

# Emerging Synergy in India – Japan Relations

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**Abstract** *There is visible upswing in India–Japan ties. Favoured by history, few hiccups in the past were quickly overcome and new synergies were found, which are being exploited now for mutual gains. That is the story of complementarity in the economic domain that either side has felt necessary to be exploited. Started during the previous UPA government, bilateral ties have received further momentum by forward-looking leaderships in either country. The Modi–Abe personal chemistry has helped the ties to get the much-needed push. This paper, however, raises the research question if there is any other driver that is pushing both to come closer. Economic interests being given, the security paradigm and the China factor shall be examined as the focus of the article.*

**Key words:** Defence, maritime security, nuclear cooperation, Shinkansen, infrastructure development, ODA, regional issues, China

**Interdisciplinary Fields:** Security and Strategy, economic interdependence and complementarity, Trade and Investment, Civilizational linkages

## Introduction

In recent years, India–Japan relations have emerged as one of the significant bilateral relationships in the Asia–Pacific region, with either country weighing heavily on the other in their foreign policy calculus. Since the epoch-making visit of former Japanese Prime Minister Yoshiro Mori in August 2000 after years of stagnation, it has grown by leaps and bounds during successive governments in either country. Though the visit saw the dawn of a new era, some changes in the economic sphere had already started in 1991–92. For example, in 1991 India was on the verge of default on foreign debt payments and it was only Japan that provided emergency ODA to help out until the World Bank/IMF could rescue India a few months later. The economic and security/strategic components, in particular, received further boost because of their shared confidence on each other. Cooperation in the maritime security domain in the wake of China’s rise and threat to use of force to assert its claims in disputed areas is another key development in

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the relationships. Bilateral ties scaled a new height after assumption to office by Abe Shinzo in Japan and Narendra Modi in India. The personal chemistry built by Modi and Abe also has helped. The earlier governments both in India and Japan successfully laid the ground on which the current leaderships have worked to build on. This has been mutually satisfying. The strategic landscape in the Asia Pacific has undergone visible change with geopolitical power distribution shifting rapidly. In the wake of this, India–Japan relations have undergone tectonic shifts in realigning their relationships politically, strategically and economically.

Bilateral relations during the post-War years, in the 1950s, were warm as India sided with Japan on crucial issues. This created a great deal of warmth in Japan towards India. As the cold war began and India floated the non-alignment principle and Japan got allied with the US, both countries drifted apart and the potentials remained to be exploited for mutual benefits. The next two decades, the 1960s and 1970s, were missed opportunity for both.

The ideological division between the two during the cold war was a visible barrier to forge a cooperative partnership. Another barrier was India's socialistic, inward-looking economic policies as against Japan's preference for export-led growth strategy. Japanese perception had begun to change after India adopted economic reforms in 1991 and Look East policy. When Indian Prime Minister P. V. Narasimha Rao visited Japan in 1992, Japan began to respond by sending senior ministers to India to assess if India with a potentially huge market was ready to deliver.

Even when India had started this revival by revisiting its foreign policy outlook, the signs of warmth were abruptly eroded when India detonated a nuclear device in 1998, attracting sharp reactions and sanctions from Japan. The character of bilateral relations underwent a dramatic change with Mori's visit in 2000, which marked a turning point, ending this temporary hiccup. Successive governments in either country have persevered to scale up bilateral ties in all spheres since then. The current phase with Modi and Abe at the helm in India and Japan seems to be the golden phase. This essay is an in-depth analysis of some of the salient features in this evolving relationship.

### **Research questions**

What are the drivers that are pushing both towards each other? At the hindsight, one notices complementarities that are both internal as well as external. The list of literature available in the public domain in abundance has dissected both these dimensions. The present author's perspectives in this list of literature are also well-known. The attempt in this article is not to make a bold claim and a departure from

this often-chosen path. What this article attempts to do is an in-depth analysis to examine which of the drivers-external and internal-weigh over the other and how relevant are they towards each other in the present context. The article would also assess if the direction in which both are heading is appropriate or if there are gaps and pitfalls. With this in view, it would attempt to make some policy recommendations that might be relevant to policy makers in both the countries from an analytical and academic perspective. The external driver would examine the geo-strategic dimensions and compulsions faced by both in the wake of China's assertiveness and territorial claims in areas, in particular in the South China Sea, which is why both find merit to find common grounds to deepen defence cooperation as well as cooperation in regional forums bilaterally and by co-opting other regional powers who perceive the same threat from a belligerent China. In the economic domain, with the Indian economy experiencing sustained growth, something akin to Japan in the 1960s and early 1970s, coinciding with the stagnating Japanese economy, makes Japan to see merit to engage India with its economic development process by increasing trade, investment and collaborative joint projects. This process has unearthed huge opportunity for mutual gain. This article aims to examine some of the recent trends in this front as well. The commitment to cooperate in the nuclear issue despite huge domestic hurdles in Japan is another issue that would be touched upon. The deal on nuclear cooperation reached during Modi's visit to Japan in November 2016 is termed "historic".

