

Introduction

Japan and India are Asia's only hope of containing the Chinese threat in the continent. They are natural partners, with economic compatibility that holds great potential and keeps increasing day by day. With the arrival of the Narendra Modi-led government, India has been able to ease up a lot of its policies that had served as a deterrent for any major Japanese investment in the country. Being burdened with a mature economy, an ageing population, and a low birth rate, Japan is in dire necessity of growth in all spheres. In developing such a scenario, it will be important for Japan to expand its relationship with India, which is continuing to grow rapidly. However, as highlighted by sluggish bilateral trade and foreign direct investments in India driven by expectations, this economic relationship falls far short of its potential. What is most noteworthy at the moment is Japan's investment in Indian infrastructure through official development assistance. India has high expectations of Japan as a development partner.



Weak Trade Engagement

Prior to World War II, Japan imported large quantities of cotton and pig iron from India, and India accounted for 10% to 15% of Japan's total trade. Currently, both countries have diversified their trading partners, and the share of bilateral trade has declined. As of 2018, India had a 1.1% share of Japan's total trade, and Japan's share of India's trade was 2.1%. Despite the Japan-India Comprehensive Economic Partnership Agreement (CEPA), which took effect in August 2011, bilateral trade has not increased by any great degree. Japan-India trade totalled to an estimate of \$17.6 billion in 2018—less than the trade between India and South Korea, and only a fifth of India's trade with China.

Japan has had a recurring trade surplus with India. Leading products imported from India are petroleum products, organic chemicals, gemstones, and fish and shellfish. Horizontal trade has not developed between Japan and India as seen in the trade of industrial products and parts between Japan and East Asian nations. A leading problem behind this asymmetrical trade flow has been India's low share of exports to the developed countries including Japan. Its share of exports to developed countries has drastically dropped over the past few years while the share has increased with respect to developing countries.



Japan Prime Minister Shinzo Abe with Chinese President Xi Jinping/ Image source: Bloomberg

More Potential in the Wake of China

Japan's contributions to India's economic development has been pretty steady throughout the years but post-2017, it has entered a new paradigm; one with an increased strategic edge in the wake of aggressor states such as China and North Korea. Historically speaking, Japan's assistance has mainly been in the sectors of heavy industry and manufacturing. Only recently in 2018, has the country opened up its defence sector as well after PM Abe brought about a major constitutional change, allowing for its remilitarisation. This provides a lucrative opportunity for India to take advantage of as it has the potential of tying up with India's own "Make in India" initiative very well.

Japanese smartphones and computer equipment will find heavy demand in the Indian

markets given that they are sold at reasonable prices affordable by the majority. Moreover, Japan may be able to look towards India for agricultural imports taking into account its own weak sector owing to geographical limitations; the Japanese government has given Indian food safety standards the same value as it does to its own agencies. The HSR Technology that aims to install the first bullet train in India will be the first mega-infrastructure project with Japan and once completed, will elevate numerous people out of unemployment and even create further jobs as a positive side effect. India also needs to tap into the IT and entertainment industry of Japan and start collaborating in the field of animation and software development for games and similar projects.

To put it simply, the terms Abenomics and Modinomics have gained momentum in the last few years ever since the Prime Ministers came to power in their respective nations. Shinzo Abe's Abenomics aims to revive Japan's stagnant economy by providing fiscal stimuli by promoting public spending and inspiring risk-taking attitudes in Japanese companies whereas Narendra Modi's Modinomics is aimed at utilizing India's demographic capabilities to increase revenue and profit. This ties in directly with the "Make In India" scheme and also opens up a connecting path to the revival of Japan's financial power. Japan and India can benefit greatly from each other; this is why Japanese investment into India has drastically increased since PM Modi arrived under the spotlight.

Investment from Japan: Possibilities and Constraints

Japan ranks as the 5th highest source of FDI in India. Japan's FDI in India grew sharply in the years since 2007. The purchase of Ranbaxy Laboratories, India's largest drugmaker, by Daiichi Sankyo, and NTT Docomo's equity participation in Tata Teleservices caused Japan's FDI in India to surge rapidly. As indicated by Suzuki's success in India, Japanese automakers' advance into the market has contributed greatly to raising Indian manufacturing industry standards, such as by increasing workers' skills and by improving quality control.

These changes had the effect of encouraging the advance of Japanese companies into India in such areas as steel, machinery, power generation equipment, and logistics. In the air conditioner sector, Daikin has maintained its position as the top brand. The advance of Japanese companies into India is increasing in a wide range of areas, such as foods, stationery, cosmetics, pharmaceuticals, sanitary goods, and toilet facilities. Recently this year in 2020, Japan announced that it would shift Japanese supply chains worth \$2.2 billion away from China, back into Japan and spread to other countries, amongst which India finds itself on the list. This announcement caught the attention of the entire investment

community and was made in the light of the current Chinese geopolitical aggression as well as its relation to the Covid-19 outbreak. The main problem with this, however, is that a major portion of this money is getting reallocated back into Japan itself, leaving room for less than \$250 million to be invested in economies that are much smaller than India such as, Cambodia, Philippines and Vietnam. Thus the question arises: what can India do to attract more Japanese investment?

