

THE EVOLVING LANDSCAPE OF INDIA-JAPAN ECONOMIC RELATIONS: EXPLORING THE POSSIBILITIES AND CHALLENGES

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DOI: 10.46609/IJSSER.2023.v08i12.023 URL: <https://doi.org/10.46609/IJSSER.2023.v08i12.023>

Received: 10 November 2023 / Accepted: 23 December 2023 / Published: 5 January 2024

ABSTRACT

India and Japan have significantly strengthened their economic ties, driven by their robust strategic partnership and thriving trade. This paper, titled "The Evolving Landscape of India-Japan Economic Relations: Exploring the Possibilities and Challenges," aims to comprehensively analyse the economic relationship between India and Japan in the context of the evolving geopolitical and geo-economic landscape of the Asia-Pacific region, shaped by the assertive rise of China. In the 21st century, globalization has propelled the world forward, resulting in unparalleled interconnectedness among the economies of various nations. The growing economic bonds between India and Japan have been instrumental in shaping the nature of their relationship. This article will thoroughly assess the diverse factors that have defined the financial connections between India and Japan amidst the evolving dynamics of the Asia-Pacific. Furthermore, the paper examines the potential and obstacles in expanding India-Japan economic relations, closely scrutinizing the possibilities and challenges in trade, investment, infrastructure, and regional cooperation.

Keywords: globalization, FDI, official development assistance, global and strategic partnership, CEPA

Introduction:

The relationship between India and Japan has evolved significantly since the establishment of formal diplomatic relations in 1952. In 2022, the two nations celebrated the 70th anniversary of their diplomatic ties, marking a milestone in their enduring partnership. India and Japan are strong allies, working together to promote security, stability, and prosperity in the Indo-Pacific region. They are committed to democratic values, human rights, and the rule of law and share a global outlook for peace, stability, and shared prosperity based on sustainable development.

Together, they advocate for reforms in international institutions such as the United Nations, particularly in the United Nations Security Council.

Beyond diplomacy, India and Japan have a deep-rooted cultural connection that has fostered solid economic collaboration. India's status as the world's fastest-growing economy has positioned it as a crucial partner for Japan, leading to significant trade, investment, and technological exchange between the two countries. This economic relationship has contributed to the growth and development of both nations.

There is immense potential for furthering bilateral trade and investment between India and Japan. Both countries have identified specific sectors such as technology, infrastructure, and renewable energy for potential collaboration, recognizing the substantial benefits that could arise from such cooperation. However, it is essential to acknowledge the persistent challenges, including regulatory obstacles, issues related to market access, and differing business practices. These factors will be crucial in shaping the future of economic relations between India and Japan, highlighting the need to delve into the complexities at play.

By conducting a comprehensive analysis of current trends and identifying potential areas for growth, we can gain valuable insights into how these two nations can successfully navigate their shared economic trajectory, ultimately fostering a more robust partnership in an increasingly interconnected world.

History of India-Japan ties:

The historical bilateral relations between India and Japan have deep cultural, literary, and religious connections. The first interaction between the two countries is believed to have occurred when Buddhism became the official religion of Japan under the rule of Prince Umayado (593–622 A.D.). The specific time of the initial contact between both countries varies. Still, it is noted that Japan first came into contact with India between the 6th and 8th centuries when an Indian missionary Brahmin named Bodhisena visited Japan in 752 A.D. Indian culture and traditions, transmitted through Buddhism, have had a profound influence on Japanese society and its people. As a result, Japan has long recognized India as the birthplace of Buddhism (Ministry of External Affairs, 2012 & 2023). In recent history, Gandhian ideology and Rabindranath Tagore's visits have notably increased Japanese fascination with India and Indian culture.

During World War II, critical figures in India's national movement, such as Subhash Chandra Bose and Rash Behari Bose, sought assistance from Japan to free India from colonial rule through direct struggle. Rash Bihari Bose and Subhash Chandra Bose are two indelible names in the history of India-Japan relations. In 1949, Jawaharlal Nehru's donation of an Indian elephant to Tokyo's Ueno Zoo served as a gesture of goodwill, helping the Japanese people overcome the

aftermath of defeat in the war, especially the tragedies of the atomic bombings of Hiroshima and Nagasaki in 1945.