### **Defence Cooperation**

Defence cooperation between the two countries has remained steady. While it is felt not necessary to repeat the kind and scale it has developed till Modi's visit to Japan in 2014 on which literature is available in plenty, the kind of agreement that was reached on how to boost defence cooperation when Abe visited India in December 2015 is worth-analysing. On this, two pacts, including an agreement concerning Transfer of Defence Equipment and Technology cooperation, and Security Measures for Protection of Classified Military Information were signed. These two agreements provide a framework to "enhance defence and security cooperation by making available to each other, defence equipment and technology necessary to implement joint research, development and/or production project or projects". These are decisive steps in security cooperation between the two and would deepen the defence relations and promote defence manufacturing in India.

It was also agreed to expand staff talks by all three wings of the Armed Forces and make Japan a partner in the Malabar Naval Exercises on a regular basis, a shift from the earlier practice when it was not a regular feature. Such an arrangement conjures a competitive picture in the Indo – Pacific region. The India – US – Japan

Trilateral dialogue at the foreign minister level again sends a message to China that its fast growing domination of Asia – Pacific region with intention to extend its strategic space is not viewed kindly in the rest of Asia. This sends a sense of discomfort. The two sides decided to begin Air Force-to-Air Force staff talks as well.

The Indian Defence Ministry has finalised to purchase 12 Japanese-designed, Japanese-built US – 2 amphibious search-and-rescue aircraft from manufacturer ShinMaywa Industries worth \$1.5 to \$1.6 billion<sup>1</sup>. This would help beef up the Naval wing of India's defence. When done, this would be one of Tokyo's first arms deals since Japan lifted its 50 – year ban on weapons exports in 2014. So far Japan has struggled to break into the industry. Though Japan was the leading contender to build Australia's next generation of submarines-that country's largest-ever defense contract-but lost out to a French bid in April 2016. There could also be prospects for the two countries to graduate to the next level to jointly produce the aircraft in India.

This proposal seems to be quite ambitious as there are reservations in some quarter as to how these expensive seaplanes, if procured, can be fitted into India's naval tactics (not strategy). Even though Japan has lifted restrictions on arms exports, there are critics who complain that Japan wants to put on table on offer military equipment that might be irrelevant to its potential buyers while holding back the ones with utility value. This is just not true. The quick response capability of the US – 2 seaplanes to hit the targets in critical zone with precision (maximum four hours) makes its hugely relevant, adding teeth to the Indian Navy<sup>2</sup>.

In recognition of Japan's technological advantages and decision to relax its rules on weapons exports, India has also taken steps to purchase Japan's Soryu-class diesel-electric submarines to add to its fleet of fifteen already in possession. If India does indeed buy this product, it would be further an acknowledgment that Japan's product is far superior<sup>3</sup>.

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1 "Japan, India likely to ink pivotal US – 2 aircraft deal", *The Japan Times*, 6 November 2016, [http://www.japantimes.co.jp/news/2016/11/06/national/japan-india-likely-ink-pivotal-us-2-aircraft-deal/#.WB\\_il\\_p95PY](http://www.japantimes.co.jp/news/2016/11/06/national/japan-india-likely-ink-pivotal-us-2-aircraft-deal/#.WB_il_p95PY); Rajat Pandit, "India revives project to acquire Japanese US – 2i amphibious aircraft worth Rs 10,000 crore", 5 November 2016, *The Economic Times*, [http://timesofindia.indiatimes.com/india/Move-to-buy-Japanese-planes-gathers-steam/articleshow/55254397.cms?inttarget=no&utm\\_source=newsletter&utm\\_medium=referral&utm\\_campaign=Top\\_Headlines](http://timesofindia.indiatimes.com/india/Move-to-buy-Japanese-planes-gathers-steam/articleshow/55254397.cms?inttarget=no&utm_source=newsletter&utm_medium=referral&utm_campaign=Top_Headlines)

