



INDO-JAPAN CHAMBER OF COMMERCE & INDUSTRY

India-Japan Partnership : A Global Imperative

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PREFACE

Japan and India have been great friends from time immemorial, but the developments in bilateral relations in recent years has made significant impact in the global arena.

Mr. B.S. Raghavan, a veteran IAS Officer, West Bengal-Tripura cadre, held several senior positions in the Government of West Bengal before his retirement as the Chief Secretary to the Government of West Bengal. During his career, he was deputed to the Government of India several times and had had the privilege of working with great Indian leaders in the Home, Industry and Food Ministries.

Mr. Raghavan had the honour of being selected as a US Congressional Fellow for two years during his service and was the United Nations Policy Adviser to the Food and Agriculture Organisation (FAO) for three years.

Back in Chennai after retirement, Mr. Raghavan is involved with several educational, social and cultural organizations and think tanks. He is a Patron of Chennai Centre for China Studies, a keen journalist and has authored several books on Economics and Finance. We are proud to have Mr. B.S. Raghvan, an intellectual colossus as Advisor to the Indo-Japan Chamber of Commerce and Industry. We are thankful to him for this Resource Paper and are confident that our readers will find it highly interesting and informative.

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Suguna Ramamoorthy
Secretary-General

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I. Introduction

I.1. Japan's rebirth after being left decimated at the end of the Second World War, attaining the stature of a titan in technological prowess, and its rise rivalling the United States as a formidable economic power has no parallel in world history. Like Phoenix, Japan has literally risen from its ashes.

I.2. An article by George Friedman in the February 8, 2017 issue of Forbes says that by 2040, Japan, and not China, will rise as East Asia's leading power, although Japan's population is a tenth of China's, and it is just not aging, but shrinking, and its debt-to-GDP ratio is 229 per cent. The other arguments Friedman advances are that unlike China, Japan has no land-based enemies. Unlike

China, the Japanese Government has no concern about its ability to impose its writ throughout the entire country. Nor does it have to deal with a huge gulf in wealth disparity between regions.

I.3. These achievements did not come for the asking. Just imagine the odds stacked against this nation of some 130 million people spread over 6800 islands, nearly 75 percent of them unsuitable for agricultural, industrial or even residential use, situated in a volcanic zone with 108 active volcanoes, and dependent mostly on imports. It has verily performed a miracle made possible by clear vision, hard work, discipline, a creative and innovative work culture, a dauntless spirit that triumphs over obstacles, a synergistic blending of the policies and efforts of the Government with the willing support of small and big industry alike, and the people, putting the interests of the nation first and foremost. It is a model for developing nations to emulate.

II. Lasting emotional bond

II.1. The affinity mutually felt by India and Japan came into being long ago, when buzzwords such as geo-politics, strategic partnership and so on were still not in vogue and when diplomacy itself was in its infancy. It came about not through any calculated moves but by two events which immediately forged a lasting emotional bond, giving India an iconic status in the eyes of the Japanese people.

II.2. The first was the dissenting judgment given by the Indian Judge, Radhabinod Pal, on the 11-member International Tribunal for Crimes, acquitting the 25 prominent figures in Government and the Military brought to trial “of each and every one of the charges in the indictment”, castigating the Tribunal as a “sham employment of legal process for the satisfaction of a thirst for revenge”. The Japanese have erected a monument for him at the

Yasukuni Shrine, and the Japanese Prime Minister, Shinzo Abe, during his visit to India in 2007 paid him high tribute in his address to Indian Parliament and travelled all the way to Kolkata to meet his son.

II.3. The second was the gift of elephant Indira by Jawaharlal Nehru, India's first Prime Minister, to the children of Japan - a gesture that was hailed as the harbinger of the happy and harmonious relations that were to become the norm between India and Japan and a symbol of hope for the physically devastated and morally dispirited post-war Japan.

III. Comprehensive Economic Partnership Agreement

III.1. The importance attached by India and Japan to the strengthening and broadening the ties between both countries has found enthusiastic expression at every summit meeting of the two Prime Ministers in the form of concrete steps taken to put them on a firm footing.

