

# ISAS Insights

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## *India-Japan Ties: Part One*

### **Visit of Prime Minister of Japan to India: Economic Synergies**

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#### **Abstract**

The India-Japan Strategic and Global Partnership has received a significant boost in the economic domain as a result of Japanese Prime Minister Yoshihiko Noda's latest visit to New Delhi. Japan has now agreed to finance the Delhi-Mumbai industrial corridor project to the tune of US\$5 billion over the next five years. Independently, there is also a lot of interest among Japanese companies to invest in India. Overall, Japan is raising its economic stake in India in the context of their bilateral Comprehensive Economic Partnership Agreement. Interestingly, amidst the current concerns over slow-down in Europe and over governance issues in India, Japanese business is still very positive about opportunities in India.

#### **Introduction**

Japanese Prime Minister Yoshihiko Noda visited India towards the end of December 2011. The visit was of considerable economic significance. Noda reached India directly from Beijing, after a visit to China earlier in December had been called off by the Chinese authorities. As Noda headed to New Delhi, a Chinese official cautiously welcomed the development even as the official Chinese media commented in a different tone. Chinese Foreign ministry spokesman Hong Lei told the media while responding to questions on reports that Japan was now looking to develop close ties with India with an eye on China:

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“Over the recent years China and India relations also maintained a momentum of good development. We believe China and India should keep political mutual trust and economic cooperation, as well as cooperation and coordination in international affairs.

At the strategic level, Tokyo and Delhi’s concerns about a rising China are certainly part of the impetus for the acceleration of strategic cooperation, and this has not gone unnoticed in Beijing. China’s military and media have been alert to this increased strategic conversation between Delhi and Tokyo. Already Japan and India have had several ministerial level meetings to flesh out the contours of their strategic partnership, and have agreed to institute a two-plus-two meeting each year to include defence and foreign ministers. The interaction between the Japanese and Indian militaries is also increasing, as the two navies have worked closely on anti-piracy and other maritime security missions. The armies have had several high-level exchanges, and will soon initiate staff talks. In 2012, the two nations’ air forces will also upgrade their consultations. The recent East Asia Summit provided an important opportunity to consider how Japan and India might work together to help shape the regional environment as well.

India and Japan are heavily energy-deficient countries. Both rely on massive imports from the Gulf region and therefore it is in the interests of both to secure the sea lanes leading from the Gulf to India and further beyond to the Pacific Ocean area. It would be natural if there is growing collaboration between the navies of the two countries as is happening now with joint naval exercises. Japan has lifted the ban on weapons exports. The joint declaration on security cooperation signed in 2008 led to a new stage in the Japan-India strategic and global partnership.

### **Japan’s Outreach**

Yet Japan’s renewed diplomatic outreach is not all about China. It is clearly all about Japan and its need for an active agenda of strategic engagement in Asia. Economic relations are growing, and there are several different areas where Japan sees an opportunity in India.

At the government to government level, Japan has been happy with the utilisation of bilateral assistance through Japan International Cooperation Agency (JICA) and commercial assistance to banks and industry through Japan Bank for International Cooperation (JBIC). India is the largest recipient of bilateral aid from Japan. The breakthrough came around 10 years back with Japan agreeing to support funding for the Delhi Metro, a project that has been viewed as a successful example of bilateral cooperation. JICA has funded the second and third phases of the project as well. This project, headed by Sreedharan, had an excellent track record of implementation, and this has enabled JICA to offer assistance for other metro projects as well, currently Chennai, and perhaps Kolkata. Japanese companies have won contracts for supply of electrical and rolling stock equipment, and Japan clearly sees infrastructure development in India as an important aspect of its economic relationship.

As a part of this strategy, the Japanese government has been engaging India over the concept of the Delhi- Mumbai industrial corridor project ever since its announcement in 2005-06, and has offered assistance even for the development of a detailed project report. During the visit by Noda, Japan has agreed to finance US\$5 billion for this project over the next five years.