2 This is what a senior naval officer, since retired, told the author in a recent casual discussion on the issue.

3 Milton Ezrati, "Asia's Odd Couple: India and Japan Join Forces", 14 December 2015, January-February 2016, <http://nationalinterest.org/feature/asias-odd-couple-india-japan-join-forces-14599?page=4>

Besides the military-to-military cooperation and the Malabar exercises, in a bid to strengthen joint operating procedures, a joint exercise between the Indian and Japanese Coast Guards was held in the Bay of Bengal off Chennai on 15 January 2016<sup>4</sup>. During this exercise, Japanese Coast Guard Ship Echigo visited Chennai from 11 to 16 January. ‘Sahyog-Kaijin-XV’, the joint exercise encompassed the scenario of hijacking a merchant vessel and its subsequent rescue in a combined Coast Guard operation of both countries. Operation of Indian Coast Guard helicopters from Japan Coast Guard ship and vice versa, cross-deck landing, interdiction of pirate vessel, cross boarding, SAR demonstration and external fire fighting were other highlights of the exercise. In addition, the Indian Coast Guard ships and aircraft demonstrated their prowess before the Japanese delegation.

### **Regional and global Issues**

The joint statement that was issued in December 2015 titled ‘India and Japan Vision 2025: Special Strategic and Global Partnership Working Together for Peace and Prosperity of the Indo – Pacific Region and the World’. This signifies that India – Japan relations no longer remain confined to purely bilateral issues but has expanded to assume a regional and global dimension in which both countries would address issues with a common voice. Both the leaders also discussed regional and international issues of mutual importance and resolved to work together for the early realization of UN reforms, particularly the Security Council reform, to better reflect the realities of the international community in the 21<sup>st</sup> century. Other issues that both leaders agreed to work together are on climate change, terrorism and North Korea’s contentious nuclear program and expressed concern over its continued development of nuclear weapons and ballistic missile programs, including its uranium enrichment activities. They urged North Korea to fully comply with its international obligations and address at the earliest the abduction issue. Abe supported India’s membership of the APEC. Both resolved to work together in East Asia Summit to promote an inclusive, balanced and open regional architecture and maritime security in the region. Both the leaders reiterated their resolve “for ensuring freedom of navigation and over-flight, and unimpeded maritime commerce”. They observed that disputes must be resolved peacefully and that all countries must abide by international law and norms on maritime issues.”

It was also agreed that India would offer full support to augment capabilities of Japan’s newly-created intelligence unit. Though Japan has not played any significant role in global counter-terror initiatives so far, Japanese nationals have

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4 “Indo – Japan Joint Coast Guard Exercise from January 15”, *Deccan Herald*, 11 January 2016, <http://www.deccanherald.com/content/522394/indo-japan-joint-coast-guard.html>

been targeted recently in certain countries in Asia by Islamic State and other extremist groups<sup>5</sup>. Because of Japan's huge economic presence in such countries, Japanese nationals stationed there face security risks. By agreeing to cooperate on this, India and Japan have scaled another frontier in their relationships.

## Maritime Security

Securing maritime commerce in the Indian Ocean region and larger Asia – Pacific is a new narrative in India – Japan bilateral ties. Being a resource deficient country, Japan is heavily dependent on import of critical resources as well as for export of finished goods and therefore safe maritime commerce is critical for Japan. This was again, as before, underscored in the 44-paragraph “Joint Statement on India and Japan Vision 2025”. The dramatic rise of China coinciding with the relative decline of the US has brought in new challenge in the strategic equation in the Asia Pacific region. This is being accentuated by unilateral action by China on certain regional issues with the intent to extend its strategic space. Such an approach is adversely impacting the economic and security interests of many Asian countries. India and Japan stand together to confront this new situation. No wonder, Chinese media dubbed Abe's visit to India as an attempt to contain China<sup>6</sup>.

There is huge merit for India and Japan to cooperate. India – Japan cooperation could be in two fronts: capacity building and burden sharing. While the former could entail economic cooperation, maritime security, the latter could mean military modernization. Some partner countries of both India and Japan such as Vietnam, the Philippines, Malaysia, Singapore, etc. face critical security dilemma in the wake of China's assertiveness. Since their capacity to cope with this new challenge is limited, they need the help of both India and Japan. It puts enormous responsibility and challenge to both India and Japan on how to keep China engaged so that China does not cross its limits. This does not mean to suggest that either needs to adopt a sugar-coating strategy towards China or confront in any belligerent way.

