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India-Japan Relations: A Partnership for Peace and Prosperity

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In 1949, Prime Minister Jawaharlal Nehru donated an Indian elephant named Indira to the Ueno Zoo in Tokyo. He hoped that Indira would bring joy into the lives of Japanese children, still suffering from the aftermath of World War II. That gesture is typical of the exchanges between these two Asian nations. Because India's and Japan's relationship faces no structural impediments, their interactions are generally marked by goodwill. From 2000 on, the two countries have come closer together, and their ties have expanded beyond economics to security. A close India-Japan link could affect the strategic configuration of Asia, provided the two countries overcome the bureaucratic and political factors that still inhibit their relationship.

Expanding Economic Cooperation: Until the early 1990s, economic relations between India and Japan revolved primarily around aid. The focus of the bilateral relationship began to expand after 2000. Aid remained a central component of the relationship, however, with India becoming the largest beneficiary of development loans from Japan in 2003. Between 2005 and 2006, India received approximately \$1.5 billion dollars from Japan to improve infrastructure and eradicate poverty.

In June 2006, the Japanese and Indian governments released a report of the India-Japan joint study group that encouraged comprehensive economic cooperation, including increasing trade and investment flows. The report's release signified the expansion of the bilateral economic relationship beyond official development assistance and aid. 2007 was India-Japan friendship year, with 120 trade events and a 40 percent increase in Japanese foreign direct investment in India.

Infrastructure and Industry: India views a strengthened economic relationship with Japan as a way to increase investment in its infrastructure. In the next few years, India needs to invest at least \$300 billion in its infrastructure to sustain its high growth rates. Without this investment, the nation will be unable to lift a third of its population out of poverty.

The governments of Japan and India have successfully partnered on infrastructure projects in the past. The Delhi Metro, their best-known, recent project, stunned Indians grown cynical about publicly financed infrastructure by finishing on time and on budget. Japan views economic cooperation with India as an opportunity to diversify its commercial relations beyond those concentrated in China and the United States. A nation with a rapidly aging population, Japan can use investments in India to benefit from India's highly educated and growing workforce. Japanese officials have also expressed admiration for India's IT, pharmaceutical, and biotech industries.

Tokyo has pledged to provide Delhi with a soft loan of \$4.5 billion to fund the first leg of the Delhi-Mumbai railway freight corridor, which will connect India's northern states with ports in the country's west. It also committed to supporting the rest of the corridor, which if completed would cost \$90 billion and span six states. The Japanese government has also promised to encourage five Japanese companies to set up industrial bases along the corridor. The recent economic crisis has slowed the project and created talk of Japan revising its financial commitments downward. However, the rapid construction of the freight corridor would enhance India's manufacturing industry while creating a real and enduring foundation for the India-Japan economic partnership.

Private Sector Ventures: Beyond government initiatives, the India-Japan bilateral economic relationship is being enhanced by the integration of the nations' private sectors. Japanese companies have made substantial investments in Indian industry. Mitsubishi financed a petrochemical plant in Haldia (near Calcutta). In June 2008, Japanese pharmaceutical company Daiichi Sankyo bought a 34.8 percent controlling stake in India's largest pharmaceutical firm, Ranbaxy Laboratories. A few months later, Japanese telecom giant NTT DoCoMo bought a 26 percent stake in Tata Teleservices Ltd. (TTSL).

The flagship Japanese investment in India is still car manufacturer Maruti-Suzuki, which is celebrating its 25th year in India. The company sells one of every two cars sold in India, exemplifying the success of Japanese investors in India. More than 80 percent of Japanese companies in India are profitable and more than 90 percent have expansion plans. According to Japanese embassy figures, the number of Japanese companies operating in India has increased from 260 to 560 over the last two years. The Japan Bank of International Cooperation (JBIC) recently listed India as the number one country for strategic long-term investment.

Obstacles to Economic Ties: Despite these positive developments, India and Japan face obstacles in solidifying and intensifying their economic cooperation. First, Japanese investors are put off by India's complicated bureaucracy and poor physical infrastructure. Second, Japanese companies are generally cautious about their overseas investments. Having had bad experiences in the 1980s with real estate and in the 1990s with technology companies, Japanese firms are somewhat risk averse. These two factors have ensured that both Korea and China are ahead of Japan in market penetration in India, gaining access to more consumers. Japan must overcome its fears about the Indian economic climate to fully benefit from a partnership with India. Meanwhile, India must continue to focus on creating an inviting environment for foreign investment, including that of Japan.