III.2. The India-Japan Comprehensive Economic Partnership Agreement (CEPA) is the most exhaustive of all the agreements that Japan has concluded with other countries so far. It covers more than 90 per cent of trade and an incredible range of provisions in respect of improvement of business environment for greater investment, trade in goods and services, removal of technical barriers to trade (TBT), sanitary and phytosanitary (SPS) measures, movement of natural persons, intellectual property-related protocols, government procurement and cooperation on matters of common interest and global importance.

III.3. The readiness shown by Japan in agreeing to abolish, with immediate effect, 87 per cent of its tariff lines, relating to 93 per

cent in volume, compared to India's 17.4 per cent, and in conceding to India's plea for phased reduction of its tariff during a span of 10 years, on the ground of giving sufficient time to domestic industry to adjust to the trade liberalisation, has been nothing short of generous. The trade volume of items still attracting tariff on the Japanese side is only 2.93 per cent, as against India's 13.62 per cent.

III.4. Japan has thus opened for unrestricted entry a tremendous number of items of export interest to India, besides enabling Indian professionals to set up shop in Japan in information technology-related services, accounting, research and development, tourism, market research and management consultancy.

IV. Japanese involvement with Indian economy

IV.1. In conjunction with the growth of the inter-governmental dialogue, Japanese corporate presence has since acquired rising visibility in India what with investments by such Japanese majors as Suzuki, Honda, Toyota and Nissan and such notable acquisitions as Matsushita Electric, Daiichi Sankyo and DoCoMo. The target for 2020 for the two-way trade is \$50 billion, nearly double from \$18.31 billion in 2011-12. While in terms of Japanese overseas development assistance, India is the largest recipient of all countries.

IV.2. But, by far the most significant Japanese involvement with the Indian economy is in terms of the implementation of the flagship infrastructure projects of the Delhi-Mumbai Industrial Corridor (DMIC) and the Dedicated Freight Corridor (DFC) linking the two poles of the country's development. Modelled on the famed Tokyo-Kyoto Osaka Corridor in its aim of developing the entire region along the 1,483-km transportation link, the

DMIC project plans to cover 20 per cent of the Indian population in a time-frame of 11 years.

IV.3. On the Indian side, the implementation has been predictably subjected to delays for a variety of reasons, but mainly for want of proper supervision and regular monitoring. Remembering their stakes in the projects, and to protect their reputation, the Japanese Government, business and industry also need to have an eye on the execution.

V. Democratic Security Diamond

V.0. Japan has only two “special partnerships”. One is with Australia and the other is with India. The Japanese Prime Minister, Shinzo Abe, is keen to widen strategic cooperation among four leading Democracies of the U.S, Japan, India and Australia in the Asia Pacific region. He has come out with a bold move in favours of what he calls a Democratic Security Diamond 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.”He is prepared to invest, to the greatest possible extent, Japan's capabilities in this security diamond.

VI. Evolution of scope of Partnership

VI. 1. The most welcome feature of the evolution of closer relations between the two countries is that it is not contingent on the nature and complexion of ruling dispensations and Prime Ministers of either country, but is founded upon an inherent fund of goodwill and respect deriving from shared values such as democracy and human rights and common goals such as world peace and prosperity of all nations. What started off as Global and

Strategic Partnership in 2006, reached a crescendo in 2014 in the name of a Special Strategic and Global Partnership.

VI.2. In between, the two countries bonded together further by means of a Joint Declaration on Security Cooperation between Japan and India, followed up on the occasion of the 60th anniversary by the establishment of diplomatic relations with the declaration of a Vision for the Enhancement of Japan-India Strategic and Global Partnership.

VI.3. India has been assigned a pivotal role in the document expounding Japan's National Security Strategy. The relevant portion states: “India is becoming increasingly influential, due to what is projected to become the world's largest population, and to high economic growth and potential. India is also geopolitically important for Japan, as it is positioned in the centre of sea lanes of communication. Japan will strengthen bilateral relations in a broad range of areas, including maritime security, based on the bilateral Strategic and Global Partnership.”