India worries about China's close military and nuclear links with Pakistan. China not only provided Pakistan with military hardware but also supplied nuclear capable M-11 missile way back in 1991. In turn, Pakistan's nuclear links with North Korea in exchange for missiles in the 1990s is well known. Pakistan's role in North Korea's nuclear weapon program is a worry for Japan, as is Pakistan for India. This provides

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5 Dipanjan Roy Chaudhury, “India to train Japan's counter-terror intelligence unit”, *The Economic Times*, 14 December 2015, <http://economictimes.indiatimes.com/news/defence/india-to-train-japans-counter-terror-intelligence-unit/articleshow/50165680.cms>

6 “Abe's India Visit part of Plan to Contain China-Chinese Media”, *Deccan Herald*, 11 December 2015, <http://www.deccanherald.com/content/516841/abes-india-visit-part-plan.html>

common challenge to both India and Japan<sup>7</sup>.

Developments in the past few years in the South China Sea, particularly Chinese activities, have raised concerns. The maritime lanes have been threatened and there have been frequent skirmishes that impact international commerce. China has made military installations in some of the islands, adding to the tensions. There are fears that maritime commerce could be jeopardized, leaving debilitating consequences to the economies of Japan, South Korea, India, Australia and many others. There are nearly nine countries which make competing claims to some parts or the other of the South China Sea as their own while China claims the Sea in its entirety. China's claims are dubious if historical records are evaluated objectively. Even though China is a signatory to the UN Conference on the Law of the Seas (UNCLOS), it has refused to abide by it. Of all the claimants, Vietnam and the Philippines have taken umbrage against China's claims. The Philippines took the issue to The Hague Tribunal for arbitration and got a judgement in its favour in July 2016. Beijing has rejected this. The tribunal does not have enforcing authority and Beijing know this. Though China has pronounced time and again that none of its actions would affect international shipping, it has made the South China Sea as one of its "core interests", implying that it reserves the right to use military option to protect its "core interests"<sup>8</sup>. "This is gun powder keg and there is no visible guarantee that the situation will not change"<sup>9</sup>.

China is equally uncomfortable that India is getting cozy with Japan and other ASEAN nations on the South China Sea issue<sup>10</sup>. Reacting to Abe's visit to India, Chinese ambassador to India Le Yucheng remarked that "India should ensure that initiatives like the trilateral maritime agreement or defence ties with other countries are conducive for peaceful and stable Asia – Pacific region". This was a clear warning to India, which India and Japan need to take note<sup>11</sup>. China rejects any power questioning its claim in totality over the South China Sea. Such a situation demands even more close cooperation between the two countries to coordinate future policy choices<sup>12</sup>.

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7 See, Arun Vishwanathan and S Chandrashekar "Why India should be worried", *Deccan Herald*, 5, February 2016, <http://www.deccanherald.com/content/527022/why-india-should-worried.html>

8 Bhaskar Roy, "India and Japan affirm security of Indo – Pacific Region-Analysis", 4 January 2016, [http://www.eurasiareview.com/04012016-india-and-japan-affirm-security-of-indo-pacific-region-analysis/?utm\\_source=feedburner&utm\\_medium=email&utm\\_campaign=Feed%3A+eurasiareview%2FVsnE+%28Eurasia+Review%29](http://www.eurasiareview.com/04012016-india-and-japan-affirm-security-of-indo-pacific-region-analysis/?utm_source=feedburner&utm_medium=email&utm_campaign=Feed%3A+eurasiareview%2FVsnE+%28Eurasia+Review%29)

9 Ibid.

10 Saibal Dasgupta, "China upset over India – Japan agreement on South China Sea", *The Times of India*, 15 December 2015, <http://timesofindia.indiatimes.com/india/China-upset-over-India-Japan-agreement-on-South-China-Sea/articleshow/50179729.cms>

11 "Outsiders should not meddle in South China Sea issue: China", *Deccan Herald*, 19 December 2015, <http://www.deccanherald.com/content/518460/outside-should-not-meddle-south.html>