Despite the aforementioned challenges, accelerated economic cooperation between Japan, the world's second-largest economy, and India, which is emerging as a central economic force, will add depth to Asian economic integration and international economic stability.

Collaboration on Energy Issues: Japanese leaders have frequently stated that one of their primary foreign policy objectives is promoting energy conservation. International Energy Agency (IEA) statistics indicate that to produce one unit of GDP, India needs 9.2 times as much energy input as Japan does. India is open to technologies that curb emissions and is currently pursuing alternative energies including wind and hydropower. Collaboration with Japan, including technology transfers, would allow India to improve its energy efficiency, thereby positively affecting global energy security and climate change.

There is also need for private sector cooperation on energy initiatives. Private sector cooperation will require India to reform its regulatory environment and enforce intellectual property rights. Unless reorganized, India's multiple energy bureaucracies and its lack of a centralized energy policy will be impediments to energy cooperation with Japan.

It is evident that successful energy cooperation would require both India and Japan to make large fiscal and governmental commitments. However, it is also clear that in pursuing the common objectives of energy efficiency and security, India and Japan could meet their respective goals of economic growth and lead the fight against climate change.

Nuclear Cooperation: Bilateral civil nuclear cooperation between India and Japan will provide an important link between India's concerns about energy security and economic growth and Japan's desire to be a leader in addressing the challenges of global climate change. For example, if, as is hoped, India adds 20 gigawatts of new nuclear power capacity by 2020, the globe would benefit from 145 million tons in carbon dioxide savings; this would equal the entire European Union reduction of greenhouse gases under the Kyoto Protocol. Moreover, Japanese companies could stand to gain a great deal by helping India to implement the requisite technology to achieve these savings.

Despite the obvious benefits of nuclear trade between the two nations, little in the way of agreements or corporate partnerships has been accomplished, although there has been progress on some nuclear issues. In August 2008, Japanese representatives at the meeting of the Nuclear Suppliers Group agreed to the

U.S.-India Nuclear Cooperation Agreement. This act signified a shift away from Japan's traditional stance as a critic of India's proliferation regime. It was by no means a green flag for India to build up its nuclear arsenal, but for the first time since India's 1998 tests, Japan acknowledged India's status as a responsible stakeholder in the nuclear regime.

Starting a Security Relationship: A major change in the India-Japan relationship is the development of military contacts. In 2000, India and Japan began holding annual summits and ministerial-level dialogues. The two navies and coast guards engaged in joint exercises. Between 2006 and 2007 all three service chiefs of Japan's Self-Defense Forces visited India. On April 17, 2008, both nations participated in the Malabar Exercise, which consisted of four Japanese, two U.S., and three Indian ships participating in search and seizure operations, war games, and firepower maneuvers. There is still room for more direct and deeper engagement between the Indian navy and Japan's Maritime Self-Defense Force, as well as between civilian stakeholders and each nation's coast guards. India and Japan share especially important interests in the security of the Indian Ocean. More than 50 percent of India's trade and more than 80 percent of Japan's oil imports transit through the Strait of Malacca, a major choke point in the ocean. Therefore both countries have a substantial stake in reducing the menace of piracy and terrorism in those waters.

Space: As space-faring nations, India and Japan must lay the foundation for deeper cooperation in the peaceful use of outer space. This includes cooperating on commercial space launch vehicles, satellites for environmental monitoring, arms control, and missile defense. Although both nations have been cooperating with the United States on civilian space mechanisms, their own collaboration has been lagging.

Impact of Japanese Elections: Japan has just experienced a major political power shift. The long-ruling Liberal Democratic Party (LDP) has been replaced by the Democratic Party of Japan (DPJ). It is too early to tell what the effect will be on relations with India. The combination of the new government and the precarious position of Japan's economy may lead to postponing significant investments in India. The DPJ is less pro-American than its predecessors and in the past has opposed sending the Japanese navy to the Indian Ocean to participate in international naval operations; if it continues to pursue this type of policy, relations with India will not improve. On the other hand, if Japan focuses on strengthening its partnerships in Asia, India could be an attractive partner.

The Obstacles to a Common Future: Improving the India-Japan relationship will require a kind of commitment and agility that is difficult to achieve in democracies known for coalitions and political gridlock. India's recent election has given the government room to maneuver; one can only hope that the results of Japan's recent political power shift will also prove positive for this relationship.

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