

India-Japan Relations: The Economic Advantage

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We live in turbulent times. Since the old order disintegrated in the early 1990s, the world has faced the challenge of re-establishing its international order under a new set of norms. While initially it seemed as if the USA would be the single mono-power, and all nations would train their compasses on it, the turn of the century saw some significant changes: that is, the shifting of power both horizontally and vertically. As is historically evident, power in the international order is accounted for by economic power, and China has slowly and steadily moved to the second place in the economic order, and begun asserting itself as an alternative. Further, a new set of nations began to emerge in the economic scenario: Brazil, Russia, India, China and South Africa, popularly known as the 'BRICS' nations. In addition, small nations grew in strength by creating groups like the ASEAN. Thus, in spite of the single colossus of the US, a multi-polar system emerged. When too many contenders emerge with no clear leader, what then becomes the order of the day is the establishment of platforms to conduct business and enable positive engagement. As a result, one can witness a plethora of Free Trade Agreements, and Comprehensive Agreements at the bilateral as well as multilateral levels.

The rise of China on the economic front and progressively in the military arena directed the US to engage with China beyond what was seen during the 1980s and 1990s. In recent years, China's attempt at making its presence felt, and establishing its stakes on various fronts in East Asia Region signalled for America's intervention by other neighbouring states. However, the USA decided to play a rather passive role, and this became a strong indicator for neighbouring states to venture out and look beyond a US alliance. The North Korean missile programme, nuclearisation and its on-going attempts at creating apprehensions by directing its missiles to Japan and South Korea has necessarily tilted a peaceful region into a tension prone zone. This explains the growing attempts of these nations to find strength in more friendly strategic partners.

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For Japan, two of its neighbours, China and North Korea, are distinctly posed in the 'other camp'. Not only is there a difference in ideology but history has also played a role in creating the divide and mistrust. Further, for Japan, the rise of China essentially leads to the issue of a balance of power in the region. Adding to its tribulations is South Korea's claim to the Dokdo/Takashima Island as well as its repeated references to the atrocities of Japan during the Second World War.

Burdened with a constitution that denounces war and does not allow any role of the military,¹ a security alliance with the USA – which has come under pressure as the US engages with China and the bickering with South Korea (once considered an ally), has led to Japan's isolation in its own backyard. Unable to arrest an economic slide since the 1990s, resulting in loss of its position to China as the second economic power, Japan finds itself in a situation in which it needs to reposition and re-emerge with strength if it wants to contend for a place in the international order.

China's rise is marked by its assertive stance in regional and bilateral issues with countries in Asia. China has often ruffled the smaller neighbouring states with its aggressive behaviour; and its current building of an artificial island in South China Sea is considered a breach of territorial rights and has created anxiety among the international community. China has shown belligerence towards Japan in the Senkaku Islands issue, by its encroachment into the Air Defence Zone (ADZ), and by its current flexing of muscle in the South China Sea – which is so important to Japan for the movement of trade and energy. The outcome of all this has led most of these smaller nations to look towards 'a country' or a group that could be a bulwark against China's growing presence.

India shares over 3000 kilometres of a border with China, a history of war, and repeated aggression in Arunachal Pradesh and other border areas in recent times. All these have contributed to mistrust and disquiet towards China. The issue of Tibet continues to be a bone of contention between the two countries. China's closeness to Pakistan, its contribution to port building, providing military supplies, supporting its nuclearisation programme, and giving economic aid create anxiety. The warming up of China-Myanmar relations, China's 'String of Pearls' strategy, providing financial aid and technological help to Sri Lanka, and its presence in the Indian Ocean, promotes discomfort in India. In many ways, India also feels the pressure of a stronger China. However, positioned as India is today, direct conflict is best avoided, and tactful negotiations at bilateral and multilateral level are needed.