Maritime security is so critical for Japan that the 97-year-old former Prime Minister Nakasone Yasuhiro launched the “Nakasone Initiative” in December 2015 during an international symposium by the Institute for International Policy Studies, where he serves as chairman. In the wake of China’s maritime advances, the initiative described security and freedom in the East and South China Seas as “preconditions for peace and prosperity in the world,” since the area serves as a major artery for global trading. To guarantee freedom of the seas, the initiative called for all parties concerned to abide by international laws and codes of conduct and exercise self-restraint, refraining from unilateral actions that exacerbate distrust and cause tensions among them<sup>13</sup>. Nakasone urged all parties concerned to establish a code of conduct on the South China Sea at the earliest possible date, as well as boost cooperation in the areas of marine resource management, humanitarian assistance and disaster relief. Besides the need for relevant organizations to improve maritime domain awareness, Nakasone called for adopting a charter on maritime security on East Asia so that countries concerned both in and outside the region could confirm rules and targets for a comprehensive approach. As a major means to promote maritime security in the region, the Nakasone Initiative proposed the establishment of an Organization for Maritime Security in East Asia (OMSEA), taking as a model the Organization for Security and Cooperation in Europe<sup>14</sup>. The aim of the proposed OMSEA is to provide a permanent and open forum for member countries and other parties concerned to exchange information and opinions on maritime security. It would also aim to gather data from an objective standpoint so that this could be shared among members. If institutionalized, India can have an important role in this organization and help deepen India – Japan cooperation in the maritime domain.

### **Shinkansen project**

Infrastructure development is sine qua non if the economic growth needs to be sustained. The government in India has realized this and improving the country’s infrastructure is therefore a priority. It was therefore both Modi and Abe stressed its importance in the joint statement. Therefore, a slew of agreements in the economic and defence fields were reached. Over a dozen agreements were inked of which three stands out: introduction of Japan’s High Speed Railways (HSR) technologies (the Shinkansen system or the Bullet train) to the Mumbai-Ahmedabad route, civil nuclear cooperation and transfer of defence equipment and

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12 Natalie Obiko Pearson, “Abe – Modi deals shows Asia’s top powers moving to keep rising China in check”, *The Japan Times*, 14 December 2015, <http://www.japantimes.co.jp/news/2015/12/14/national/politics-diplomacy/japan-picked-china-build-indias-high-speed-rail-link-15-billion-deal/>

13 “Nakasone Launches Maritime Security Initiative”, *The Yimouri Shimibun*, 16 December 2015, <http://the-japan-news.com/news/article/0002628162>

14 Ibid.

technology cooperation. Among other concrete outcomes is reaffirmation of the commitment made by Abe in 2014 during Modi's visit to Japan to inject a massive \$34 billion over the next five years. But for the Japanese firms to follow through investment commitment made by Abe, they need a predictable tax and regulatory regime to which Modi committed. Like most businesses in the West, the Japanese want certainty and predictability. The Goods and Services Tax legislation was stuck in the Parliament logjam but has not been sorted out to go through parliamentary procedure. When done, it would facilitate the smooth entry of Japanese firms to the Indian market. This would be the biggest tax reform since independence as GST would bring the entire country into a single tax structure and therefore would be welcome to foreign investors.

The important deal was on the introduction of Japan's high speed train known for its speed, reliability and safety on the Mumbai-Ahmedabad route. Japan made a commitment for an extraordinary package of approximately \$12 billion and technical assistance on easy terms. Modi observed: "This enterprise will launch a revolution in Indian railways and speed up India's journey into the future. It will become an engine of economic transformation in India." Bullet train between the two cities will cut travel time on the 505-km route from eight hours to around three. The approximate cost of the project is estimated to be around Rs. 98,000 crore (1.47 trillion Yen) to begin in 2017 and be put to service in 2023. Though the introduction of the bullet train is an ambitious project, it is a small but important platform for future modernization of the Indian railways. Both Modi and Abe recognized that if India's growth story is sustained, India's transport and communications ought to match world standard<sup>15</sup>.

In the late 1990s, Japan succeeded in exporting its bullet-train technology to Taiwan, but lost out to China in October 2015 in the competition to sell the technology to Indonesia. India put priority on the safety and technological advantage of the Shinkansen system. Having won the project over China, Japan now needs to support India in the training of personnel, including operation controllers, drivers and maintenance workers, in addition to the export of hardware. Well known for its character, Chinese official media mentioned that the India – Japan deal came through because both wanted to corner China, forgetting to mention that it had beaten Japan on a bid when it won the Indonesian high speed railway project. Beijing does not value the merit of fair competition. This is typical of Chinese character and therefore unfortunate.

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15 See Rajaram Panda, "A Revolution in store for Indian Railways", *India Investment Journal*, V4/11 year, 2016.

The project received the approval of the Cabinet and to be executed under the provisions of the existing Railway Act, 1989. This excuses Railways from having to go to Parliament to enact a law for high-speed train. This saves the project from possible delays due to parliamentary procedures. Moreover, it has been understood that giving states a stake in the project was essential for success. A new organisation, created out of a Centre-state joint venture like the DMRC, will implement the project with Japan's assistance<sup>16</sup>.