VI.4. Capping it all is the Civil Nuclear Agreement signed during the November 2016 visit of Prime Minister Narendra Modi to Japan for the periodically held summit. India is the first non-signatory to the Nuclear Non-Proliferation Treaty (NPT) to have signed such a deal with Japan. It is not hyperbole on the part of the Indian Prime Minister Narendra Modi and his Japanese counterpart, Shinzo Abe, to have described it as a historic step forward to achieve a clean energy partnership.

VI.5. The nine-page statement issued after the summit of November 2016 gives an idea of the wide-ranging and all-encompassing nature of the present state of the relations between the two countries. It lays the groundwork for what has been called a Future-Oriented Partnership for Prosperity. Its core objectives are meant to make the Partnership durable by:

- (i) Building a Stronger Partnership for Safer and Stable World;
- (ii) Working together for a cleaner and greener future;
- (iii) Investing in people;
- (iv) Working Jointly for Strengthening Rules-based International Order in the Indo-Pacific Region and beyond.

VII. Core areas for productive alliance

VII.0. Exhaustive as the listed measures may be, implementation is the key to ensure that they do not remain mere empty words on paper. This is where the power structures and official machinery on both sides must display unremitting and careful attention to all the finer aspects in order to translate the words into action. To cite a few areas which are at the heart of a meaningful and productive alliance:

Increasing the inflow of Japan's direct investment: Both countries have agreed that all direct Japanese investments will be treated on par with domestic investment, in respect of concessions, incentives and facilities, and application of regulatory and tax regimes. Japanese investment should be pushed from the present measly \$2.6 billion in 2015-16 to \$20 billion by 2020.

Jacking up trade volume: India's trade with Japan is at present an unmentionable two per cent of its total trade. With the reduction / abolition of tariff on both sides, it should be possible to jack it up to 10 per cent by 2020, or at least equal to India's total trade with China (which at present is eight per cent of India's total trade).

Raising exports in the domain of textiles:

Japan is today the fourth largest apparel products importer on the globe, constituting seven per cent of its total imports. India's share in this sector is barely 0.8 per cent, the lion's share of demand from Japan going to China, Italy, South Korea, Thailand and Vietnam. Here is a challenge to India's enterprising artisans in Tirupur and Ludhiana. If they bend their energies towards renovating and revamping production lines, suitably recasting the basket of products and redrawing business plans, they can raise India's share of apparel supplies to Japan, to at least 10 per cent by 2020. Likewise, though the demand for knitted garments is very high in Japan, India's share is only 0.2 per cent, leaving it to Bangladesh, China, Indonesia, Italy, South Korea, Thailand, Turkey and Vietnam to dominate the market. Since, under the CEPA, Japan has agreed not to levy any import duty on Indian exports of knitted and woven apparel, it is undoubtedly possible to raise India's share to 10 per cent by 2020.

Setting up Technical Working Groups to anticipate and solve disputes on interpretation:

The CEPA extends to many intricate technical areas such as intellectual property rights, technical barriers to trade, sanitary and phytosanitary issues, and procedures for procurement. They are likely to give rise, during implementation, to honest differences in interpretation. Appropriate Technical Working Groups, constituted in advance, will help iron out these differences.

Establishing a Joint Ministerial level India-Japan Monitoring Group to supervise the pace and progress of implementation:

Apart from the CEPA, the innumerable commitments made in the various statements following the summits are likely to be lost

sight of unless their implementation is reviewed periodically and stragglers are pulled up. This is best assured by establishing a standing Joint Ministerial Follow-up Group.

VIII. Adaption of model to new era

VIII.1. India-Japan Partnership model is a sound and tested one and lends itself for adaption to an era in which kaleidoscopic changes are taking place in the world. They are getting to be most pronounced in resurgent Asia which is building new pathways to progress and prosperity. Indeed, the world's political and economic centres of gravity are shifting to Asia, thanks to the vibrant presence and impressive success stories of Japan, China and India. Their inter se ranking are liable to shifts, but, on present showing, there will never come a time when the world, in general, and Asia, in particular, could afford to ignore their combined impact.