The present intimacy between India and Japan has been assiduously observed not only by the Asian community but also by the world at large. China too has shown its dissidence towards the familiarity between these two nations. During Prime Minister Manmohan Singh's visit to Japan in 2013, the *People's Daily* published China's response to the growing engagement wherein it referred to Japan and its politicians as 'petty burglars', and that India's strategic alliance with Japan is a 'big mistake'.²

Given this background, many scholars and the media feel that for India as well as Japan, China is a predicament. Japanese defence planners see China as a 'considerable threat', or 'potential threat' or 'realistic threat'. On the other hand, India views China's aggression not only as a threat to it domestically but is also concerned about its role in this region in terms of stability in Asia. They contend that the growing strength of India-Japan relations is a form of containment of China. Their understanding is supported by Prime Minister Abe's promotion of the vision of the 'Confluence of the Sea' in his earlier term; in his current term also, Prime Minister Abe has said,

I envisage a strategy whereby Australia, India, Japan, and the US state of Hawaii form a diamond to safeguard the maritime commons stretching from the Indian Ocean region to the western Pacific. I am prepared to invest, to the greatest possible extent, Japan's capabilities in this security diamond.³

Further to the Joint Statement starting with 'global partnership' in 2000, the term 'strategic' was added by Prime Minister Koizumi during his visit in 2005. The statement 'Towards India-Japan Partnership in a New Asian Era: Strategic Orientation of India-Japan Global Partnership', and the 8-point initiative agreed upon laid a solid foundation on which the strategic partnership could be realised. Since then, the term 'strategic' has gained more attention. The current statement signed between Prime Minister Modi and Prime Minister Abe in 2014 describes it as 'Special Strategic Global Partnership'.

Though the strategic alliance between these two nations has led to a trajectory change in the relationship, it is imperative to recognize that, for Japan, this relationship has a strong economic underpinning. Japan's standing in the international community is because of its economic power. However, since its revival after the Second World War, it was curtailed by a pacifist constitution, and was not in a position to extend itself much in terms of the heads that come under a 'strategic' partnership; rather it used its economic power to forge diplomacy. For India too, promoting economic engagement with Japan across various sectors will necessarily help it in achieving many

of its development goals.

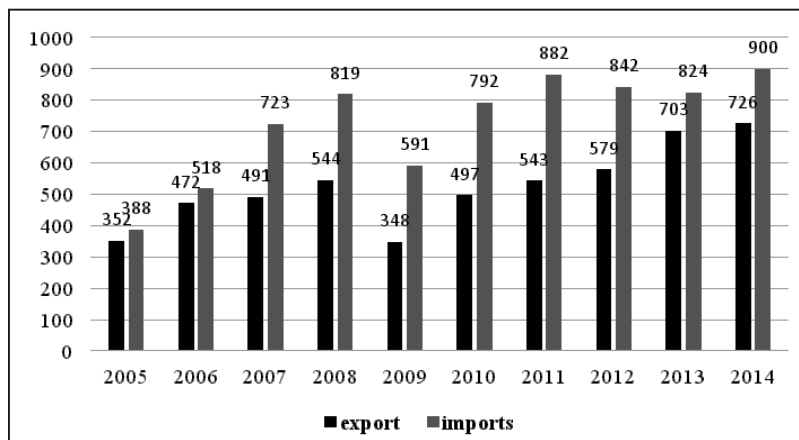
Thus, this essay brings into perspective the economic relations between the two nations beginning from 2005.⁴ The discussion will be based on trade, investment, and Official Development Aid (ODA). Also discussed will be recent developments on the domestic front in these two nations. Drawing the synergies between the Joint Statement of September 2014 and the domestic developments in both nations will bring forth the complementarities.

India-Japan Economic Relations: An Overview

India-Japan economic relations saw an initial breakthrough as India ventured on its liberalization programme. Japan as the second largest economy, with its incredible rise as an economic power, was sought as an ally to help India pull itself out of its economic malaise. India allowed foreign direct investment in sectors in which Japanese showed competence: electronics and automobiles. Thus, the beginning of a new era of economic advantage began with investment in automobile, electronics and white goods sectors along with technology transfers.

The turn of the century saw the Indian economy gain strength, and with growing consumerism and the slowing down of the Chinese economy, a slow movement of foreign direct investment into India from Japan was witnessed. The three fundamental data sets – trade, foreign direct investment (FDI) and ODA – given below showcase the growth of Indo-Japan economic relations.

