

**India-Japan Relations in the phase of Globalisation****Prof. M. Muslim Khan****Professor, Deptt. of Political Science, Jamia Millia Islamia University, New Delhi (India).****Abstract**

*The phase of globalisation started since mid 1980s after the decline of communist Soviet bloc and especially since the mid-1990s and continuing till present. In this phase liberalization, democracy, economic cooperation and easy flow of goods and services have been accepted as generally and widely preferred policies of governments world over. During this phase countries have made special efforts to provide easy access to outside countries and agencies in their economy and in lieu got easy access in those countries' economies. It began a process of integration of services and economies of countries, as well as, harmonization of their political and economic policies in such a way that the whole world has become a global village. During the phase of globalization India also opened up its economies by mid-1980s and more by early 1990s by shifting to liberalization policy from a more socialist orientation. After this the bilateral relations between India and Japan grew up to an unexpected height. Japan contributed to the establishment of Maruti-Suzuki car company, funded Delhi Metro Rail and many other projects in India. By 2006 India became the largest recipient of Japan's Oversease Development Assistance (ODA). In 2011 and later on, Japan continued to be the top investor in India. It invested \$ 9 billion in Delhi-Mumbai industrial corridor. The India - Japan relationship reached a new height since September 2014, as Indian Prime Minister Narendra Modi visited Japan and Japanese Prime Minister Shinzo Abbe promised a very high investment of \$35 billion in India's infrastructure over next 5 years in addition to other investments and promises. Despite the fact that Japan has emerged as a great investor in India, India Japan trade has been very low just accounted for 2% of India's exports and 2.2% of India's imports in recent years. It is a serious concern in the way of building strong relationship. This paper examines and analyses all major aspects of India-Japan relations and gives some suggestions for improvement in relationship and economic cooperation.*

**Key Words:** Cold War, Liberalization, Buddhism, Socialism, Nationalisation, Shinto, Migration, Non-Aligned, Sanction, Export, Import, Investment, Development.

The concept of globalisation refers to the post Cold War process of international interaction and integration arising from interchange of world views, ideas, products, resources and aspects of culture. Sociologists Martin Albrow and Elizabeth King consider that globalization includes "all those process by which the people of the world are incorporated into a single world society".<sup>1</sup> The term globalization has been used since mid 1980s and especially since the mid-1990s for the phase witnessed after the decline of communist Soviet bloc, as liberalization and democracy being accepted as a generally and widely preferred policy access of governments. During this phase countries made special efforts to provide easy access to outside countries and agencies in their economy and in lieu got easy access in those countries economies. It began a process of integration of services, resources and knowledge, and communication systems, as well as harmonization of

political and economic policies of countries in such a way that the whole world has become a global village. In this phase outside international incidents have impacts even at local levels and local incidents have impacts internationally. The International Monetary Fund (IMF) has identified four basic aspects of globalization, viz., (1) Trade and transaction, (2) Capital and investment movements, (3) Migration and Movement of people, and (4) Dissemination of Knowledge.<sup>2</sup> India-Japan relations which are very old and which also began well after India's independence but slowed down severely after 1961. The relations were very disappointing further for 23 years till 1984. During the present phase of globalization India has opened up its economies starting from mid-1980s and more by early 1990s by shifting to liberalization policy from its earlier more socialist and state control policy. After this, bilateral relations between India and Japan grew up to an unexpected height. By 2006 India became the largest recipient of Japan's Oversease Development Assistance (ODA). In 2011 and later on, Japan continued to be the top investor in India, invested \$ 9 billion in Delhi-Mumbai industrial corridor. Japan also accounted for 2% of India's exports and 2.2% of imports. The India- Japan relationship reached a new height in September 2014, during Indian Prime Minister Narendra Modi's visit to Japan. Japanese Prime Minister Shinzo Abe promised to invest \$ 35 billion in India's infrastructure over next 5 years in addition to other promises and visited India within a few weeks. Japan has become great investor in India but the trade sector is not picking up in comparison to even China or many other countries. There is serious thinking and efforts in both countries to improve relationship and economic cooperation.