1952, during the official visit of India's first Prime Minister Nehru to Japan, a significant peace and friendship agreement was signed between the two countries. This historic agreement paved the way for formally establishing diplomatic relations between India and Japan (MEA, 2024). This milestone led to high-level visits, including Japan's Prime Minister Nobusuke Kishi's (who became the first PM to visit India) official visit to India in 1957. India was the first recipient of official Development aid in 1958. Indian President Dr. Rajendra Prasad's visit to Japan in 1958. These were the peak years of India-Japan relations in the post-war period. However, there was subsequently a decline in interest on both sides, partly due to disappointment over the India-China War, which indicated a different path for the future. The realignment of Asian countries owing to the Vietnam War, the formation of ASEAN, and the emergence of the Newly Industrializing Countries (NICs) in East Asia, such as South Korea and Taiwan, also played a significant role in this shift (Hiroichi, 2006).

During the Cold War, India and Japan struggled to establish strong ties despite exchanging diplomatic representatives, engaging in high-level mutual bilateral visits, and sending parliamentary delegations from both sides. The first Overseas Development Assistance (ODA) from Japan to India was received in 1958. Despite the initial optimism and high expectations of the 1950s, the India-Japan relationship failed to gain political momentum and remained largely dormant from the 1960s to the 1980s. During this period, their bilateral interactions were predominantly focused on economic aspects, as ideological differences between the two countries hindered closer ties. India's policy of non-alignment during the Cold War positioned it closer to the USSR, while Japan maintained a close association with the USA. This ideological and geopolitical divide presented significant challenges to developing deep relations between the two Asian nations.

The end of the Cold War has led to drastic changes in global politics and forced countries to make structural changes in their domestic foreign policies. India, to improve its political, economic, and security ties with countries of Southeast Asia and East Asia, launched the 'Look East Policy' in 1991. In 2014, the Look East Policy was renamed Act East Policy under the Modi government. Japan has been one of the main priorities in Indian foreign policy after the end of the Cold War. Successive Indian governments have tried to improve India's ties with Japan except for the brief period after India's Nuclear testing in 1998. Japan strongly opposed India's Nuclear test and imposed strict sanctions on India.

The changing dynamics of India-Japan relations in the 21st century:

In the 21st century, India and Japan's longstanding and friendly relationship has evolved into a strong and multifaceted alliance. This transformation has been fuelled by shared values, converging interests, and a joint vision for the Indo-Pacific region, leading to enhanced collaboration across various areas. The relationship between India and Japan has grown significantly more substantial due to the economic reforms implemented by India, including liberalization, privatization, and globalization. As India opened its market economy, it attracted many foreign companies, with Japan being one of the significant contributors. Japan's increased involvement with India can be partly attributed to its economic difficulties during the "lost decade" of the 1990s. During this period, Japan encountered domestic economic challenges while navigating a changing external security environment while India was dealing with its balance of payment crisis. (Mukherjee, 2018).

In August 2000, Japanese Prime Minister Yoshiro Mori officially visited India, sparking a push to enhance India-Japan ties. During the visit, Mr. Mori and the Indian Prime Minister Atal Bihari Vajpayee agreed to establish a "Global Partnership between India and Japan. In 2006, India-Japan cooperation was raised to the next level by signing the "Global and Strategic Partnership between India and Japan. During the annual summit meeting between Indian Prime Minister Narendra Modi and Japanese Prime Minister Shinzo Abe in 2014, the bilateral ties of these two countries were upgraded to a "Special Strategic and Global Partnership.

In 2015, during the annual meeting in New Delhi, Japanese PM Shinzo Abe and Indian PM Narendra Modi decided to transform the bilateral ties into a broad-action-oriented cooperation, reflecting a broad convergence of political and economic objectives and long-term strategies to tackle any immediate traditional and non-traditional threat. New Delhi and Tokyo issued a joint statement titled "India-Japan Vision 2025 Special and Global Strategic Partnership for Peace and Prosperity in the Indo-Pacific Region and the World."

The two countries cooperate on various issues such as security, counter-terrorism, maritime cooperation, naval cooperation, energy cooperation, UN reform, climate change, etc. Because of these multiple reasons, India-Japan relations have strengthened significantly in the past several years. Another main reason that brings New Delhi and Tokyo closer is the rise of China. Both New Delhi and Tokyo share an occasionally uneasy relationship with China. Since 2000, India-Japan economic ties have also deepened. Japan is keen to have good and stable economic relations with India due to India's strong growth rate despite the global financial crisis, robust domestic demand and huge market for Japanese products, India's working population, and mature and stable democracy.