A three-member empowered committee comprising chairman, Railway Board and secretaries of Department of Industrial Policy and Promotion, and Department of Expenditure, will take the necessary decisions after discussions with the Japanese. This model of execution is going to set the template to be followed by all the subsequent bullet-train corridors in the Diamond Quadrilateral. Not only is Japan giving 81 per cent of the Rs 98,000 crore project at just 0.1 per cent, negotiators from Railways have ensured that the deal is much more sweeter than it had in the case of Dedicated Freight Corridor, which had many restrictive strings attached for India. This is the first of several projects that are part of Modi's innovation drive in the country<sup>17</sup>.

Besides being cheaper, the bullet train loan gives India freedom to carry out civil construction sans Japanese participation—a crucial change to ensure speedy award of tenders and fast execution unlike in the DFC. For the first time, Japan has agreed to distinguish between civil and system contracts. System contracts are those involving installation of signalling system, key safety apparatus, rolling stock etc. India will buy the entire rolling stock from Japan—the new version of the Shinkansen—while Japan insisted that certain “prime contractors” from Japan are a must in the system contracts which are crucial for safety features like the Shinkansen.

These features of the assistance significantly lower the monetary impact of the clause that 30 per cent of the sourcing should be done from Japan. The grace period of the 50 – year loan is 15 years and Japan has agreed to partner in areas like setting up technical training centres for skills upgrade. Around Rs. 70,000 crore is the cost of construction, while Rs 6,000 crore has been worked out as eventual cost of rolling stock (the trains).

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<sup>16</sup> Mahendra Singh, “Railways fast-tracks Mum bullet train project, sets up co”, *Times of India*, 4 January 2016. <http://timesofindia.indiatimes.com/india/Railways-fast-tracks-Mumbai-Ahmedabad-bullet-train-project-sets-up-separate-company/articleshow/50432014.cms>

<sup>17</sup> Ruchika Chitravanshi, “Indo – Japan bullet train deal: First victory for PM Modi's Innovation Panel”, *The Economic Times*, 23 December 2016. [http://articles.economictimes.indiatimes.com/2015-12-23/news/69261440\\_1\\_road-sector-projects-bullet-pm-modi](http://articles.economictimes.indiatimes.com/2015-12-23/news/69261440_1_road-sector-projects-bullet-pm-modi)

To further pitch the bullet train technology to India, Modi joined Abe to take a joint Shinkansen ride from Tokyo to Kobe during his visit to Japan in November 2016, during which both the leaders also visited Kawasaki Heavy Industries Ltd.'s plant in the city to see the production of the E5 Series for the Hayabusa trains on the Tohoku Shinkansen Line, which links Tokyo and Shin-Aomori<sup>18</sup>.

There are other flagship projects as well in which Japanese ODA has been meaningfully used. In fact, Japanese ODA has played a big role in India – Japan economic relations. In the late 1950s, Japan started its ODA to Asian countries with India as the first recipient. Ever since, it has been a major source of ODA to India. Since the late 1980s Japan has been India's biggest ODA provider and, since 2000, Japanese ODA has made India its biggest recipient. The Delhi Metro, the Dedicated Freight Corridors, the on-going Delhi-Mumbai Industrial Corridor, the Chennai-Bengaluru Industrial Corridor are some of the big-ticket projects where the ODA money is being used. These are visible projects to make India's 'Make in India' vision a real success. Earlier, there were equally impressive ODA projects such as Vizag Outer Harbour, Bombay High Deep Sea Drilling Rig (pictured on Indian postage stamp), Cochin Shipyard modernization, fertiliser factories for India's Green Revolution etc., apart from the 1991 emergency aid. Over 1, 000 Japanese companies have already opened offices in India and this number is poised to increase as both expand their economic horizons. This number, however, is too small compared to the number of Japanese companies doing business in China despite the politically strained relations between the two neighbours.

### **Trade and Investment Issue**

Though bilateral ties look robust in other fronts, the economic link remains rather weak. In 2012 – 2013, bilateral trade totalled only \$18 billion, too small compared to China and the US. Indeed, in the past three years, this has also declined. While India accounts for a minuscule 1 per cent of Japan's total trade, Japan accounts only 2. 5 per cent of India's total trade. This is an aberration that both need to rectify by effectively using the Comprehensive Economic Partnership Agreement that both signed in 2011. Further details are beyond the scope of this paper and reserved for another article.