### **History of India Japan Relations:**

India Japan relations have been more than 2000 years old. In ancient times it was from India that Buddhism spread to Japan via China. In 736 AD an Indian monk Bodhisena reached Japan to preach and propagate Buddhism. Afterwards many Buddhist monks from India and Japan visited each others' regions.<sup>3</sup> Many Japanese scholars and students attended India's Nalanda University (presently located in the Bihar province). In seventeenth century Japanese traveler Tenjiku Tokubei (1612-1692) widely travelled in India. The religious and cultural exchange between the two regions grew enormously whose signs are visible today. According to an estimate at present 84 to 96 percent of Japanese subscribe to Buddhism, though many of them simultaneously also follow indigenous Shinto religion worshipping many gods (Kami).<sup>4</sup> This shows similarities with Hinduism in India in which people worship many gods and goddesses at the same time. In Japan nearly one percent Japanese follows Christianity, while many follow Hinduism, Islam, Sikhism and Judaism. Many Japanese gods and goddesses have similarities with Indian gods and goddesses. As for instance, Japanese God Bonten has similarities with Indian God Brahma and goddess Benzaiten has

similarities with Indian goddess Saraswati. Swami Vivekananda was closely associated with Japan. Even Indian languages Sanskrit and Pali were used in the past in Japan, as well as they are used there today by some monks.

During The British Colonial rule in India, Japan started direct procurement of Indian raw cotton in 1889. In 1892 half of the domestic consumption of raw cotton in Japan was from India and India emerged as the third trade partner for Japan. Due to Britain-Japan hostility since the First World War, India Japan formal relations suffered. But when Indians were fighting for independence from British, Indian patriotic leader Subhas Chandra Bose was helped by Japan and he organized his Indian National Army (INA) with the help of Japan. He fought against British in collaboration with the Japanese Imperial Army. After the independence of India from British control (in 1947) the formal political and economic relations between the two nations were started in 1952. It was because of the fact that Japan was defeated in Second World War and it was occupied by Allied forces, especially of America till 1952. After lessening of Allies control, in June 1952 India signed Treaty of Peace with Japan. In 1950s Japan imported iron ore from India and exported machinery and metal products to India. Japan also invested in many iron ore mines in India. For example, iron ore fields of Goa in 1951-1952, Kiriburu area in Bihar and Orissa in 1958, and Bailadilla in Madhya Pradesh, were financed by Japan. During this period Japanese companies were among the first to invest in India. The Japanese companies like Honda, Toyota and Sony started manufacturing facilities in India. The Japanese Prime Minister Nobusuke visited India in 1957. Japanese Crown Prince Akihito visited India in 1960 and Japanese Prime Minister Hayato Ikeda visited India in 1961. From the Indian side, Prime Minister Jawaharlal Nehru visited Japan in 1957 followed by the visit of President Rajendra Prasad in 1958.

After 1961 the initial warmth in the political visits were stopped and bilateral economic ties severed. This strand situation continued for more than twenty years till early 1980s when once again there was revival of economic and political ties between India and Japan with Maruti-Suzuki car manufacturing deal. Reasons behind strand Indo-Japan relations after 1961 could be seen in the emerging Cold War politics in which Japan became an ally of United States of America and its foreign policy was dominated by America. On the other hand, though India was a non-aligned country but it became very close to Soviet Union which was the main rival of America. Thirdly, in this phase India emphasized more on policies of socialism and nationalisation which scared outside private investors in India. Fourthly during this phase, Japan emphasized more on the sell of its own manufactured goods, and in case of raw material needs it turned to Brazil and Australia as sources. In such situations Indo-Japan relations were bound to suffer.

**Liberalization and Globalisation in India and Revival of Japan relations:**

In 1980s India once again turned towards Japan to strengthen relations. Inside India the economic pressure forced it to seek the help of International Monetary Fund (IMF). In 1981 India got 5 billion dollar as long term loan from IMF. But this also set the need for economic reforms inside India and a partial economic liberalization was started under IMF programme. The Japanese Suzuki company in collaboration with Indian government owned Maruti Company started production of Maruti-Suzuki cars by 1983 which quickly became very successful. This was an experiment of Japanese investment and management system to Indian business and its success left behind all car production companies in India. Very next year (1984) Japanese Prime Minister Nakasone visited India, which was after the gap of 30 years that any Japanese Prime Minister had visited India. He doubled the total Japanese Overseas Development Assistance (ODA) money to India and also increased the number of projects. Since 1986 Japan has become India's largest aid donor.<sup>5</sup> The Indian Prime Minister Rajiv Gandhi visited Japan in 1988, who was only next Indian PM to visit Japan after the visit of Jawaharlal Nehru nearly 30 years ago in 1957. The trade between the two countries was also boosted.

