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India-Japan Relations and Its Prospects for Regional Connectivity

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India and Japan share strong cultural and civilizational links. The year 2022 marks the 70th anniversary of the establishment of India-Japan official diplomatic relations. Japan is now the largest bilateral development partner for India. This commentary deals with overview of Japan-India relations and discusses its prospects on India-ASEAN regional connectivity. It also underlines the importance of ASEAN-India-Japan partnership in the emerging Indo-Pacific.

The year 2022 marks the 70th anniversary of the establishment of India-Japan official diplomatic relations. Japanese people remember that India extended warm hands to Japan when Japan returned to the international community after the World War II. India was the first recipient of Japan's ODA loan in 1958. Japan is now the largest bilateral development partner for India.

The Japan-India Global Partnership was launched in April 2000, followed by the Japan-India Strategic and Global Partnership, announced in December 2006. Since then, both prime ministers have been set to visit each other every other year. For Japan, India is the first case to make an official promise of mutual visitation, while for India it is the second case after Russia. Japan-India bilateral relationship was further elevated to the Special Strategic and Global Partnership in September 2014. Most recently, the Japanese Prime Minister visited India in March 2022, followed by the Indian Prime Minister's visit to Japan in May 2022. In this commentary, I focus on sketching Japan-India relations and its prospects on India-ASEAN regional connectivity.

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Natural Partners in Historical Perspective

It is to be noted that even before the establishment of official diplomatic relations, both Japan and India had a track record of forming bilateral relations as natural partners. Since Japan started its modernization after the Meiji-era, Japan-India bilateral relations had much to do with the development of Japanese modern industries. The typical case can be shown in both the textile and steel industries.

As for the textile industry, Japan was heavily dependent on imported cotton yarn in the initial period, including Indian cotton yarn. However, Japan soon established its modern cotton spinning industry, opening the way for a vigorous increase in the demand for raw cotton. Initially, Japan depended on China for the import of raw cotton. Meanwhile, faced with a limited scope for further supply expansion in China, Japan came to place high expectations on the import of raw cotton from India. At that time, the expensive shipping freight came in the way of large imports of raw cotton from India, only because the British shipping and logistics company, namely, P&O, dominated the marine transportation between Japan and India. A strenuous teamwork play was made between Japan and India to open a crack in the monopoly held by P&O. Finally, the marine route between Bombay and Kobe was successfully opened in 1883, thanks to a close mutual trust between the two key persons: Jamsetji N. Tata, Founder of the Tata Group, and Eiichi Shibusawa, Father of Capitalism in modern Japan, paving the way for securing stable supply of Indian raw cotton.

Turning to the steel industry, Japan depended much on import from India for its supply of pig iron, also known as crude iron, during the post-World War I period till the first-half of the 1930s. With a view to compete with the inflow of Indian pig iron, the tariff was hiked for Indian pig iron in 1932, which together with the devaluation the yen following the reimposition of a gold embargo in December 1931 marked the turning point for Indian pig iron to be subsequently excluded from the competitive in the Japanese market. Meanwhile, it was not pig iron but iron ore that Japan asked for imports from India after the World War II. Because the Japanese government decided to prioritize the mutual expansion of coal and steel in terms of boosting the level of mining and manufacturing for economic reconstruction, Japan was in urgent need of procuring the supply of iron ore, and India was regarded as the promising supplier of iron ore, compared with other regions. The then leading top leaders of Japanese steel companies used to visit India every year during the period 1958~60, while the Indian government in that time spared no effort to cooperate with Japan in the development of mines, railways, and ports.

Sluggish India-Japan Trade

India used to account for 10~15 per cent of the total Japanese trade before 1937. Even after World War II until around 1965, India remained an important trading partner, accounting for 2~4 per cent of the total Japanese trade. Afterwards, a discrepancy had crept in the bilateral relations between the two countries, with the share of bilateral trade in the total Japanese trade declining to the level of as low as 1 per cent. The following four factors can be pointed out as responsible for a sluggish India-Japan bilateral trade.

First, Australia and Brazil came to replace India as more important sources of iron ore for Japan after the mid-1990s. Second, with the emergence of the Newly Industrialized Economies (NIES), followed by a remarkable economic growth in ASEAN and China, Japan has conspicuously expanded horizontal trade with emerging East Asian countries, while India has gradually receded from the sight of Japan. Third, under the Look East policy following economic reforms in 1991, India has been successful in expanding its trade relations with East Asian countries, including the ASEAN, China, and Korea, but not necessarily with Japan. Fourth, the Japan and India Comprehensive Economic Partnership Agreement (CEPA) came into effect in 2011, but it has not been effective in expanding the bilateral trade, while China has successfully penetrated the Indian market with low-priced goods even without enjoying any benefits under the CEPA.

