

India-Japan Relations: Trends and Prospects

By
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According to B. Ramaniⁱ, the use of the term strategic generally has two connotations. Firstly, it is a long-term relationship with a common vision and shared interests and concerns and not a tactical, short-term or fire-fighting relationship. Secondly, the national security of the two countries forms an important component of the bilateral relationship. High-level political contacts between India and Japan in recent years have produced a multitude of political documents:

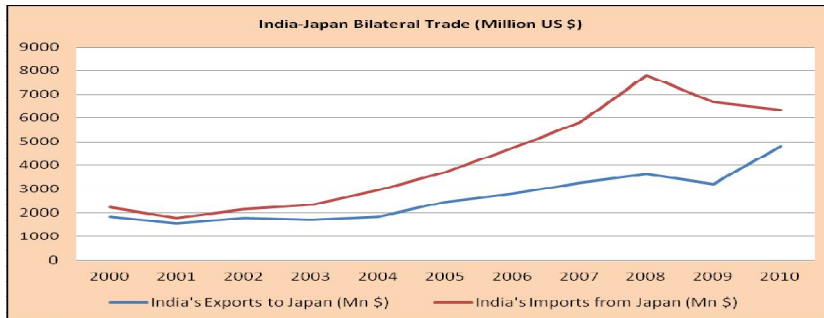
- Joint Statement Towards Japan-India Strategic and Global Partnership (December 2006)
- Joint Statement On the Roadmap for New Dimensions to the Strategic and Global Partnership between Japan and India (August 2007)
- Joint Statement on the Advancement of the Strategic and Global Partnership between Japan and India (October 2008)
- Joint Declaration on Security Cooperation between Japan and India (October 2008)
- Joint Statement by Prime Minister Dr. Yukio Hatoyama and Prime Minister Dr. Manmohan Singh: New Stage of Japan-India Strategic and Global Partnership (December 2009)
- Joint Statement on the Vision for Japan-India Strategic and Global Partnership in the Next Decade (October 2010)
- Vision for the Enhancement of India-Japan Strategic and Global Partnership upon entering the year of the 60th Anniversary of the Establishment of Diplomatic Relations (December 2011)

These documents are an indication of progress in bilateral relations. However, it is useful to keep in mind that politico-strategic relations between India and Japan have progressed in tandem with Indo-US engagement. The first trilateral security meeting held between the three countries recently to discuss security issues in East Asia is thus along expected lines. The strategic formulations emanating from Washington connecting the United States, India, and Japan are the linking thread. The key points of this trilateral framework are as followsⁱⁱ:

- The United States, Japan and India have shared interests in establishing an open and inclusive regional architecture in Asia at a time when a variety of new forums and institutions are taking shape.
- The three nations should, therefore coordinate closely to ensure that Asia retains an open regionalism and that the regional agenda in these various forums and institutions advances their shared norms.
- Trilateral cooperation among these three democracies or quadrilateral dialogue with Australia should not be seen as targeted at China but rather as a stabilizing factor in broad regional dynamics.

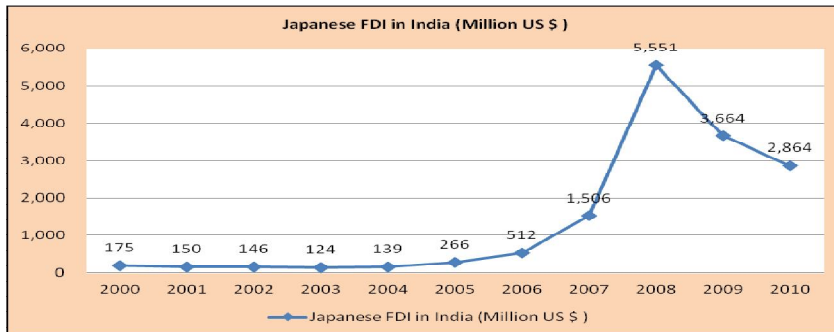
Rather, from a bilateral standpoint the most noteworthy and tangible improvement in India-Japan relations has been in the economic sphere and this is where India should direct its energy. As the figures below show economic relations between India and Japan in recent years have gathered momentum after years of stagnation.

Fig 1: Trends in India- Japan Bilateral Trade



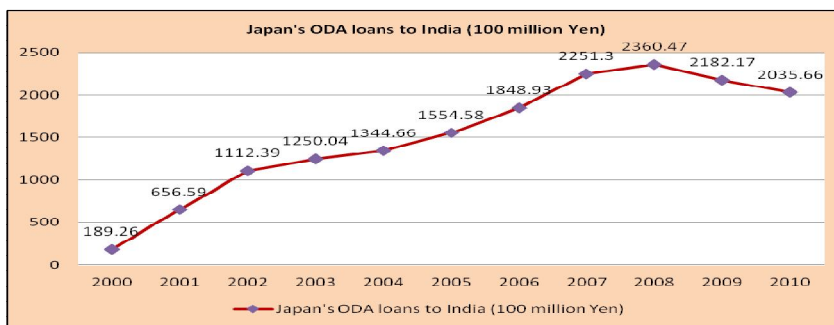
Data Source: WITS

Fig 2: Japanese FDI in India



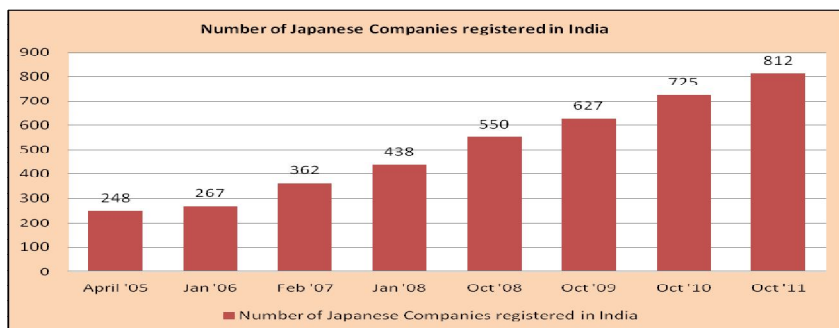
Data Source: Japan External Trade Organization (JETRO)