Japan became top donor to India from its Overseas Development Assistance (ODA). Between 1988 and 1992 around 30% of India's foreign aid came from Japan. When India faced economic crisis during 1990-1991, the Government of Japan supported India by a credit of \$300 million from the Japan and Asian Development Bank of Japan. This was a very good gesture and timely help by Japan which helped to build strong ties further. The economic crisis of 1990-91 was a big jolt to India despite the fact that there was good economic growth previously in 1980s. The main reason behind that economic crisis was political instability in India and large macro-economic imbalance. The lack of majority to form stable government at centre in India resulted in weak governments and frequent changes. On the other hand there was huge reliance on public sector which itself became full of inefficiency, corruption and low productivity. There was also less incentive and opportunity for outside capital investment in the lack of economic reforms. However situation started changing since July 1991 when Congress party formed stable government under Narasimha Rao who started economic reforms of liberalization and adopted ethos of globalization. The economy was made more market oriented and the environment was created to expand the role of private sectors, foreign investments and trade in India. These policies achieved sustainable high economic growth in India in few years. India got 1,612 million dollar from Japan between 1991-93.<sup>6</sup> India Japan trade also witnessed growth during this period. While India Japan trade value was of Rs. 931.92 crore in 1977-78, it became of 3487 million dollar in 1987 and 3087 million dollar in 1993.<sup>7</sup>

**Pokhran-II Nuclear Test and Japan's Sanctions against India**

The relation between India and Japan came to a low due to Pokhran-II nuclear weapon test by India in May 1998 during the Prime Ministership of Atal Bihari Vajpayee. After this test Japan imposed sanctions against India and suspended all political exchanges and cut off economic assistance. The United States of America and many European countries also imposed sanctions against India. Japan's sanction was in fact, more an expression of American influence and pressure over it as America became angry against India after the nuclear test and imposed sanctions immediately, as well as pressurized its allies to do so. The Japanese sanctions continued for three years. However, after lifting of the sanctions, India Japan relations improved once again.

**Renewal of Relations and Global Strategic Partnership**

In August 2000 Japanese Prime Minister Mori visited India. Both India and Japan agreed to establish "Japan-India Global Partnership in the 21<sup>st</sup> Century". That was followed by Indian Prime Minister Atal Bihari Vajpayee's visit to Japan in December 2001. Both countries issued "India-Japan Joint Declaration" for cooperation in economic, military and anti-terrorist struggle. In August 2005 Japanese Prime Minister Koizumi visited India and with Indian Prime Minister Manmohan Singh he agreed for "Japan India Partnership in New Era: Strategic Orientation of Japan India Global Partnership".<sup>8</sup> By 2006 India became the largest recipient of Japan's Overseas Development Assistance (ODA). Year 2007 was marked by both countries as India-Japan Friendship Year. Till 2008 Japanese companies had invested \$ 2.6 billion in India. Japan became India's fourth largest source of foreign direct investment. Japan helped India in the infrastructure development. Delhi Metro Rail Project is the good example of it. 64% of the Delhi Metro Rail project costs were provided by the Japan's state sponsored Japanese Bank of International Cooperation.<sup>9</sup> Japan signed an agreement with India in 2008 to provide a low interest loan of \$ 4.5 billion to construct a rail project between Delhi and Mumbai. Japan committed to construct a steel plant in West Bengal, for which Japanese steel company JFE Steel signed agreement with Indian company JSW Steel.<sup>10</sup> However, in 2010 JFE agreed to invest in existing Indian plants and buy 14.99% of stake in JSW for 5,700 crore but dropped the idea of a new steel plant in West Bengal.<sup>11</sup> Indian population is also growing in Japan. In December 2008 there were 22,355 Indian nationals living and working in Japan as compared to around 800 IT professionals in 2000.<sup>12</sup> Many of these Indians in Japan consisted of migrants from India to Japan and their descendants. Out of these nearly 60 % consisted of expatriate IT professionals and their families.

In 2010 Indian Prime Minister Manmohan Singh visited Japan and both countries agreed to foster increased business exchanges and people to people contact. Prime Minister Manmohan Singh signed with Japanese Prime Minister a memorandum to simplify visa procedure. Under that agreement any Japanese coming to India for business or work would be straight way granted a three-year visa. Similarly Japan has to provide three-year visa for Indian businessmen or worker instantly. Then Gujarat Chief Minister Narendra Modi also established good relations with Japanese Prime Minister Shinzo Abbe and got his cooperation for Gujarat's economic projects.