India-Japan Trade Relations:

The trade relationship between India and Japan has yet to reach its full potential. Currently, India's trade with Japan is less significant than its trade with China, and likewise, Japan's trade with China surpasses its trade with India. Since March 2008, China has become India's largest trading partner, overtaking the US. Although there has been an increase in India-Japan trade since 2003, India primarily exports petroleum products, organic chemicals, fish and crustaceans, mollusks and other aquatic invertebrates, nuclear reactors, boilers, machinery and mechanical appliances, vehicles, and their parts and accessories to Japan. On the other hand, India's primary imports from Japan include machinery, electrical machinery, iron and steel products, plastic materials, non-ferrous metals, and parts of motor vehicles (MEA, 2023).

In 2009, bilateral trade experienced a downturn due to the global economic crisis and currency fluctuations. However, in 2010 following extensive discussions, India and Japan agreed to enter into a Comprehensive Economic Partnership Agreement (CEPA) to bolster their bilateral trade. The signing of CEPA in 2011 coincided with a bilateral trade value of \$10 billion. For the fiscal year 2022-23, bilateral trade amounted to US\$ 21.96 billion, with Japan's exports to India totalling US\$ 16.49 billion and imports at US\$ 5.46 billion (MEA, 2023).

India-Japan Comprehensive Economic Partnership (CEPA):

The India-Japan Comprehensive Economic Partnership (CEPA) took effect on August 1, 2011. This agreement is the most comprehensive of all the arrangements that India has concluded. It covers trade in goods and services, movement of natural persons, investments, intellectual property rights, customs procedures, and other trade-related issues (MEA, 2023). The CEPA aims to eliminate tariffs on over 90% of items merchandised between India and Japan. To further bolster economic and business ties and address CEPA implementation issues, various Sub-Committees have been established under CEPA in areas including Rules of Origin, Customs Procedures, Technical Regulations, Standards and Conformity Assessment Procedures, SPS Measures, Trade in Services, Improvement of Business Environment, and Movement of Natural Persons & Cooperation (MEA, 2023).

Japanese Foreign Direct Investment to India (FDI):

The economic relationship between India and Japan is significantly bolstered by Foreign Direct Investment (FDI). Over the years, India has become a highly sought-after destination for Japanese FDI in Asia. From 2000 to 2012, Japanese companies invested a substantial \$12.66 billion in India, constituting 7 percent of the total FDI inflow into the country. This positioned Japan as the fourth largest investor in India during that period, following Mauritius, Singapore, and the US (MEA, 2024). As of October 2022, there are 1400 registered Japanese companies in

India, with half of these being manufacturing firms, per the latest joint survey by the Embassy of Japan in India and the Japan External Trade Organization (JETRO). These companies operate 4901 business establishments in India, including liaison, branch offices, and local subsidiaries. Notably, over 100 Indian companies are actively conducting operations in Japan. Furthermore, India's net foreign direct investment in Japan for the fiscal year 2020-21 amounted to US\$ 40.91 million (MEA, 2023).

Japanese FDI in India has primarily been in the automobile industry, electrical equipment, pharmaceuticals, trading, and telecommunications sectors: the burgeoning Indian economy and stable investment climate offer significant opportunities for Japanese firms. Key industries with substantial prospects for Japanese investors include infrastructure, manufacturing, automobiles, power, metals, renewable energy, food processing, and electronic hardware.

Japanese ODA to India:

The economic ties between India and Japan encompass a crucial aspect known as Japanese Official Development Assistance (ODA). This initiative, which commenced in 1954, aims to support the development of developing nations. Notably, India was the first country to receive Japanese ODA in 1958. Japanese ODA plays a pivotal role in bolstering India's endeavors for rapid economic development, particularly in priority sectors such as power, transportation, environmental projects, and initiatives addressing basic human needs. In the fiscal year 2021-22, Japan's ODA disbursement to India amounted to approximately JPY 328 billion (equivalent to around USD 3.28 billion) (MEA, 2023).

India's significance as a recipient of Japanese ODA was underscored in 2003-04 when it surpassed China to become the largest beneficiary. This assistance serves multiple objectives. Firstly, it is crucial to fortify the India-Japan relationship and align it with the "Japan-India Strategic and Global Partnership." Secondly, fostering sustainable growth in India is integral to securing a prosperous Asia, which also benefits Japan. The primary aims are to improve the investment climate in India, enhance infrastructure, contribute to sustainable growth, and alleviate poverty. Thirdly, with over 20 percent of India's population living below the poverty line, addressing this issue, particularly in the realms of health and education, is paramount. This also aligns with the pursuit of achieving the Millennium Development Goals (SDGs). Moreover, environmental conservation is a focal point, as India's growth must be sustainable. Lastly, fostering human exchange between India and Japan forms the basis for building robust bilateral relations (MEA, 2023).