Figure 1: India-Japan Trade in Yen Billions

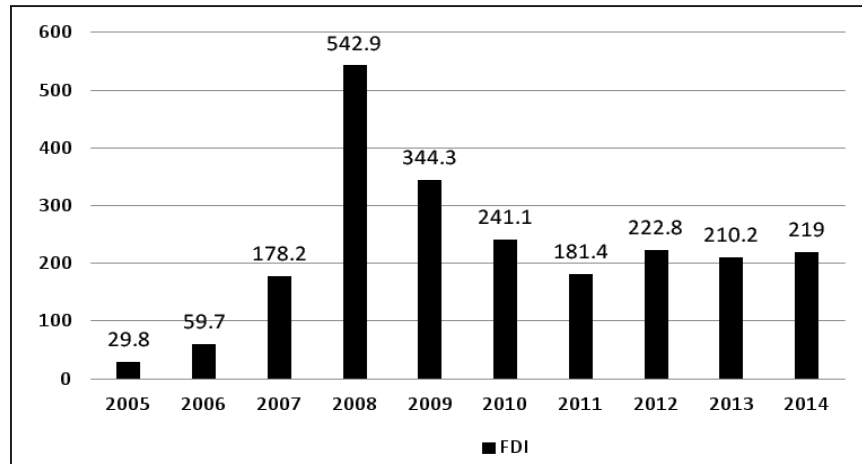


Source: compiled by author from <http://www.mofa.go.jp/region/asia-paci/india/data.html>.

Post the Second World War, and in its first round of economic development, Japan benefited from imports of iron ore from India. Though having mutual benefit, India-Japan trade did not gain the momentum that was expected. Figure 1 shows a year on year comparative data of India's export and import from the year 2005 – 2015. A close look at the figure gives a rather dismal view of the exports and imports between India and Japan. The major export to Japan from India continues to be iron ore, followed by marine products, agricultural products, and gems and jewellery. The basket has not diversified, nor deepened substantially from that of 1998. India mostly exports primary sector products which have little weight in the Japanese import basket. The largest share is mineral fuels and ore, followed by marine products, with organic chemicals being a poor fourth.

The main imports from Japan are heavy machinery, value-added iron and steel, organic chemicals, surgical equipment, plastic and rubber. From 2006 onwards, export to Japan had increased with a visible drop in 2008 – 2009. However, by 2010, it had again climbed to the 2007 – 2008 level. The dip was mainly because of the strong recession that occurred world over in which Japan was one of the worst affected economies. But imports continued unabated from Japan to India as India, unaffected by world recession, grew at 6.5 per cent. Among the imports, the major contribution came from auto components as the automobile market in India faced great demand.

2011 was a watershed year as India and Japan signed the Comprehensive Economic Partnership Agreement (CEPA). The Agreement was signed at a time when Free Trade Agreements (FTA) had gained prominence, and this Agreement encompassing more than just trade and investment, was to give impetus to both nations as India and Japan decided to eliminate about 94 per cent of the tariffs between both nations within ten years. The figure does show a slow climb in both exports and imports; but for Japan, India is at sixteenth place in its exports, and does not figure in the first twenty in its imports. For India, Japan is not its major source for imports or its exports. Thus, as far as trade goes, CEPA has not been fruitful. The major argument for low volume and a small basket of commodities is that a large number of those that India can export to Japan has substitutes in ASEAN regions. Moreover, the price competitiveness of these products results in loss for India. Also, Indian businesses are still tuned towards the western market.

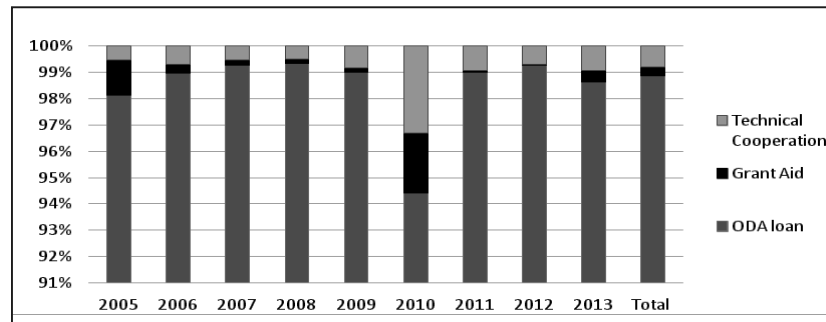
Figure 2: Japanese FDI into India in Yen Billions

Source: compiled by author from <http://www.mofa.go.jp/region/asia-paci/india/data.html>.