### **Recent Import-Export Trends:**

Despite good relations from 2000 to 2010 Japan could not emerge as the most favourite country for India in terms of import and export. It even failed to achieve 1995 status. In 2010 the share of Japan in India's import was two per cent, which was less than the seven per cent figure of 1995. However, there was considerable improvement in the trade sector from 2005. **India's import** from Japan in 2010 constituted general machinery 31%, iron and steel materials 23%, electrical and electronic machineries 1%, chemical products 10% and transport machineries 8.5%. **India's major export** to Japan in 2010 constituted iron ore 36%, metal products 16%, food and marine products 15%, other raw materials 15% and chemicals 8%. Indian sea products, especially Indian Shrimps (Prawns) are more popular in Japan and Japan is the largest importer of Indian Shrimps. Indian Mangoes are also becoming very popular in Japan. Other common items imported by Japan from India include fruits and fruit juices, honey, sugar, pulses, wheat, tea coffee, cashew, tobacco, vegetables and fats, spices and herbs, leather garments and handicrafts.

The Indian export to Japan got doubled in 2010-11 to \$5.2 billion as compared to 2005-06 value of \$ 2.5 Billion. In 2011 also Japan accounted for 2% of India's exports. In 2012-13 India's export to Japan stood at \$ 6.10 billion, as compared to \$ 3.1 billion in 2005. This was a further increase in export to Japan by \$ 0.9 billion as compared to its previous year 2010-11. The import by India from Japan became more than doubled by 2010-11 to US \$ 8.63 billion as compared to \$ 3.5 billion in 2005. In 2012-13 India's import from Japan reached further high at US \$ 12.41 billion.<sup>13</sup> The \$18.51billion trade with Japan is very low volume wise and shows that India imports more from Japan than its exports. India's trade deficit with Japan in 2013 was \$ 6.31 billion, as a result Japan is advantageous in trade with India. In 2013-14 as well, the balance of trade has been in favour of Japan. (see table ahead). However, Japan has reciprocated it by making a very large investment in India.

**Table: India's Export to Japan and Import from Japan 2001 to 2014**

(in Billion US Dollar)

Year	India's Export to Japan	India's Import from Japan
2001	2.2	1.9
2002	2.1	1.9
2003	2.2	2.4
2004	2.6	3.0
2005	3.2	3.5
2006	4.1	4.5
2007	4.1	6.1
2010-11	5.09	8.63
2011-12	6.33	11.96
2012-13	6.10	12.41
2013-14 (up to Dec. 13)	5.164	7.31

Sources: (i) "Japan India Relations", Japanese Ministry of Foreign Affairs, 8 Nov. 2008,<sup>14</sup> and

(ii) "Bilateral Trade with Japan", Press Information Bureau, Government of India, Ministry of Commerce and Industry, 12 Feb. 2014, at

<http://pib.nic.in/newsite/PrintRelease.aspx?relid=103581>.<sup>15</sup>

### Japan's Investment in India:

Investment wise Japan continued to be the top investor in India. Since 2002 to 2013 Japanese companies had invested \$ 15.359 billion in India. In 2011 Japan invested \$ 9 billion in Delhi-Mumbai industrial corridor. These achievements in India-Japan relations were due to the special efforts of Indian Prime Minister, Manmohan Singh. PM Manmohan Singh who was leading Congress led UPA Government for ten years since 2004, gave tremendous boost to India-Japan relations. Recognising Manmohan Singh's contributions, the Japanese government has honoured him in 2014 with one of the highest civilian award of Japan, "**the Grand Cordon of the Order of the Paulownia Flowers**". In September 2014, during the present Indian Prime Minister Narendra Modi's visit to Japan, Japanese Prime Minister Shinzo Abbe promised to invest \$ 35 billion in India's infrastructure over next 5 years along with other investments. This time, though there was a change in the ruling party at centre in

India and Bhartiya Janata Party has come in power but India-Japan relations did not change, rather it got further boost and new dynamism.

