



**INDO-JAPAN CHAMBER OF COMMERCE & INDUSTRY**

**FUTURE OF  
INDIA-JAPAN  
RELATIONS**

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## **PREFACE**

Mr. A.J. Asrani, a former Ambassador of India to Japan, is a veteran diplomat of the Indian Foreign Service for over three decades. He is an acclaimed authority on Japan both during his service in office and after retirement.

Mr. Asrani is a strong believer in India and Japan getting closer in the international arena. He is associated with IJCCI almost since its inception in 1989. IJCCI can well claim him to be its mentor, for we in IJCCI look up to him for guidance at all times. IJCCI is grateful to Mr. Asrani for this Resource Paper on the Future of India-Japan Relations.

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**N. Krishnaswami**



## **Future of India-Japan Relations**

I may not be the most qualified person to talk about future relations with any country. I spent my entire diplomatic career in the last century - a century of colonialism, two World Wars, a global Cold War, a Non-Aligned Movement, a dominating role of ODA (Official Development Assistance), and clever economic warfare or economic dominance replacing the military one.

Yet, by the sheer fact of having been associated with Japan over the last 55 years, I do have a vision of the future based on a huge mutuality of interests between our two major countries on the basis of a rare complementarity in terms of geography, financial and natural resources, demography, naval power, technology, educational and social development, knowledge of the English language, work habits, homogeneity of population versus stupendous diversity and so on. All these factors make me highly optimistic about our economic and strategic relations while facing some difficulties on the way.

## **Economic Cooperation**

In the simplest terms, notwithstanding the decelerated rate of growth in Japan's economy over the last two decades, Japan will remain for India a most important source of finance and technology at least for the next two decades. For Japan, especially after the souring of its relations with China, India is a large market with a rapidly rising middle class, young enough to indulge in consumerism. The huge gaps in our infrastructure also provide opportunities for Japanese equipment and finance.

While opinion, even within Japan, may be divided on 'Abenomics', one important element which I appreciate is the devaluation of the Yen over the last couple of years by about 50%. This has to some extent corrected the mistake made by Japan in allowing USA to browbeat it in the late 1980s to ratchet up the yen from Y240 to Y80 (rough figures) to a US dollar during the 'lost decade' of 1990s. While this alone may not result in another Japanese economic miracle, it does give the remaining Japanese high-end industries a chance to compete in the world.

Most Indian commentators make the mistake of judging India-Japan economic relations only by the size of bilateral trade as compared to our trade with China, UAE or USA. However, if you include FDI (direct from Japan or via Singapore), ODA, FII investments in our stock and bond markets with yen funding, technology joint ventures & third country trades handled by

Japanese trading companies in India, Japan may come out as our most important partner or at least one of the top two.

Japan's trade is often related to FDI. In India's case the FDI has been mostly for the domestic market as our manufactures have not been competitive enough for export. However, Japanese auto ventures in India are showing the way to exports. Earlier, Japanese companies, especially in electronics, failed to invest in India because they found an inadequate domestic market for sophisticated, high-priced products. Others like Koreans had adjusted to the Indian 'value for money' market. I think the Japanese have now learnt to adjust their products to Indian needs.

Japanese FDI will multiply IF we are able to sort out our land acquisition, infrastructure and labour laws. It is especially encouraging that scores of Japanese SMEs have started coming to India. With the increasing knowledge of the English language in Japan, I see more of these SMEs venturing out to India. Some of them may be moving from China to India for reasons of political uncertainty in Sino-Japanese relations.

We have a CEPA with Japan in place. For the Japanese manufacturers located in ASEAN countries, it is equally important that we have also signed an FTA with ASEAN. At present their chief gain is by way of exports from their ASEAN factories to India. I am hopeful that, with some success



with our “Make in India” efforts, they will develop chain like linkages between their production facilities in India and ASEAN.