The strength of Japan for India is its investment. Progressively and substantially, investment into India has grown. The year 2008 was exceptional as Mitsubishi chemicals brought in a large amount of investment for its Haldia plant. On an average, the investment from Japan has hovered around 200 billion yen. While the number of companies in India has reached 1029, FDI inflow from Japan rose by 4.18 per cent between 2013 – 2014. While the quantum of investment is far below potential, it is promising to see in the yearly survey result conducted by Japan's Bank of International Cooperation, that India is the most favoured destination for Japanese in the long term. India had been ranked 2nd from the FY2005 survey up through to 2013. According to the survey,

The number of companies voting for India in this year's survey increased to 229 from the 213 in last year's survey, and 85.0% of companies indicating 'promising' 'cited' future growth potential of local market' as the reason, so India continues to be highly appealing as a market,⁵

The potential economic advantage is well understood, and the current regimes in both nations have been putting their domestic economy in place and are encouraging the attraction of business between the two nations.

Figure 3: Japanese ODI into India by Scheme in Yen 100 Millions

Source: compiled by author from Yearly Report Japan International Cooperation Agency

Since Independence, India has been a recipient of ODA from Japan and has acquired first rank in the amount dispersed. Post liberalization, ODA from Japan has continued to impact the lives of Indians in various other ways. Today, the focus of Japanese ODA rests on

- the development of economic infrastructure, mainly in the area of power and transportation.
- poverty reduction, mainly through agriculture and rural development.
- environmental protection, through afforestation and improvement of the quality of water
- assistance in the improvement of health and medical care.⁶

It is encouraging to note from Figure 3 above that grant aid is decreasing and technical aid has increased in the last few years. This augurs well for a country like India which today needs knowledge, understanding, and skills development to become production efficient. Today, the major projects that Japan is undertaking in India continue to be in the area of infrastructure. The Delhi Mumbai Industrial Corridor (DMIC) and the Delhi Mumbai Freight Corridor (DMFC) – aimed at connecting ports in Gujarat to green field manufacturing zones in India – would probably impact the Indian population most. Other important projects include the North Karanpura Super Thermal Power Project (1) (15.916 billion yen); the Delhi Mass Rapid Transport System Project (IV) (19.292 billion yen); the Ganga Action Plan Project, Varanasi (11.184 billion yen); and the Uttar Pradesh Buddhist Circuit Development Project (9.495 billion yen). That Japan would like India to overcome its infrastructure issues and fast track its developmental process is evident from the 50 billion yen committed by Japan as Yen loan for the following: Public Private Partnership to India Infrastructure Finance Company Limited (IIFCL);

the Smart City Community through cutting edge Japanese technology; the Chennai Bengaluru Industrial Corridor; and the expectation of introducing a Mass Rapid Transport System (MRTS).

Domestic Developments in Japan and India

This section attempts to first look at policies directed by India and Japan domestically but which have some consequences internationally, and then to discuss their significance regarding India-Japan relations by identifying the connectors of domestic policies to the Joint Statement signed between Japan and India in September 2014.

Japan

Prime Minister Abe's victory in the snap election in December 2014 rode on his economic policies, and confirmed the people's faith in his vision regarding the revival of the economy and the direction that he would like to give to the nation. The three arrows that Abe had identified when he took office in 2012 were: (1) fiscal stimulus; (2) monetary stimulus; and (3) structural reform. Concentrating on the monetary stimulus, he weakened the yen and followed it with monetary easing. At the ground level, these policies were an attempt to increase exports, increase investment in the manufacturing sector, and kick-start economic growth. However, the short-term success for business was countered by an increase in the price of imports, especially energy, causing suffering for the average consumer. The Japanese public debt exceeded one quadrillion yen (US\$ 10.46 trillion) in 2013 – more than twice the annual gross domestic product of Japan. This put Japan at great risk. Thus, the growth envisaged by Prime Minister Abe needs the shot of the third arrow: that of structural reform in labour, health care, agriculture, and energy. With recently elected regimes in both nations vigorously addressing issues connected with their respective domestic economies, attempts to attract business from the other nation augurs well for both sides.