However, there is the need for more improvement in India-Japan relations at all levels. The present \$ 18.51 billion trade between India and Japan is very low. There is the great need for improvement in India-Japan trade sector as the share of Japan **in India's imports** is just 2.2 % in 2014 which has fallen down from 7 % share in 1995. The Indian trade share is just one per cent of Japan's total export. If compared with China, Japan's share in India's import is very disappointing. China has emerged as a major source of India's import in recent years and today amounts to 11 % share of India's import. This comparison is important because after India-China war in 1962, India was not having relations with it for a long time. In case of Japan there is no such bad test of war in the past. The present phase of globalization facilitating easy flow of goods, services and informations has created conducive environment for greater trade. Today even United States' is having 6 % share in India's import. While some other countries having more share in india's import than Japan include UAE 9 %, Saudi Arabia 7%, Switzerland 5 %, and Germany 3 %. **In India's exports** United States has 14 % share, UAE 13%, China 5 % and Germany 3%. In contrast Japan which is a big investor in India has just 2 % share in India's exports and little more share in imports. In case of India-Japan relations there is only the need of giving more focus and priority to economic cooperation and maintaining warmth in the relationship. In this regards the recent efforts and political mutual visits in 2014 by Indian Prime Minister Narendra Modi to Japan and Japanese Prime Minister Shinzo Abbe to India may boost the relationship and economic cooperation.

During Indian Prime Minister Narendra Modi's visit to Japan in 2014, numerous decisions and agreements have come forward such as: (i) Japan would invest \$35 Billion in India's infrastructure over next five years. Government of Japan pledged additional \$500 million towards public private partnership for project funding to the India Infrastructure Finance Company Limited (IIFCL). In addition Japan will also provide \$156 million for Assam's Guwahati Sewerage Project; (ii) Japan will help in six Indian states developing Delhi Mumbai Industrial Corridor (DMIC) projects including power plants, water supply, urban transport, logistics and skill development; (iii) Japan will help in finalising Master Plan and development of the city of Krishnapatnam in Andhra Pradesh, Ponneri in Tamil Nadu and Tumkur in Karnataka by March 2015; (iv) Both countries agreed to have Memorandum of Understanding between Indian Ministry of New and Renewable Energy and the Japan Bank for International Cooperation to help in nuclear energy sector and technology for clean coal supply for Indian power plants; (v) Japan would help in development and operation of Bullet Trains between Mumbai and Ahmadabad. Japan also agreed to provide US-2 amphibian aircrafts to India; (vi) Japan removed restrictions from 6 Indian space defence related entities; (vii) Japan agreed

to help in developing Uttar Pradesh's Varanasi city's infrastructure on the pattern of Kyoto city of Japan; (viii) Indian Prime Minister agreed for setting up a Special Management Team as Japan Cell within Prime Minister's office to remove red tapism and encourage speedy Japanese investment. All these measures will certainly boost India-Japan relations in coming years.

**Some Suggestions:**

For a better India-Japan cooperation the following suggestions may be worth considering by Indian Government and the Government of Japan:

- (1) There is the need for creating more business-friendly policies and laws on both sides.
- 2) In 'make in India' policy of Prime Minister Modi, India should emerge as a low cost manufacturing hub for which it should focus more on providing help to Japanese companies to start manufacturing units in India either alone or in joint ventures. For this India has to simplify land laws, technology transfer rules, corporate rules etc. to attract Japanese companies.
- (3) Due to the huge unemployment and poverty in India there is the urgent need for development and job creation in India. That is our problem. Indian Government and Indian people should understand that no outside company or investor would come to India if there is no opportunity for them to make profits. Thus Indians have to be ready for some harsh policy decisions and sacrifices as well.
- (4) The task of India's governments at Centre and States is to adopt very business friendly approach and at the same time see that the workers, consumers and farmers are not exploited by the outside or local companies.
- (5) India and Japan should strengthen sea route's security to ensure safety of sea transport.
- (6) India should work for peace and international security in South Asia collectively winning confidence of neighbouring countries. This is essential for India to concentrate on development issues. This will also reduce some of the prolonged border conflicts. On the other hand, development of opportunities for trade, manufacturing and employment in India will bring benefits to neighbours as well. Indian manufactured goods can be available to neighbours at a very low cost which they import from outside at a heavy cost.

With the success of India Japan relations and economic cooperation there will be development in India and improvement in trade and economic relations of India with its neighbours. This can dilute political differences and conflicting issues in South Asia and help in peace-building.

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