India-Japan Relations: It’s Economics All the Way

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High-level political contacts between India and Japan, since the year 2000, have ushered in a new era of partnership in the international arena. Today, India-Japan engagement incorporates a wide range of political, strategic and economic issues. The *Strategic and Global Partnership between India and Japan* announced in December is based on five pillars of cooperation - Political, Defence and Security Cooperation; Comprehensive Economic Partnership; Science & Technology Initiative; People-to-People exchanges and cooperation in Regional/Multilateral fora.

A *Joint Statement on the Advancement of the Strategic and Global Partnership* and a *Joint Declaration on Security Cooperation* were issued during PM Manoharan Singh’s visit to Japan in October 2008. During Prime Minister Hatoyama’s visit, to India in 2009 the two sides released a *Joint Statement on the New Stage of India-Japan Strategic and Global Partnership* and an *Action Plan to advance India-Japan Security Cooperation*. Subsequently the 2010 visit to Japan by PM Manmohan Singh saw the release of the *Joint Statement on the Vision for Japan-India Strategic and Global Partnership in the Next Decade*.

These political documents provide an indication of the significant progress in India-Japan relations in recent years. Today there are several dialogues between India and Japan at senior official level covering specific issues of foreign policy, defence and security policy, economic cooperation, urban development, ICT cooperation, energy cooperation, high technology trade etc.

The most noteworthy and tangible improvement is, however, being witnessed in the economic sphere. As the figures below show economic relations between India and Japan in recent years are on an upward trajectory. Indeed, after years of stagnation India-Japan economic relations have gathered momentum.
Fig 1: India’s Merchandise Trade with Japan

(US$ million)

Source: Ministry of Commerce and Industry, Export Import Data Bank

Fig 2: Japanese FDI in India

(US$ million)

Source: Japan External Trade Organization (JETRO)
The above figures are not very impressive when seen in terms of India’s share in Japan’s total global trade and investment. Total trade between the two countries was about US$7.7 billion, for the first six months of FY 2010, only about 1 per cent of Japan's global trade. In contrast, trade with China, Japan's top partner, was US$176 billion over the same period. In cumulative terms Japan’s share in total FDI inflows into India since April 2000 is only 4 per cent. In FY 2009 less than 5 per cent of total Japanese FDI came to India. Only in the case of development assistance India has been the largest recipient of Japanese ODA loans for seven consecutive years since FY 2003.

On the other hand the number of Japanese companies with business operations in India has doubled in three years. Japan presently ranks sixth in cumulative foreign direct investment flows into India. According to latest available statistics Japanese companies have made actual investments of US$ 4.083 billion between April 2000 and May 2010. The sectors attracting Japanese investment are automobile industry, electrical equipment, trading, service sector (financial & nonfinancial), and telecommunications.
The factors that have contributed to the change of perception regarding the Indian economy include:

- Impressive growth despite the global economic downturn
- Robust 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 Singapore, Thailand, South Korea, and China
- Geographically strategic position 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. A consortium of Japanese private sector companies is already collaborating with the DMIC Development Corporation as well as the Governments of the concerned states, in developing eco-friendly townships in the DMIC zone using Japan’s best practices.

In this context two agreements have the potential be the “game changers” for India-Japan economic relations - the India-Japan Comprehensive Economic Partnership Agreement (CEPA) and the Civil Nuclear Cooperation Agreement. The focus of both these agreements is on providing the essential institutional framework to further accelerate and consolidate business activities between India and Japan.

Negotiations for a Comprehensive Economic Partnership Agreement (CEPA) with Japan have been completed. The Agreement is expected to be signed on February 16, and implemented from April 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 will relax barriers on investment, trade in services and movement of professionals, competition and improvement of the business environment by both sides, besides enhanced cooperation on protection of intellectual property. 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$20 billion by 2012-13. The CEPA is also expected to address the balance of trade which is currently heavily tilted in favour of Tokyo.

The Civil Nuclear Cooperation Agreement is similarly crucial for enhancing economic relations between India and Japan. India’s civil nuclear market opened up in 2008 after the landmark agreement between the United States and India. And given the rising demand for electricity by rapidly growing India the government has set up an ambitious aim to supply 25 per cent of electricity from nuclear power by 2050. To enable Japanese companies like Mitsubishi, Hitachi and Toshiba, all having advance civil nuclear energy technologies, to enter the Indian nuclear energy market, estimated to be US$150 billion, the negotiations for the civil nuclear agreement were launched on June 28, 2010. There is strong business and political support for the agreement in Japan wherein it is likely that it will be concluded soon. In the context of the deep rooted nuclear sensitivities in Japan this is a remarkable development.
Thus economics is the driving force in contemporary relations between India and Japan. With the domestic economy in severe turmoil India’s economic growth is extremely favourably placed in Japanese perspectives. This is generating strong imperatives for Japan to engage with India in a substantial manner and enlist it as an important partner in its long-term growth strategy. India needs to encourage and foster this positive engagement. 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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