In the investment area, Japan ranks fourth (RBI data says 3<sup>rd</sup>) among investors in India but with only 7 per cent of the total. There are some discrepancies in data released by the Reserve Bank of India and the Department of Industrial Policy and

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<sup>18</sup> "Abe, Modi ride Shinkansen train", 12 November 2016, <http://the-japan-news.com/news/article/0003344992>

Promotion<sup>19</sup>. During the visit of Power Minister Piyush Goyal to Tokyo in January 2016, it transpired that Japanese energy companies and financial institutions are looking to invest heavily in India. Japanese companies are looking to set up big solar projects and equipment manufacturing line in India, which is expected to quadruple electricity generation in the next 15 years. India is inviting bids to potential foreign firms to invest in ultra mega power projects. The Japanese firms have realized that India offers a huge potential to world as Japanese pension funds and insurance companies have a negative interest scenario. Goyal observed that India's energy production has an investment potential of \$250 billion by 2019 and about \$1 trillion by 2030<sup>20</sup>.

During his visit to India, Abe committed to double the Japanese investment. This weak economic link demonstrates that the inherent economic complementarities have not been fully exploited. With 1.2 billion people and a growing middle class, India offers a huge domestic market. India's strength in software can complement with Japan's strength with hardware and this can lead to a win-win situation if barriers to build strong economic bonding are overcome by greater exchanges and dialogue<sup>21</sup>. India's large pool of skilled manpower would be useful in this growth trajectory story. The scope of this paper does not warrant a detailed analysis on these issues.

## **Nuclear cooperation**

Of all the agreements reached, the single most significant one was opening the doors for nuclear commerce when the MOU on peaceful use of nuclear energy was signed by the two leaders after five years of negotiations. This will facilitate nuclear commerce with the US and France as Japan holds significant stakes in US companies like GE and Westinghouse<sup>22</sup>, and the French firm Areva. The deal is crucial for setting up nuclear power plants using Japanese reactors. Modi rightly

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19 According to factsheet released by the DIPP, Japan in 2010 – 2011 ranked 6<sup>th</sup> in India's FDI ranking with Rs. 25,001 crore (\$511 million) with Mauritius ranking one with Rs. 247,092 (\$55,202 million), followed by Singapore (Rs. 58,090 crore or \$13,070 million), US (Rs. 42898 crore or \$9529 million), UK, (Rs. 29451 crore or \$6643 million), and Netherlands (Rs. 25,799 crore or \$5739 million). This ranking has changed with Japan rising to 3<sup>rd</sup> position (RBI source) with Mauritius and Singapore occupying the first two places. It may be mentioned that Mauritius is a tax haven through which investors of many nationalities, including NRIs, route their funds. Singapore is also a low-tax city where many Japanese and others maintain regional offices which invest in India. In some other years, Cyprus, another tax haven, has been shown as a bigger investor than Japan. Such are the statistical flaws that if one includes Japanese ODA, FDI and the kind of money Japan puts in India's bonds and stock markets, Japan would rank as one of India's topmost economic partners.

20 Santa Singh, "Japanese firms, banks looking to invest heavily in India's energy sector: Piyush Goyal", *The Economic Times*, 14 January 2016, [http://articles.economictimes.indiatimes.com/2016-01-14/news/69765442\\_1\\_power-minister-piyush-goyal-india-inc-energy-sector](http://articles.economictimes.indiatimes.com/2016-01-14/news/69765442_1_power-minister-piyush-goyal-india-inc-energy-sector)

21 Madhuchanda Ghosh, "India – Japan strategic partnership: Renewed focus on peace and security in Asia", *The Yimouri Shimbun*, 8 January 2016, <http://the-japan-news.com/news/article/0002614757>

observed that the memorandum on nuclear energy cooperation is “more than just an agreement for commerce and clean energy”. He also said that it is a shining symbol of a new level of mutual confidence and strategic partnership. Now the “technical” and “legal” vetting needs to be done by both the sides related to necessary internal procedures.

By the time Modi visited Japan in November 2016, the “technical” and “legal” issues were sorted out and the deal was expected to be formally signed<sup>23</sup>. This breakthrough is significant, clearing bilateral cooperation in peaceful use of atomic energy<sup>24</sup>. A nuclear deal with Japan was important for India as it is yet another sign of global acknowledgement of the impeccable non-proliferation record of India. Japanese atomic power companies like Toshiba<sup>25</sup>, Hitachi and Mitsubishi have been eyeing the huge nuclear market opened up for the world in India. This was following the waiver by the Nuclear Suppliers Group given to India in 2008. Besides, even US companies, which partnered with Japanese firms (like GE-Hitachi and Toshiba-Westinghouse), need a deal between Tokyo and New Delhi in place to be able to sell India nuclear technologies and equipment with components originated in Japan<sup>26</sup>.