Japan supports around 66 projects in India, with significant initiatives like the Delhi-Mumbai Industrial Corridor (DMIC) and the Dedicated Freight Corridor (DFC). Japan has approved 11

ODA loan projects for India, including those established through the Exchange of Notes in 2011, in response to India's proposals from the fiscal year 2010. The total commitment amounts to approximately 203 billion yen. Notable projects include the 'Yamuna Action Plan III,' aimed at rehabilitating and improving existing sewerage systems in the National Capital Region (NCR) and raising public awareness, for which Japan has allocated 32,571 million yen. Additionally, the Andhra Pradesh Rural High Voltage Distribution System Project, receiving 18,590 million yen, seeks to establish a high-voltage power distribution system in rural areas of the state. Other projects, such as the Rajasthan Forestry and Biodiversity Project (phase 2), the Dedicated Freight Corridor Project (phase 2), the Bihar National Highway Improvement Project, and the Bangalore Metro Rail Project (II), underscore Japan's substantial contributions to various developmental initiatives across India (MEA, 2023).

Possibilities and Challenges for India-Japan Ties:

India and Japan have a robust economic partnership that presents challenges and opportunities. As two of Asia's largest economies, their collaboration has the potential to boost trade, investment, and regional stability. However, a significant challenge is the trade imbalance, with India's exports to Japan significantly lower than imports, resulting in a trade deficit. This imbalance could lead to friction and impede deeper economic integration. Additionally, cultural differences and language barriers can complicate business negotiations and collaborations, highlighting the need for companies to invest in cross-cultural training. Furthermore, India's inadequate infrastructure, complex labor laws, and bureaucratic procedures pose additional challenges. While Japan boasts advanced technology and infrastructure, India grapples with logistics and regulatory framework issues. Improving transportation networks and streamlining regulatory processes is crucial for smoother trade flows.

Amidst these challenges, there are abundant opportunities. India's expanding consumer market offers an attractive terrain for Japanese firms, particularly electronics, automotive, and pharmaceuticals. Japan's prowess in technology and innovation can significantly benefit India's burgeoning start-ups and manufacturing sectors, primarily within initiatives like "Make in India." Furthermore, both nations share strategic interests in regional security, paving the way for increased cooperation in defense and technology. The Japan-India Comprehensive Economic Partnership Agreement (CEPA) establishes a framework for strengthening economic ties and fostering mutual investment.

Given the global supply chain diversification, India's commitment to becoming a manufacturing hub can draw Japanese investment, particularly as companies seek to lessen reliance on China. Collaborative endeavors in renewable energy and sustainability also offer joint ventures and technological exchange opportunities.

In summary, despite challenges in India-Japan economic relations, the potential for growth and collaboration is substantial, positioning both countries for a more robust future.

Conclusion:

India-Japan relations have experienced significant growth in recent years. Following the signing of the CEPA in 2010, their bilateral trade peaked in 2012-13. Currently, China remains the largest trading partner for both Japan and India. India ranks as Japan's 25th largest export destination, while Japan holds the 10th position as an export destination for India. Japan's trade with China exceeds that with India by over 20 times, indicating an excessive dependency on China. However, challenges within India's domestic economy have hindered the development of bilateral economic relations with Japan. Japan's primary concerns include India's inadequate infrastructure, labor laws, bureaucratic hurdles, a perceived lack of political will to implement liberalization, and high tariffs, which render India unattractive to Japanese businesses and investors.

In the present day, it is imperative to nurture the bilateral relationship and elevate it to a more substantial level for the benefit of both parties. It is an opportune moment for India, Japan, and their citizens to engage in productive interactions to strengthen and broaden their economic connections. In this era of globalization, there is a compelling need to expand the bilateral economic ties to render them more substantial and enduring in the long term. As two of the most peaceful nations in the world, India and Japan can collaborate effectively and support each other's requirements. India stands to gain significantly from Japan's established industrial prowess and advanced technology. Conversely, India can be a valuable asset for Japanese industrial manufacturing. India holds tremendous potential for economic cooperation. Furthermore, the collaboration between these two nations extends beyond their borders. It can also contribute to the growth of the Asian economy, given that India and Japan are vital drivers of economic progress in Asia. We eagerly anticipate the further flourishing of this relationship.

Declaration of competing interest

The author declares that they have no known competing financial interests or personal bias that has impacted the present work. The author declares that there is no conflict of interest involved.

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