Fig 3: Japan's ODA Loans to India



Data Source: Embassy of Japan, New Delhi

Fig 4: Number of Japanese Companies in India



Data Source: Embassy of Japan, New Delhi

The above figures are not very impressive when seen in terms of India's share in Japan's total global trade and investment. Only in the case of development assistance India has been the largest recipient of Japanese ODA loans since FY 2003.

Total trade between the two countries in 2010-11 was US\$ 13.8 billion. This is only about 1 per cent of Japan's global trade. In contrast, trade with China, Japan's top partner, was US\$ 163.2 billion in the first half of 2011, setting a new record on a first half-year basis. On the other hand total trade between India and Japan has already reached US\$ 13.2 billion during the first nine months of 2011, indicating an increase of 23.9 per cent over the same period of previous year. Japan's exports to India witnessed an increase of 26.1 per cent over January-September, 2010, to reach US \$ 8.11 billion while its imports from India rose by 20.6 per cent to US \$5.09 billion.

With regard to foreign direct investment (FDI) the cumulative inflows from Japan since April 2000 – April 2011 are about US\$ 5.5 billion, 4 per cent of total inflows into India. Japanese FDI into China in just 2010 was more than US\$ 22 billion. On the other hand FDI inflows from Japan from April 2010 – March 2011 were US\$ 1.5 billion. The figure for Jan-Sept 2011 is US\$ 834 million, a 44 per cent increase over the same period of last year. In fact the Japan External Trade Relations Organization (JETRO) figure for FY 2010 is even higher at US\$ 2.8 billion as it takes into account 're-invested earnings'.

Also the number of Japanese companies with business operations in India has doubled in three years. As of Oct 2011, 812 Japanese companies are operating in India with 1422 establishments across the country. The sectors attracting Japanese investment are automobile industry, electrical equipment, trading, service sector (financial & nonfinancial), and telecommunications.

The factors that have contributed to the changing Japanese perception of the Indian economy include economic growth despite the global economic downturn; domestic demand; projections of expansion of India's working population aged 15-64 over the long term; strengthening ties with other East Asian economies particularly South Korea; and geographically strategic position of India to develop as a production and export base for the growing market in the Middle East and Africa.

The governmental support has come in the form of the Special Economic Partnership Initiative (SEPI). This has several high visibility flagship projects like Western Corridor of the Dedicated Freight Corridor (DFC) and the Delhi-Mumbai Industrial Corridor (DMIC). The total volume of Japanese ODA loan committed for the first phase of the Western Corridor is about 405 billion Yen. The DMIC is projected to attract foreign investment worth about US\$92 billion and will be built around DFC and will include cooperation in development of sea ports on the west coast and industrial estates and Special Economic Zones with high quality physical and social infrastructure through collaboration between private and governmental sectors of India and Japan.

The institutional framework to further accelerate and consolidate business activities between India and Japan has been put in place with the Comprehensive Economic Partnership Agreement (CEPA) that came into effect in August this year. As part of the CEPA, India will eliminate tariffs on 90 per cent of its imports from Japan, and Japan will remove tariffs on 97 per cent of Indian imports on a trade value basis within 10 years. In addition the CEPA relaxes barriers on investment, trade in services and movement of professionals. With tariffs slashed on more than 8,000 products including generic drugs, apparel, agricultural products and machinery the bilateral trade between both countries is expected to reach US\$ 25 billion by 2014. According to the Japan Chamber of Commerce and Industry in India (JCCI), which issues certificates of origin under the Japan-India CEPA, in the first month after the agreement came into force it supplied 439 such certificates. This is the largest number of certificates of origin they have issued in the first month of a CEPA concluded by Japan.

India's economic growth is extremely favorably placed in Japanese perspectives and is generating strong imperatives for Japan to engage with India in a substantial manner. The Japanese Prime Minister Noda's visit in December 2011 has reaffirmed this. The key announcements during this visit included a revised bilateral currency swap arrangement from 3 to 15 billion US dollars and the intention of the Government of Japan to make available for Delhi-Mumbai Industrial Corridor (DMIC) projects Japan's public and private finance totaling 4.5 billion dollars in the next five years.

Thus economics is the driving force in contemporary relations between India and Japan. The Indian policy makers need to actively encourage and foster bilateral economic engagement and enlist Japan as an important partner in our long-term growth strategy. It is bilateral relations based on economic cooperation and not balance of power formulations viz China that will better withstand the test of time.

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ⁱ B. Raman “The Hype Behind India’s Japan Ties” http://www.atimes.com/atimes/South_Asia/GF16Df02.html

ⁱⁱ *The United States, Japan and India: Toward New Trilateral Cooperation* (Washington: Report of the Center for Strategic and International Studies) August 16, 2007. Available at http://www.csis.org/media/csis/pubs/070816_us_j_ireport.pdf