However, knowing that Japan works on consensus, managing the strong protective interest groups of these sectors is critical to success on the economic front. The increase of consumption tax has been detrimental to Prime Minister Abe's vision, and the snap poll was essentially expected to help him defer the tax increase the government was committed to in 2015. Though Japan has a huge public debt, its other indicators (especially deflationary tendencies) give comfort to the economist. Further, gross savings of 18.3 per cent as of 2013

helped in giving stability to the economy. In a nutshell, Japan needs manufacturing to take off; needs export markets, and needs to invest the savings of its people in postal savings to enable higher returns.

Yet another sensitive issue that Prime Minister Abe has committed to is tackling the nuclear energy policy. The previous government was committed to phase out nuclear power by 2030s. Prime Minister Abe, on the other hand, has advocated a restart, and a key milestone was achieved on 7 July 2015 when fuel loading at the Kyushu Electric Power Co.'s Sendai 1 began. A total of 157 fuel assemblies were to be loaded into the 890 megawatt reactor by July 10, with restart planned for mid-August and full-power operations by September 2015.⁷ This is, indeed, the right direction as the import of fuel will decrease, leading to trade surplus. As a means of pursuing economic stability, and with overhauled nuclear safety requirements, Prime Minister Abe has been able to go forward in this direction, giving credence to his leadership.

While the amendment of the Constitution beginning with Article 96 (which stipulates the process of amendment) to that of Article 9 (which will enable the country to move out of the pacifist state), the regimes in both nations have been putting their domestic economy in place, and encouraging the attraction of business from the other nation is on Abe's agenda. With the current majority that he has, he has also been able to work at changing the principles of selling defence equipment. In 1967, Japan introduced a policy which banned the export of arms to a great extent. They were called: 'The Three Principles on Arms Exports and their Related Guidelines'. The principles primarily banned exports to communist countries, countries under UN imposed sanctions, and countries that are involved in (or are likely to be involved in) international conflicts. There were policies formulated that strengthened these guidelines, and an equal number of policies formulated made exceptions to these guidelines. In 2014, Japan lifted the ban on arms exports through the introduction of new guidelines on arms exports called: 'The Three Principles on Transfer of Defence Equipment and Technology'.

The new Principles entail a very radical departure from the past to the extent that Japan can now jointly develop arms with the USA and other allies, and its defence manufactures can now access new technologies and markets. These are important changes that make the new Principles extremely significant. Restrictions continue on two out of the three older principles whereby Japan cannot transfer arms to countries involved in conflict and countries that are facing resolutions by the United Nations

Security Council. Moreover, by doing away with the term 'likely' to be in conflict, it allows Japan to engage in bilateral dealings with more countries. The change in the arms export policies of Japan is an example of how things happen in Japan. By following the incremental approach, the new rules have been eroding the old ones incrementally, thus enabling the appeasement of opposition factions as well as its neighbours. Even with the lift on the restrictions on arms exports, very severe transparency and verification mechanism self-imposed by Japan are still in existence in order to prevent a very active arms export regime. Japan signed the 'Arms Trade Treaty' – a regulatory treaty of international arms trade – just a month after declaring the new arms export guidelines – a sure move which put to rest any speculation in the international community.

The Protection of Sea Lanes of Communication (SLOC) is vital for Japan as its energy security and trade is dependent on it. Major movement of oil and agricultural products for Japan happens through the Indian Ocean. As of August 2014, 87.7 per cent of crude oil imports for Japan were from the Middle East, and these travelled through the Indian Ocean. As the world's largest importer of agricultural products, Japan's major suppliers are from South East Asia and East Africa. Given that both energy and food supplies travel through the SLOC across the Indian Ocean, the movement of goods faces many choke points which are infested by pirates. Of special importance is the Malacca Straits as it is the main passage into the South China Sea. The precarious situation of both food and energy security issues has conditioned Japan to venture on diplomacy to enable the safe passage of its goods. The adoption of disbursement of ODA to the littoral states around the Malacca Straits to ensure economic progress, political stability, and tackle piracy issues has become an intentional foreign policy directive.