This is an ambitious project, attempting to develop the region between Delhi and Mumbai, through the establishment of a fast freight corridor, industrial townships and manufacturing facilities that would require the close participation of the state governments in India. The governments of Gujarat and Rajasthan have already shown considerable interest in the project and a number of pre- project activities including land acquisition have already started. The freight corridor, along with associated industrial undertakings, would make this region into a manufacturing and export hub. Japan's assistance to India in the construction of vital infrastructure projects, most notably the Delhi-Mumbai Industrial Corridor Project, has been consistent and of obvious importance to integrating India's growing local economies. Japan too has found a ready partner in India for diversifying their access to rare earth materials, a major concern since the fall of the supplies from China.

Independently, there has been a lot of interest among Japanese companies to invest in India. The success of the Toyota and Honda motor companies in capturing a significant share of the C and D class market segment in automobiles has not gone unnoticed. The advent of Nissan in Chennai has spawned significant activity in the automobile ancillary sector. In the last three years, around 800 new companies have set up shop in and around Chennai, mostly in the light engineering and auto parts segments. The work culture here suits Japanese business, which is able to find technically qualified manpower in abundance here, as well as a benign, investor-friendly environment. There is a pressure on infrastructure in the area, most importantly land, water and logistics.

### **Japan's Offer of Bullet Train Knowhow**

During the visit by Noda, Japan has offered to conduct a feasibility study of the Chennai-Bangalore corridor for the introduction of a bullet train service. Japan is also willing to share its bullet train technology. The distance of 320 kilometers could be covered in two hours. Quite apart from dispersing economic and commercial activity along this corridor, it would relieve congestion in both Chennai as well as Bangalore, two cities of importance for Japanese business.

Japan is also stepping up its economic stake in India. Both countries have also entered into a Comprehensive Economic Partnership Agreement (CEPA) under which 90 per cent of bilateral trade is covered. India has agreed to step up export of rare earths to Japan. A US\$15 billion currency swap arrangement has been agreed upon. The Times of India in a 30 December 2011 editorial headlined "Look north east," noted that Noda's visit was "strategically important" for India. It said, "Both countries agreed to expand commercial ties

in diverse areas like infrastructure, energy and industry, with Japan even promising help in stabilising the rupee through a currency swap deal.”

However, the overall Japanese investment in India is still quite low, amounting to just one per cent of the over US\$1 trillion invested abroad by Japanese companies. India–Japan trade is less than a quarter of Japan-China trade. There is still a significant perception gap concerning India’s business environment.

There have also been deals which have not gone well. The purchase of Ranbaxy’s pharmaceutical business by Daiichi of Japan turned out to be a very expensive deal for the buyer. The uncertainty has been tackled to a large extent as the countries have recently partnered effectively on big infrastructure projects. The Hindu, on 30 December 2011, said, “The successful implementation of some large Japanese-funded projects like the Delhi Metro have allayed some of these worries, as indicated by the extension of Japanese support to similar big infrastructure projects like the Western Dedicated Freight Corridor, the Delhi-Mumbai and Chennai-Bangalore industrial corridors as well as high speed rail networks and expressways”. Investments in consumer brands are returning healthy profits, in skin care, garment and other personal products.

Interestingly, amidst concern over slow-down in Europe and the governance issues in India, Japanese business is still very positive about opportunities in India.

## **Conclusion**

It is possible that India and Japan would have taken considerably longer to move closer to each other if it weren’t for the emergence of China as a major military and economic power. Both have considerable stake in a robust bilateral relationship with China. Japan’s trade volume with China is about US\$340 billion while China is India’s largest trading partner. China, Japan and South Korea are emerging as significant trade partners for India, as its earlier ‘Look East’ policy now moves more towards north-east Asia. Trade with these countries has grown much faster than trade with the Association of Southeast Asian Nations (ASEAN) countries.

While Singapore has emerged as a very important financial and investment destination for Indian companies, trade in goods and services has grown much slower than with China and Japan. In the case of infrastructure development, India has found in Japan a willing and technologically able partner to take projects forward. In fact compared to other multilateral lending and aid agencies, Japan has shown a greater willingness to participate in infrastructure projects. For India, given the shortage of capital and technology, this could be an important reason to strengthen ties with Japan.

Both in terms of strategic as well as economic partnerships, India-Japan cooperation is likely to move strongly ahead.