Usually, in the case of every other nation, the large companies are almost always ready to make investments and take risks while the bureaucracy tries to implement risk-aversion policies to protect said companies for their own national interests; but when it comes to Japan, it is the opposite. In Japan, it is the government bureaucracy that aggressively promotes risk-taking tendencies in their large MNCs while the latter themselves over-think and over-analyze situations before making moves. Japanese PM Shinzo Abe's 'Abenomics' brought the country out of a nearly two-decade-long recession by putting more drive into an easy money policy to increasing fiscal stimuli by implementing the process of quantitative easing. This worked well up until 2018 when the Japanese economy started contracting again; the reasons being demographic decline, loss of able workers and the massive government debt that PM Abe inherited from his predecessors. The only way out of this seems to promote more investments in other economies preferably where the cost of manufacturing is quite cheap.



Often time, these large companies aided by the government's policies, overshadow the small and mid-sized companies which also possess and produce good technology that are not marketed worldwide and remain local. Indian PM Narendra Modi with his ferocious "Make in India" campaign, has recently opened up the country to foreign companies as an initial stage manufacturing hub where end-stage assembly of electronic products shall take place. The goal of PM Modi is to ramp this initiative up to the mark of becoming a full-fledged operator of the global supply chain. Here is where the mid-sized Japanese companies can play a great role by merging their technological blueprints with the rising Indian manufacturing sector; it will surely a) bring more recognition to these lesser-known companies and b) drastically increase the rate of growth in both Japan and India.

Constraints

One of the main constraints in this partnership is the fact that India's infrastructure, manufacturing and otherwise, is still in their initial phases of development. In the 2019 Indian budget, it was noted that approximately Rs. 103 trillion were allocated towards building up basic infrastructure. Apart from this 1.7 trillion were being designated to building transport infrastructure specifically, providing long-awaited opportunities to foreign companies. There are also multiple problems with the land acquisition system in

India which deter foreign investors; land acquired from “private owners” or even from “state authorised agencies” become subject to legal disputes. These mechanisms need to be rectified and eased out further.

An important development had taken place last year in 2019 when the Japanese envoy Ambassador Kenji Hiramatsu met the India DoNER minister, Dr Jitendra Singh and revealed a total of Rs. 130 billion had been pledged by the Japanese government towards the development of ongoing and new projects in India’s North-Eastern states. Some of the most prominent sites where Japan will collaborate with India are as follows:

- Guwahati Water Supply Project and Guwahati Sewage Project in Assam
- Northeast Road Network Connectivity Improvement Project spread over Assam and Meghalaya
- Northeast Network Connectivity Improvement Project in Meghalaya
- Biodiversity Conservation and Forest Management Project in Sikkim
- Sustainable Forest Management Project in Tripura
- Technical Cooperation Project for Sustainable Agriculture & Irrigation in Mizoram
- Forest Management Project in Nagaland

PM Abe was scheduled to visit Guwahati, Assam from December 15-17, 2019 to attend the annual summit together with PM Modi and also inaugurate the collaboration between the two countries for the development of North East India. However, at the time protests against the Citizenship Amendment Act (CAA) were rampant in the region, forcing Mr Abe to call off his visit. The Japanese investment in the region was to be a topic of the highlight during the meeting and would serve to bolster economic ties even further but due to the massive amounts of unrest there, India fears that Japan may have a change of mind regarding their decision despite diplomatic sources claiming that the meeting has been postponed to 2020-21.

Arunachal Pradesh, India’s very own land of the rising sun, is home to a tea company which recently signed an MoU with Japanese company Bioagri to promote sustainable and natural ways of farming. Bioagri wants to take their technology and methods to North-East India since the land there holds a great deal of potential, according to their spokesperson. Aside from this, Japan, in the past, has expressed desires to help improve the connectivity in the entire North-eastern region including Arunachal Pradesh, drawing strict backlash from Chinese authorities who demanded instantaneous clarification. Since the state is a disputed topic between China and India, the Japanese government has shown hesitation towards making any significant commitment in that area, despite it being a hotbed of economic capabilities.



The Future

Since the Covid-19 global crisis began, China has been a common cause of concern for both Japan and India. Japan's constitutional amendment in 2018 allowing for the remilitarization of the country was a move that the government sought to prepare themselves for a possible confrontation with their Dragon-esque neighbour. It is well known that Japanese technology and hardware ranks amongst the best of the best in the world; if this is paired up with India's new and hungry manufacturing initiative, a plethora of commercial and defence opportunities could be opened up.

Japanese electronics, video games and the entertainment industry are gaining high popularity amongst Indian youths and find a lucrative market within India if they decide to sell the products at reasonable rates for both parties. Here the use of Soft Power could prove to be useful to enhance commercial ties. India's reluctance to join the RCEP may have been taken as a setback by the Japanese officials, but it is up to both sides to devise ways around it since the two countries are inevitable allies.

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