has not regulated specific provision on firewalls among tax departments in India, which would secure taxpayer information confidentiality and make it easier for them to participate in the APA Scheme. The merit for India in this is that introducing such provisions would enable Japanese firms to embrace APA more effectively, which would in turn boost FDI in various sectors of the Indian economy.
- The success of Maruti Suzuki is regarded as one of the hallmarks of India-Japan cooperation, which actually heralded a new industrial and manufacturing revolution in India. Such was popularity of its flagship car—the Maruti 800—that all of India was swept in a wave of emotional nostalgia when it drove into the sunset last June. New Delhi and Tokyo must now strive to establish at least ten more similar symbols of success that can capture popular Indian imagination *a la* Maruti Suzuki. The important thing to recognize is that Japanese investments require supportive ecosystems—which can be facilitated by setting up Japanese language training centres, restaurants and golf courses.

3. Synergising Energy Partnerships

- Energy cooperation is another definite focus area. Today, an increasing number of Japanese companies are manufacturing energy-efficient innovations and renewable technologies. For instance, Toshiba has invented batteries capable of recharge 1,000 times, while other companies are producing unique ways of recycling and reusing water. Solar technologies are also coming out of Japanese firms, which can help meet Indian energy requirements. Undeniably, Japan is number one in the energy sector, with proven expertise

in resource-efficient practices. India can potentially save billions of dollars by learning energy-efficient measures from Japan and cutting out wastage. India also offers a relatively untapped market for renewable and solar-based products from Japan.

- This is an opportune time to frame a strategy for greater nuclear cooperation. A nuclear partnership with Japan would greatly enhance India's quest for clean energy while infusing fresh life into Japan's ailing economy. This would, however, require a deft diplomatic and business push to bring about synergy and a sense of urgency in this area. It is equally important for India to respect and work on Tokyo's sensitivity on the safe use of nuclear energy.

4. Strengthening the Defence and Strategic framework

- To further expand the canvas of India-Japan relations, Modi and Abe should work on bringing to the table elements of national security and foreign policy, besides economic components. Strengthening the defence architecture and nuclear energy are areas where the two countries can work together.
- There are two aspects to strategic partnership: the supply of military equipment to India, and collaboration of defence industry. Both are equally vital in setting the ball of cooperation rolling. However, understanding Japan's past policies—some of which need review—is a prerequisite before taking things forward. Tokyo's recent move to review ban on military exports stands to go a long way in giving a fresh lease of life to Japan's defence firms, and at the same time, this will also enable Indian military forces to acquire state of the art warfare equipment. India is close to sealing the deal for purchasing 15 amphibious aircraft, which will not strengthen New Delhi's defence as well as bolster Japanese economy. It is interesting to note that as a sign of warming defence ties, Japan is participating alongside India and the U.S. in the ongoing Malabar Naval Exercise. In addition, Japan and India can also work together on production of seaplanes and tanks.
- Maritime security is another key stimulant for India-Japan security relations. Both Japan and India are surrounded by huge expanses of water—Indian Ocean, Bay of Bengal, the Arabian Sea, Pacific Ocean, the Sea of Japan and the East China Sea—which makes strengthening naval security a strategic imperative. Post the 26/11 Mumbai attacks, India has been increasingly wary of a similar sea-incursion, and Tokyo's support can prove to be a game-changer in cementing New Delhi's naval presence. At the same time, India should review its presence in the South China Sea in response to Beijing's increasing overtures in the Indian Ocean, with support from Tokyo.

5. People-to-People Exchange

- The potential to expand tourism is huge, especially due to historical and religious linkages. Recognizing this, the governments of Japan and India inked a Memorandum of Understanding (MoU) in 2013 with the aim of exchanging tourist information and boosting cooperation between operators and stakeholders. As a result, more than 6000 Japanese tourists benefited from India's visa-on-arrival scheme in 2013, and in all, nearly 220,000 Japanese tourists visited India the same year.
- India's iconic Buddhist sites—especially at Gaya, Sarnath, Nalanda and Vaishali—can emerge as tourism hubs for the Japanese. However, this would entail a complete overhaul of Indian tourism infrastructure, quality of facilities and cleanliness. Boosting tourism in India and Japan is essential to infuse energy in both economies while building trust between the two peoples. Unless people-to-people contact is deepened and widened, comfort levels between both sides will be difficult to cultivate.
- Education as a sector is also a vibrant avenue for joint initiatives. The exchange of students and research scholars through fellowships and endowments is extremely important. For this purpose, the two sides should identify and support specific universities in both countries to expand exchanges.

6. Rural Development

- Another thriving yet relatively unexplored domain of partnership is rural development. In this area, a great new initiative is “The Village Buddha” project, conceptualized by Prof. Shoji Shiba. This model encourages social and economic development of local communities, while enabling corporates to use their CSR budgets judiciously. With Japanese support, such programs can be truly transformational for rural India.
- The Japanese International Cooperation Agency (JICA) has a crucial role to play in India's development sector. In 2012, JICA extended a \$3.5 billion assistance to India for several Metro projects in Delhi, Kolkata, Bengaluru and Chennai, besides human resources development. JICA stands to play a huge role in supporting India's quest for development.

A NEW DAWN

The potential to scale up bilateral ties between India and Japan is limitless. Both governments are stable, strong and led by visionary and enterprising leaders who are guided by a strong will. There is no historical baggage of contentions between the two countries, and Japan is the only country with which the Indian Left and Right streams of political thought have no issues. In fact, India should try and imbibe some core Japanese principles—their culture of loyalty, punctuality and cleanliness. Inarguably, Japan can touch every aspect of Indian society.

What is required now is greater synergy in the realms of foreign policy, defence, nuclear energy and trade. If a vibrant India and a strong Japan can work cohesively to forge a mutually-viable partnership, it will indeed be a new dawn not only for Asia, but for the world.

Author Donald Richie, in his seminal book, *A Lateral View: Essays on Culture and Style in Contemporary Japan*, wrote: “Japan never considers time together as time wasted. Rather, it is time invested.” A strong India-Japan relationship is indeed an investment for the future. Undeniably, this is India's Japan moment, and Japan's India moment. And it is imperative for the two government to capitalize this opportunity. ✦

(Tarun Das is Founder Trustee, Ananta Aspen Centre and Samarth Pathak is Program Officer, Ananta Aspen Centre. The New Delhi-based Centre is an independent and not-for-profit organisation that facilitates open dialogue on important problems facing Indian society, to help foster its transformation. Views expressed are personal.)