Japanese FDI in India

Quite different from the situation for trade, Foreign Direct Investment (FDI) from Japan has shown a more dynamic trend. According to the FDI data compiled by Indian Ministry of Commerce and Industry, Japan is counted as among major investing countries, accounting for 6 per cent of the total cumulative FDI inflows into India during the period from April 2000 to March 2021, which is almost comparable to the US, the Netherlands, and the UK, except for Mauritius and Singapore which provide special tax benefits for investors. An increasing trend in Japanese FDI into India is also reflected in the number of Japanese companies operating in India. From October 2008 to October 2020, the number of Japanese companies increased from 362 to 1455, with the bases of operation increasing from 836 to 4948.

Spearheaded by Suzuki's success in India, Japanese automakers' advance into the market has contributed greatly to raising Indian manufacturing industry standards, such by increasing workers' skill and by improving quality control. Japanese automobile assemblers and auto part manufacturers' firm presence

strongly induce other companies involved in steel, machines, power plants, and logistics to come to India. While Chinese and Korean companies have an upper hand in the market of home appliances and mobile phones, Daikin has maintained its position as the top brand in the air conditioner sector.

The advance of Japanese companies into India is increasingly conspicuous in a wide range of areas, such as pharmaceuticals, foods, stationery, cosmetics, and sanitary goods. In the retail sector, Japanese leading companies have already opened their outlets in India. SoftBank has well established its position as one of the largest investors in India's e-commerce market. Japanese financial institutions including insurance companies are also making their presence felt in the Indian financial market. There is a possibility that Japanese FDI will be boosted under the Production-Linked Incentives (PLI) scheme under the Self-Reliant India mission and the Supply Chain Resilience Initiative (SCRI), launched by India, Japan and Australia in the Indo-Pacific Region.

Japanese Contribution to Indian Infrastructure: Economic Corridors in India

Japan has played a significant role in the development of India's infrastructure. In successive years since 2004-05, India has been the largest recipient of Japan's ODA. During the period from fiscal 2011 to fiscal 2020, Japan provided yen loans worth 3,401.3 billion yen to India, 66.2 per cent of which was intended for transportation, followed by water supply and sewage 10 per cent, electricity and gas 9.3 per cent, agriculture and forestry 5.9 per cent, and others 7.8 per cent¹.

Japan-India collaboration has greatly contributed to the enhancement of transport connectivity in India. The Delhi Metro that began operating in 2002 is a successful example of the transfer to India of Japan's operation systems, construction culture, and safety technology. Japan's support of subway systems has spread from New Delhi to Ahmedabad, Mumbai, Kolkata, and Chennai. Besides the three gigantic projects discussed below, Japan is also involved with the development and connectivity of the North-East region under the India-Japan Act East Forum, set up in 2017.

(i) The Delhi-Mumbai Industrial Corridor

India has schemes for 11 industrial corridors with a huge infrastructure development, of which Japan is deeply committed to the Delhi-Mumbai Industrial Corridor (DMIC) and the Chennai-Bengaluru Industrial Corridor

¹ Data from the Japan International Cooperation Agency (JICA).

(CBIC). The DMIC is a flagship corridor with an estimated investment size of US\$ 90 billion. With the Western Dedicated Freight Corridor (DFC), serving as the backbone, the DMIC has a vision to develop the industrial corridor as ‘Global Manufacturing and Trading Hub’. It aims to construct 24 Industrial Nodes with world class infrastructure extended up to 150 km to 200 km on both sides of the alignment DFC across the six states in western India (Delhi, Haryana, Uttar Pradesh, Madya Pradesh, Gujarat, and Maharashtra).²

(ii) The Western DFC

The construction of two gigantic DFCs (Western DFC and Eastern DFC) is in progress. Japan is committed to the Western DFC, extending 1,504 km from Dadri in the Delhi National Capital Region to the Jawaharlal Nehru Port (JNPT) in Mumbai, while the Eastern DFC, financed by the World Bank and Public Private Partnership (PPP), connects the states between Punjab and West Bengal. The Western DFC uses electric locomotives, which transport double-stack containers on a double-track railroad, while diesel locomotives are used in the Eastern DFC, running on a single-track railroad in some sections.

Freights that took three to four days to travel from Delhi to Mumbai on conventional railways will be able to complete the trip in a single day, and freight capacity will increase 3.6 times per day. Truck transportation has been widely used for large bulky items such as coal, iron ores, and automobiles commodities, but these items will be transported in large quantities at lower cost without delay by using rail containers. The Western DFC project is to be provided with a 620-billion-yen loan for the total cost of 930-billion-yen. The Special Terms for Economic Partnership (STEP) loan has been applied to the Western DFC, which means that more than 30 per cent of the materials used is to be supplied by Japan, and the Japanese companies are required to be the main contractors for each railway contract package.