The Japanese are moving on to higher value-added industries like nano-technology, space navigation, civil aviation, ocean development, bio-engineering, super-conduction, magnetic suspension, fibre optics, high-definition television, mobile Internet and fifth generation computers etc. This is creating a shortage of qualified manpower, especially in the IT-related sector. India has shown that it is precisely in the scientific and professional areas that it can produce manpower of a world standard with Indian salaries. Apart from IT services, computer software and scientific research, Indians have a good track record in management consultancy, media and entertainment, fashion designing and haute couture (high quality fashion cloths designing), advertising and public relations, languages and literature, as well as all finance-related activities like banking, accounting, insurance and the capital markets.

The beauty of this kind of use of our manpower is that much of the work can be done without the Japanese having to liberalize their immigration rules - something they are allergic to doing. The kind of work envisaged above could largely be executed from India. Japan already has an aging society accompanied by a diminishing birth rate. India's manpower will continue to be relatively young in the foreseeable future. Another

feature of this kind of collaboration is that it is increasingly located in Bengaluru, Chennai, Hyderabad and Gujarat instead of being centered on Delhi and Maharashtra.

## **Strategic Partnership**

Our Prime Ministers now meet every year and issue a joint statement as well as a Security Cooperation Agreement every time. Last year, during Prime Minister Modi's visit to Japan, our relations were further upgraded to 'Special' Global Strategic Partnership. This word 'Special' needs to be given some meaning. I understand that apart from its defense alliance with USA, Japan has such 'special' relations with only two other countries - UK and Australia.

Last year the Abe Government managed to relax the old self-imposed prohibition on export of defense equipment & technologies. This took some courage and effort because it was not popular with the general public. A majority of Japanese, after their terrible experiences during World War II, have become allergic even to having normal defense capabilities and operations of a sovereign country.

I would look forward to the day when we could import some of their defense equipment and have R & D collaboration. With the Indian Government's decision to open up our defense industry to the private sector, I foresee eventual participation by Japanese companies in this field - which would also enhance our

bilateral strategic cooperation, especially in the naval sector. (One recalls that the Cochin Shipyard in India was modernized with Japanese ODA and know-how in the last century).

Japan needs a safe passage for its oil tankers plying from the Gulf to Japan through the Indian Ocean sea-lanes. A friendly Indian navy and Coast Guard have a credible capability for assisting in this regard. This has already been evinced in recent cases of piracy against Japanese vessels.

India has been holding annual joint naval exercises with USA every year in the Indo-Pacific area. I understand that this year Japan has also been invited to join these exercises.

Until recently India and Japan used to post just one Defense Attache in their respective Embassies in Tokyo and Delhi. The Army, Navy and Air Force used to take turns in filling this single post. Now Japan has not only all three Attaches representing the three Forces but also a Coast Guard Attache in Delhi. India is yet to reciprocate.

### **Socio-economic Complementarities**

It would be desirable to substantially increase the number of Indian students learning the Japanese language. With the shortage of Japanese manpower, the increasing number of Japanese companies in India will have to rely on local Indian recruits. I see this happening even at the Embassy of Japan in

Delhi where, increasingly, administrative functions and jobs like personal assistants to Japanese Diplomats are being passed on to local Indian recruits.

Although there are obvious differences in the behavioral patterns of Indians and the Japanese, the middle class has similar attributes in both countries - well-educated, frugal, savings-oriented, giving high priority to family and education of children, looking after aged parents etc. However, India's middle class may be about 20% of its population while the corresponding figure is likely to be 80% in Japan. That is perhaps the chief reason why the differences are more noticeable.

Both are democracies where often shaky coalition governments have replaced long single party rule but where the rule of law is well established. What is more, our relations have continued to grow from strength to strength, irrespective of the party or Prime Minister in power.

History, geography, economics, demographics, even different strengths and weaknesses - all converge to make India and Japan natural partners. Both have a value system that respects nature and strives for harmony between man and his environment. In a world threatened by Climate Change, it is these values that must be revived and India and Japan can lead the world in this regard.

Precisely because the two countries have come so close, they must avoid taking each other for granted. The negotiations

between the officials of the two countries have been going on far too long on the subjects of peaceful nuclear energy cooperation and Japanese supply of the US-2 amphibian naval aircraft. It is hoped that agreement will be reached on these subjects by the time Prime Minister Abe carries out his expected visit to India towards the end of this year.





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