The directions given by Prime Minister Abe in the running of the domestic economy has had a momentous implication for India-Japan relations. The crux of 'Abenomics' is the revival of the economy by strengthening exports, increasing manufacturing which would lead to the expansion of the economy, as well as increasing domestic demand. In the current situation of domestic demand not gathering any momentum, the age old principle of export-led growth has become a necessity. India, which currently enjoys a growing consumer base, a vibrant market and a predicted growth of GDP of 8 per cent, is a natural choice as an export destination for Japan. The changes in both nuclear power and defence policies bring forth two technically distinguished sectors of the Japanese economy to the world market. The

intimacy that India enjoys with Japan enables Japan to look at India for both arms trade and civil nuclear deals.⁸

India

The Indian economy is in a revival mode. Commenting on an IMF survey, Paul Cashin (IMF Mission Chief for India) claims that, 'Growth numbers are now much higher and the current account deficit is comfortable, in part due to the fall in gold imports and lower oil prices.' 'New investment project announcements have started to pick up, particularly in the power and transport sectors.'⁹ The survey proclaims that, with inflation declining from 10 per cent to 5 per cent, and a more sound fiscal footing, India should be looking towards a bright future.

The advantage for India lies in its population. By 2030, India will have the largest, and among the youngest workforce of the world. This requires about a 100 million jobs, which translates into creating a business environment in which the manufacturing and service sectors steadily expand. For this, strong infrastructure needs to be put into place which could become the enabling factor to give the Indian economy the platform with which to drive growth. According to the IMF survey, the latter should include increasing investment to help close India's major infrastructure gaps; taking further steps to simplify and expedite the process of acquiring land and obtaining environmental clearances; reforming the agriculture sector to ensure greater efficiencies in the public system for food procurement, distribution, and storage; making labour markets more flexible to encourage young job-seekers and boost the presently low female labour force participation; and improving education to meet rising shortages of skilled labour.¹⁰

Certain other changes are foreseeable. By 2031, India's urban population is expected to cross 600 million. It is expected that 75 per cent of India's GDP, and 70 per cent of all net new jobs will come from the urban centres and metros. How these cities are planned and designed today will be significant to tomorrow's economic growth, as efficient city design is known to help in increasing productivity. The future of India lies in unpolluted, decongested, smooth, and efficient transportation in cities. Yet another concern with this growing population is food security. Robust and efficient agricultural practices, with strong infrastructure in warehouses and transportation will become a necessity. Ensuring clean energy is also of paramount importance since growth in the manufacturing sector hinges on the undisrupted flow of electricity. Currently, 1048.673 BU is being produced through thermal, nuclear, and

renewable sources, and there is a deficit of 4.7 per cent. As discussed above, given the requirement in the future, it is critical to invest in the power sector.

Addressing these needs, governments since 1991 have taken several measures including a new industrial policy defining public-private partnerships; a new trade policy; the abolition of licensing; doing away with subsidy in a phased manner; and liberalization enabling FDI by progressively opening up the economy. In August 2014, the current government allowed 49 per cent Foreign Direct Investment (FDI) in the defence sector, and 100 per cent in the building of railway infrastructure.

Furthering the impetus to economic growth, Prime Minister Modi has initiated a programme called 'Make in India'. This programme has targeted 25 sectors for job enhancement and skills development. Some sectors of interest are: automobiles, chemicals, textiles, ports, aviation, renewable energy, railways, roadways, pharmaceuticals, and design manufacturing. This initiative gives a strong signal for foreign investors, and with seven states willing to change land acquisition rules, the flow of FDI is expected to see quantum growth. This would enhance job and skills development, and lead to profit for global investors and ultimately to growth and development.

Synergies in the Joint Statement of 2014

The Tokyo Declaration is a six page document signed by Indian Prime Minister Modi and the Japanese Prime Minister Abe of Japan on 1 September 2014. The document is titled 'India-Japan Special Strategic and Global Partnership', and is an extension of a previous title with the addition of the word 'special'. The document has six subtitles: Political Defence and security partnership; Global Partnership for Peace Security in the Region and the World; Civil Nuclear Energy; Non-proliferation and Export Control; Partnership for Prosperity; Exploring Science, Inspiring Innovation; Developing Technology; Connecting People; and Leading for the Future. Listed below are some advantages/complementariness that both the nations have derived from this agreement, thus also fulfilling their individual domestic needs and forging a stronger partnership.

