

Explained: Can India-Japan economic ties offset China's influence?

The first of a two-part series looks at how some key economic alignments of India are expected to pan out

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PM Narendra Modi and PM Shinzo Abe | File photo

This year neither India nor Japan has referred to the Asia Africa Growth Corridor (AAGC), a project set up in November 2016 for the two countries to jointly invest in Africa and other continents. Announced by Prime Minister Narendra Modi and Japanese Premier Shinzo Abe, the AAGC was seen as an alternative

to China's Belt and Road Initiative (BRI).

As relations chill between India and China post the developments in Jammu and Kashmir, there are murmurs that the AAGC should be revived and India should have deeper ties with Japan and other Asian nations to counterbalance China's influence. An opportunity for that could come up this week when Japan hosts the seventh Tokyo International Conference on African Development, which will be attended by leaders of 54 countries from the continent.

However, the revival of AAGC seems somewhat iffy now. Early this year, Japan suggested renaming the AAGC. It has also shed its opposition to China's Belt and Road Initiative, promising to "actively participate" in it. And

though Indian officials aver that the scope of the AAGC as an investment plan exercised through third-party cooperation has expanded, they have stopped short of mentioning the platform.

Essentially, the idea of sovereign support by Japan and a soft power approach by India to make companies' foray into Africa easier, has been somewhat of a non-starter.

Meanwhile, both countries have independently raised their financial stakes in Africa. India has doubled its financial support for projects globally (most of it is in Africa) in the past five years. As on April, 2019, its lines of credit for projects abroad is almost \$28 billion, of which the Exim Bank accounts for \$23.6 billion. In a reply to Parliament on India-Africa economic relations, minister of state for external affairs, VK Singh, said, "181 lines of credit have been extended to 41 countries (in Africa) for a total amount of more than \$11 billion, which is 42 per cent of the total amount under LoCs."

As for Japan, it reportedly plans to commit more than \$2.85 billion in aid to Africa during the conference on African development being held in Yokohama this week. However, this is puny compared to what China has spent in the continent — an average of \$11.5 billion annually since 2012 (Infrastructure Consortium for Africa).

The announcement for setting up the AAGC in 2016 was India's first articulation of an agenda to take its economic interests beyond its shores instead of just foraging for commodities to import. However, since then, the noise around it has been missing. In January, Japanese foreign minister Taro Kono was in Delhi in connection with the Indo-Japan annual summit that India will be hosting later this year. He had extensive meetings with the Indian government, including Prime Minister Modi, but there was no reference to the AAGC in the discussions. Similarly, though the two countries have so far held three dialogues on space, cyber and strategic issues this year, AAGC hasn't been mentioned at all.

In response to an email from *Business Standard*, the Embassy of Japan said that Tokyo exercises no ownership on the concept. "AAGC was presented by three think tanks: RIS, ERIA, and IDE-JETRO, which published the AAGC Vision Document at the African Development Bank board meeting in May 2017 in Ahmedabad. The Governments of Japan and India share a vision for a free and open Indo-Pacific. This is a broader vision to realise peace, stability and freedom of the region," it stated.

The reluctance to mention the platform has rubbed off on India, too. Though minister of state for external affairs said in Parliament that after south Asia, "the African continent is the largest recipient of Indian overseas assistance," he refrained from alluding to the AAGC or to any collaboration with Japan for any project in the African continent.

The Japanese embassy also noted: "We will also promote Japan-India business cooperation, such as 1) exports to Asia and Africa by Japanese companies operating in India (automobile, etc.) and 2) implementing projects in Asia and Africa with Indo-Japan business collaboration (energy, etc.)."

Clearly, Japan is unwilling to play the role of a financier of the AAGC for developing projects in Africa and elsewhere, where India is supposed to use its soft power to establish contacts.

However, there has been sporadic success for India-Japan joint ventures in Africa. India, Japan and the United Arab Emirates have promised to execute two projects in Africa — a cancer treatment hospital in Kenya and an information and communications technology centre in Ethiopia.

According to Sachin Chaturvedi, Director General of RIS, the AAGC framework is now much broader than a plain vanilla third-party cooperation. "AAGC has metamorphosed into a growth pole strategy, where there are other countries too as takers. It is not just India and Japan any more. You can't expect only Japan to deploy its financial resources anymore."

SOFT POWER

- India, Japan have independently raised their financial stakes in Africa

- As of April 2019, India's lines of credit for projects abroad (mostly in Africa) is almost \$28 bn, of which the Exim Bank accounts for \$23.6 bn

- Japan reportedly plans to commit over \$2.85 billion in aid to Africa during the conference on African development being held in Yokohama this week

- This is puny compared to what China has spent in the continent – an average of \$11.5 bn annually since 2012 (Infrastructure Consortium for Africa)

Chaturvedi added that more joint projects like the ones in Kenya and Ethiopia projects were on the anvil. Though all had an element of government participation, they would not be part of any overarching umbrella like the AAGC.

This suits Indian industry too. DK Hota, chairman and managing director of Bharat Earth Movers told *Business Standard* that Indian embassies in the African countries should take the lead in informing companies about financing and other challenges and only then expect them to invest. “The G2G comfort is very important before we take risks, and this is even more so in the case of state-run companies,” he said.

The other challenge for industry is to integrate swathes of the African continent into a common market. But given the differences among many of the countries, this needs political support. A CII paper on Africa said, “(industry) would likely be supportive of any integration efforts on the African continent, as they would result in various advantages, especially with regards to trade facilitation and the development and upgrading of value chains.”

The CEO of a private sector company with operations

in East Africa said he was offered diamonds in payment for a turnkey project his company had delivered. “I told them we cannot handle payments this way. We asked them to get in touch with MMTC. Nothing happened and we had to come out with a loss”.

Another challenge in the case of investments by Japan is that their products are usually costlier than those from China. Japan says this is inevitable in order to ensure that bridges, roads and harbours have a long and uninterrupted life. Just as words like “quality infrastructure” popped up repeatedly at the G20 meeting in Tokyo, those like “transparency” and “sustainability” are expected to figure at the meeting with African nations to contrast Japanese investments with China’s emphasis on cheaper costs to build infrastructure.