VIII.2. There are reports to the effect that at current growth rates, both India and China will get ahead of the US almost at about the same time (around 2040), with the quadrupling of India's GDP by 2020. The breath-taking forecasts of the famous Goldman Sachs' BRIC report are that China and India will be the first and the second largest economies by 2050 in terms of GDP, and that China would become “the industrial workshop of the world” while India would stand out as “one of the great service societies” and “a motor for the world economy, and a key contributor to generating spending growth”.

IX. Leveraging complementarities

IX.1. Although Japan's economic performance in recent years has been uneven, it still remains an economic power. Its basic

economic and social strengths are still intact and it has lost none of its capabilities of playing a conspicuous role in world affairs. If only India and Japan leverage the striking complementarities between the two countries, they can provide the necessary stimulus to the Asia-Pacific region's overall progress.

IX.2. Some of these complementarities that have already impressed themselves on discerning observers are: (i) Japan's ageing population (23 percent above 65 years) and India's youthful dynamism (over 50 percent below 25 years); (ii) India's rich natural and human resources and Japan's advanced technology; (iii) India's prowess in services and Japan's excellence in manufacturing; and (iv) Japan's surplus capital for investments and India's large and growing markets thanks to the burgeoning middle class.

X. Forming regional troika

X.0. There is a strong case for India and Japan along with China forming a regional troika rather than the hypothesised Quadrilateral Axis with the US and Australia. The achievements of such a troika bound by affinities could be mind-boggling and beneficial to the entire human race. But, for this to happen, it was imperative that Japan showed the determination to come out of the shadow of the US and the three countries sorted out their differences and disputes among themselves.

XI. United States of Asia

XI.1. Korea and Taiwan are the other luminous stars giving Asia its distinctive edge over the rest of the world. The performance of Asia's other notable countries such as Indonesia, Myanmar, Philippines, Pakistan and Thailand may not place them in the

same league, but they too hold the potential of joining the big league in due course, provided they attune the political underpinnings of their systems and institutions to modern requirements and harmonise their policies and approaches with those of the heavyweights of the region.

XI.2. Here is a chance as well as a challenge for India, China and Japan, as Asia's three leading players with political and economic reach, to link arms and use their combined resources and influence to spearhead a supreme effort for fusing all the existing multifarious, mutually debilitating outfits into a new architecture, say, of a United States of Asia, in order that cooptation (cooperation and competition blended together) among them invests the 21st Century with the character of an Asian Century.

XI.3. This will essentially involve distilling the essence of the charters of all the existing more than a dozen regional associations such as ASEAN, SAARC, SCO and the like into a unified and integrated mechanism, building into it functional, financial, commercial, trade, investment and security protocols for mobilisation of resources, talents, techniques and facilities for promoting economic development, broadening areas of cooperation, resolving conflicts, combating threats to security, stability and independence, and maintaining peace and harmony.

XII.4. The essential pre-requisite for this is for India, China and Japan themselves to set an example as responsible members of the world community which put a premium on the solemnly binding attributes of vision, values, friendship, understanding and accommodation.

XII. Conclusion

XII.1. While India and Japan are getting closer on the political, economic and security planes, the social and cultural sides,

continue to be blind spots in the relationship. For instance, the number of Japanese tourists to India is very meagre (only some 250,000 out of 20 million Japanese tourists favour India as their destination).

XII.2. According to Japan International Cooperation Agency, Indian students in Japan number only 500, which is less than those from much smaller countries such as Nepal and Bangladesh. As regards Japanese students in India, Jyunichi Kawaue, Consul and head of the Consulate of Japan, Bengaluru, bluntly stated in February 2016 that they don't prefer pursuing education in India due to security concerns and most opt for English courses in the US and Australia.

XII.3 The numbers of cultural exchange programmes and events, centres teaching Japanese language and culture, and academic centres for Japanese studies are also sparse.

XII.4. A Partnership takes roots, flourishes and is sustained not by parleys and declarations at the Ministerial and official levels alone, but by extensive people-to-people contacts, cultural exchanges and students and youth participation. Deficiencies in these respects will need to be remedied by making vigorous efforts to that end.





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