Initially, the construction was scheduled to be completed by March 2017. Later, the completion time was postponed to July 2022, but there are still challenges in land acquisition in some parts of Maharashtra. Meanwhile, the section between Rewari and Palanpur (42 per cent of the total track of Western DFC) was partially opened in July 2021, which indicates that even before the entire opening of the Western DFC, the major artery for logistics can be expected to be in display in Western India, accompanied by a huge expansion of container handling volume at the main ports in Gujarat.

² Department of Industrial Policy & Promotion, “Concept Paper: Delhi-Mumbai Industrial Corridor,” Ministry of Commerce & Industry, Government of India, August 2007.

(iii) Mumbai-Ahmedabad High-Speed Railway (MAHSR)

The construction of the MAHSR is attracting considerable interest as the new symbol of Joint Japan-India projects, which will sharply reduce the transportation time between Mumbai and Ahmedabad spanning 509 km from eight hours to two hours and 30 minutes. East Japan Railway Company (JR East) is responsible for the transfer of Shinkansen technology in such areas as rolling stock, operations, and the training of Indian personnel. Human resources development for operation, maintenance, and management of the HSR is indispensable for producing success in introducing the Shinkansen system to the India railway.

The total project cost for the Mumbai–Ahmedabad route was estimated to be around Rs 986 billion (approximately 1.8-trillion-yen), 81 per cent of which would be covered by Japanese ODA³. The terms and conditions of loan are quite favourable for the Indian side: 0.1 per cent interest rate with a repayment period of 50 years (including 15 years of grace period). It will be financed on a basis of bilateral tied loan, which means either only Japanese or Indian companies are entitled to play the role of prime contractors for each contract package.

As of March 2022, nearly 89 per cent of the total land required for the MAHSR project has been acquired by the central government. While 99 per cent of total land acquisition was complete in Gujarat, it was at most 69 per cent in Maharashtra⁴. Considering a tardy progress of land acquisition in Maharashtra, the inauguration date for the MAHSR was revised from December 2023 to October 2028. Furthermore, before the whole line opening, following trial runs on a 47 km stretch connecting Surat to Bilimore, the Indian government has come up with a plan to commence operation on the 352 km section in Gujarat in 2027.

India-ASEAN Connectivity and Japan

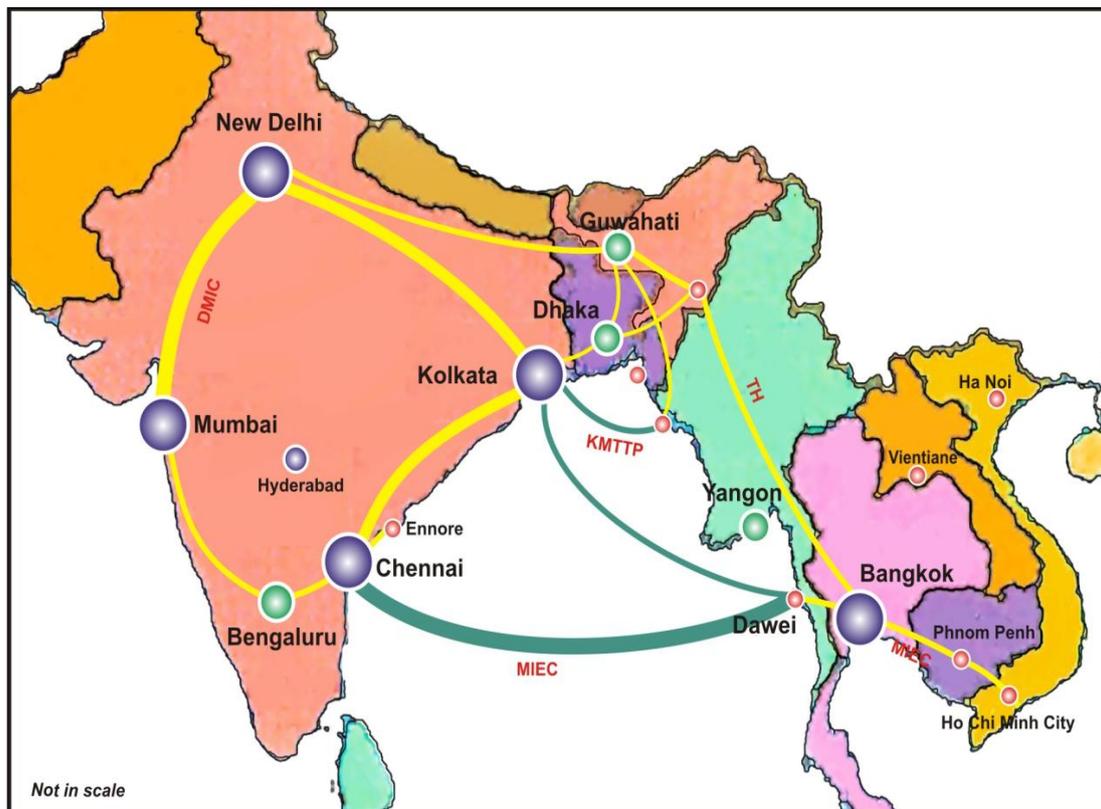
Connectivity holds the key to closer participation between India and ASEAN, although the current turmoil in Myanmar constitutes challenges to greater India-ASEAN connectivity. Among the proposed connectivity projects, the most promising is the Mekong-India Economic Corridor (MEIC), which has been supported by Japanese investors. The Mekong-Ganga Cooperation (MGC) was established in 2000 by India and the Mekong countries to promote trade and