The section titled 'Partnership for Prosperity' emphasizes economic partnership. This section has nine paragraphs, and each addresses a specific issue. Continued investment in infrastructure, the Japan-India Investment Promotion Partnership in which Japan has committed to give ODA; developing smart cities; cleaning the Ganga; creating a Japanese Industrial township, etc. – all indicate the deepening economic engagement. For India, this

commitment by Japan addresses its urban needs as discussed above. For Japan, it provides a captured market for investment and technology.

Energy issues have also been discussed, and cooperation through the India-Japan Energy Dialogue is affirmed. Further cooperation in eco-friendly technology – including in Clean Coal Technology, the promotion of joint procurement and flexible LNG markets, and working towards the relaxation of the destination clause have also been discussed. When all the latter are read with the section on cooperation in maritime security between the two nations, it only confirms that strategic needs are submerged within economic wants. The recent step to open a nuclear power facility in Japan has an indirect impact on pushing forward the signing of the civil nuclear deal between both nations. The materialisation of this deal will provide a further thrust to this relationship.

With respect to defence, during Prime Minister Modi's five-day visit, the two sides have signed a Memorandum of Cooperation and Exchanges in the Field of Defence. 'We intend to give a new thrust and direction to our defence cooperation, including collaboration in defence technology and equipment, given our shared interest in peace and stability and maritime security'.¹¹The two Prime Ministers welcomed the progress made in the discussions in the Joint Working Group (JWG) on cooperation in US-2 amphibian aircraft and its technology, and directed their officials to accelerate their discussions.¹² The arms export policy change in Japan ensures that Japan can contribute positively and, hopefully, speed up the process.

The sections on Exploring Science, Inspiring Innovation, Developing Technology, Connecting People have a lot of potential in helping India build its strength in skills development. Modi's commitment towards 'Make in India' – in which a strong emphasis is on job creation and skills development – is visible in IIT Hyderabad, the Institute of Information Technology, Design and Manufacturing in Jabalpur, and in cooperation in increasing women's empowerment.

Conclusion

India is poised to become a destination for Japanese investment. Primarily, the Indian domestic market is booming, with a growth potential of at least 2 per cent every year. Although 70 per cent of the population of India resides in rural areas, the technology boom has ensured bridging the gap and resulted in market expansion into the rural areas. The upper middle-class has understood over time, the idea of giving preference to quality over price, thus changing

the parameters for consumerism. Secondly, India's human resource is also expected to vastly improve due to attempts made by the Government of India towards better education and progressively more skilled manpower. Given the size of the Indian population, manpower is bound to remain cheaper than in most other nations. In the first growth phase, India had jumped on to the services sector. Of late, there has been an attempt to return to the manufacturing sector. The Make in India vision of Modi will further the cause. The current agenda is to build a strong and vibrant manufacturing sector so as to encompass a larger mass, and make the development process more meaningful to the population at large. Talented low cost software engineers have made Information Technology (IT) sector India's stronghold, and can become the strategic enabler. India is a natural partner for innovation led high-end products because of the latent talent of an English speaking workforce, which is growing substantially, making India a choice destination as an IT enabled services (ITES) provider. Thirdly, infrastructure development of both roads and railways are becoming critical to enable the fast movement of goods within as well as between manufacturing hubs and ports. India has stepped up its efforts by encouraging public-private partnerships and seeking foreign assistance. India is located geographically between the East and the West. A highly skilled IT enabled workforce that is reasonably inexpensive is an advantage which can turn India into a 'eco-strategic' location wherein innovation and R&D activity can be conducted to serve clients in the Eastern part of the world as well as the Western part of the world.

Japan, on the other hand, is struggling to emerge out of deep recession. Its current effort is to singularly find markets. With a vibrant domestic market, India is a good destination for Japanese businesses. Technological know-how is Japan's strength, and it rests in the small- medium scale sector. Thus, opportunities are tremendous as India has a large number of medium scale companies which are in need of technology tie-ups. Infrastructure development is another strong forte of Japan and, with success of the DMIC and DFC, expectations are high regarding Japanese companies investing in India. Today, Japan faces the fastest aging society in the world and this essentially means a smaller working population. Thus, reliance on the global market will become a necessary option.

The working age population in India stands at 4 million graduates; it is expected that another 200 million will be added by 2030. As discussed earlier in this essay, with its increasingly skilled population, India can be the destination for Japanese companies and its service industry, thus giving Japan an opportunity to regain its economic viability. China, which was once a favoured

destination for Japan, was essentially an export oriented economy, which in turn led to uncertainties at the time of world recession. The recent parameters of growth and market volatility in China are making investors cautious. With a domestic market oriented economy and its showing the right direction on the economic front, India should finally be able to encourage the so far hesitating small and medium enterprises. Moreover, the Southern Indian Coast, which is very close to the current auto-parts and electronic component hub located in Malaysia and Indonesia, can be integrated to form a powerful trio, and enable the growth of low cost automobiles for the world at large. Japan's GDP growth rate might be poor; but it still remains a capital and technology rich country. India, on the other hand, is hungry for the same. Thus, a huge complementary market is present in these sectors too. With Europe going through an economic crisis, the solution for which could take a while, Japan can ill afford to ignore India.

As seen in this essay, India and Japan have different economic needs; and interestingly, the needs of one country can be addressed by the other. Given such complementarities in the area of economics, it is time that both the nations keep the focus which has been gained in the past decade, culminating in CEPA, and make headway into a future of prosperity for both.

India-Japan relations have the advantage of no historical baggage, no territorial issues, and strong spiritual affinity. However, to use these as reasons for growing intimacy of India-Japan relations is an overtly simplified narration. Japan showed scant interest in India for a long time, and Indian economic policies of import substitution and self-sustained development encouraged little or no interaction till the turn of the century, when Prime Minister Mori visited India. The entente in the relationship was brought about by Prime Minister Koizumi who included the term 'strategic' while describing the relationship between the two countries, and pushed for a yearly meeting of the Prime Ministers of the two countries. In his first term, Prime Minister Abe followed this by giving strong consent to the 8 point initiative, and thus established the two pillars – economic and strategic – on which the relationship rests.

Of late, discussions of this relationship are centred around the containment of China, with India being a pivot for USA and Japan in Asia; the discussions include maritime security issues and defence cooperation. Moreover, since Japan finds itself isolated due to American fear of being dragged into Japan-China bilateral issues, it has gravitated towards India. Thus, this school of thought has promoted the idea that the latest joint statement between India and Japan has been primarily a strategic engagement. While discounting the

strategic interests of these two nations is not the intent, delving into the document in detail reveals that both nations are also promoting their domestic economic needs, gaining assured commitments, and thus protecting their economic interests.

Notes

- ¹ Article 9 of the Constitution.
- ² *The Times of India*, May 29, 2013.
- ³ <http://www.project-syndicate.org/commentary/a-strategic-alliance-for-japan-and-india-by-shinzo-abe#9hxefJI4RWTprTH.99>, accessed in 24 June 2015.
- ⁴ This year, the two nations formally started the yearly meeting of the Prime Ministers. 2000 is considered the turning point when Prime Minister Vajpayee and Prime Minister Mori met and laid the foundation of this partnership.
- ⁵ JBIC Survey Report on Overseas Business Operations by Japanese Manufacturing Companies, 26th Survey.
- ⁶ As reflected in JICA's website, sourced June 2015.
- ⁷ News and Updates, July 2015, Nuclear Energy Institute Japan.
- ⁸ The civil nuclear deal is in abeyance since it was proposed because of Japanese public sentiments. However, with the current momentum and delayed visit of Prime Minister Abe to India, hopes are high that the 2015 meet will result in a civil nuclear deal.
- ⁹ India health check, at <http://www.imf.org/external/pubs/ft/survey/so/2015/car031115a.html>, accessed 3 July 2015.
- ¹⁰ Ibid.
- ¹¹ <http://indianexpress.com/article/india/india-others/india-japan-to-upgrade-defence-cooperation/#sthash.6V4CNWI1.dpuf>.
- ¹² Tokyo Declaration for Japan-India Special Strategic and Global Partnership.