³ The Japanese ODA (yen loan) will not cover import taxes, land acquisition costs and administration costs, or other ineligible costs and fees, as mutually agreed.

⁴ The Financial Express, March 23, 2022.

investment cooperation. The four Mekong countries, namely, Myanmar, Thailand, Cambodia, and Vietnam constitute the Southern Mekong Economic Corridor in the Mekong River Basin, connecting Ho Chi Minh City (Vietnam) with Dawei (Myanmar) via Bangkok (Thailand) and Phnom Penh (Cambodia). Dawei and Chennai are regarded as key ports connecting the sea route between India and ASEAN (see Figure 1). Other routes that are expected to enhance India-ASEAN connectivity include the India-Myanmar-Thailand Trilateral Highway and the Kaladan Multi-modal Transit Transport Project (KMTTP).

Figure 1: Layout of India’s Major Connectivity Projects with ASEAN



Source: De, P., "ASEAN-India Connectivity: An Indian Perspective," in Kimura, F. and S. Umezaki (eds.) *ASEAN-India Connectivity*, Economic Research Institute for ASEAN and East Asia, December 2011.

Japan International Cooperation Agency (JICA) has already been committed to main infrastructure projects in ASEAN, including the East-West Economic Corridor, the Southern Economic Corridor, and the Maritime ASEAN Economic Corridor. Japanese ODA is well known for its people-centred investment, devoting attention to inclusiveness, resilience, and capacity building. The Japanese government has shown a keen interest in realizing the Southern Economic Corridor, mainly because it will be highly expected to contribute to boosting economic development in the region, and it will also broaden the base of business activities for Japanese companies.

In December 2015, the two countries pledged in a joint statement “Japan and India Vision 2025 Special Strategic and Global Partnership” to work for peace and security and development of the Indo-Pacific region, based on a deep, broad-based and action-oriented partnership, reflecting a broad convergence of their long-term political, economic and strategic goals. It is quite natural that the two countries will work together to enhance the connectivity between India and ASEAN for the prosperity and stability in the Indo-Pacific region.

Final Remarks

As the largest bilateral development partner, Japan has contributed much to the development of India’s infrastructure, including the enhancement of transport connectivity. As leading democracies, both India and Japan are pillars for the realization of a free and open Indo-Pacific. To ensure the stability of the Indo-Pacific region, it is vital to maintain or bolster its free and open maritime order. The entire Indo-Pacific region’s economic activities will be stimulated by connecting Asian countries. Considering the importance of economic links between India and ASEAN, the most promising will be the sea route called the Mekong-India Economic Corridor (MIEC) connecting India and ASEAN. ASEAN, India and Japan may consider developing the MIEC on a faster track basis.

About AIC



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Considering the work of the ASEAN-India Eminent Persons Group (AIEPG), and its Report with recommendations for forging a closer partnership for peace, progress and shared prosperity, the Heads of the State/Government of ASEAN and India at the ASEAN-India Commemorative Summit 2012, held at New Delhi on 19-20 December 2012, recommended the establishment of ASEAN-India Centre (AIC), which was formally inaugurated by the Hon'ble External Affairs Minister of the Government of India on 21 June 2013 at RIS. AIC serves as a resource centre for ASEAN Member States and India to fill the knowledge gaps that currently limit the opportunities for cooperation. AIC works with the Ministry of External Affairs (MEA), Government of India and undertakes evidence-based policy research and provide policy recommendations.

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