There were several hurdles in the negotiation process. The “difficult issues” in negotiations was Japan’s insistence to add a clause in the agreement providing for termination of the cooperation in the event of a nuclear test by India. New Delhi was reluctant and pointed out to Tokyo that it has declared a unilateral moratorium on nuclear tests in 2008 that remains in force.

New Delhi had been insisting on the right to reprocess nuclear fuel to be procured from Japan. Tokyo sought rights to track fuel to be used in Japanese reactors to be installed in India. Earlier in 2016, Japan agreed to grant India the right to reprocess spent nuclear fuel. The agreement remained ambiguous as there was a separate two-page note which was not a part of the agreement which kept the “nullification

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22 “Westinghouse eyes India reactor deal in time for possible PM Narendra Modi US visit”, 16 January 2016, <http://in.reuters.com/article/india-westinghouse-nuclear-idINKCN0UU04H>

23 Rajaram Panda, “Modi’s Japan Visit: High Hopes on Nuclear Deal”, *The Pioneer* Sunday Edition, 6 November 2016, <http://www.dailypioneer.com/sunday-edition/agenda/backbone/modis-japan-visit-high-hopes-for-nuclear-deal.html>

24 Ayoko Mie, “Japan, India sign civil pact on nuclear power after reassurances from Modi”, *The Japan Times*, 11 November 2016, [http://www.japantimes.co.jp/news/2016/11/11/national/politics-diplomacy/japan-india-sign-civil-pact-nuclear-power-reassurances-modi/#.WCaCb\\_p95PY](http://www.japantimes.co.jp/news/2016/11/11/national/politics-diplomacy/japan-india-sign-civil-pact-nuclear-power-reassurances-modi/#.WCaCb_p95PY); Jayanth Jacob, “Modi, Abe seal historic civil nuclear pact: What it means for India”, *The Hindustan Times*, 11 November 2016, <http://www.hindustantimes.com/world-news/modi-abe-sign-historic-civil-nuclear-pact-what-it-means-for-india/story-VDilKdev7mbgfaxMsZSnzK.html>

25 Toshiba has new challenges. See, “India deal unlikely to secure Toshiba’s lofty nuclear plans”, *Hindustan Times*, 28 December 2015, <http://www.hindustantimes.com/business/india-deal-unlikely-to-secure-toshiba-s-lofty-nuclear-plans/story-ZGeg7HJ7qSZ9XtbZRHlmGL.html>

26 “India nuclear deal to expand business opportunities”, 13 November 2016, *The Yimouri Shimibun*, <http://the-japan-news.com/news/article/0003344645>

clause” subject to interpretation. It remained unclear if Japan would nullify the pact if India conducts another nuclear test in future<sup>27</sup>.

The principled commitment of both the countries for the total elimination of nuclear weapons was reinforced when Abe and Modi called for an immediate commencement and early conclusion of negotiations on a non-discriminatory, multilateral and internationally and effectively verifiable Fissile Material Cut-off Treaty (FMCT) on the basis of Shannon Mandate. Abe also stressed the importance of early entry into force of the Comprehensive Nuclear Test Ban Treaty (CTBT) which should lead to nuclear disarmament. They also supported the strengthening of international cooperation to address the challenges of nuclear proliferation and nuclear terrorism.

Japan welcomed India’s intensified engagement with export control regimes. Both leaders affirmed their commitment to work together for India to become a full member in the four international export control regimes: Nuclear Suppliers Group, Missile Technology Control Regime, Wassenaar Arrangement and Australia Group, with the aim of strengthening the international non-proliferation efforts.

### **Domestic hurdles**

Nuclear issue is quite sensitive in Japan because of the Hiroshima and Nagasaki experience and it became intense following of Fukushima accident. No wonder, Tokyo’s decision to enter into nuke talks with New Delhi sparked off strong reactions from the anti-nuclear activists in Japan, as India has not signed the Nuclear Non-Proliferation Treaty (NPT) and the CTBT.

Japanese media was critical of Abe’s nuclear deal with India when he had visited India in December 2015. In an editorial, *The Japan Times* observed: “In working out its further details, the government needs to ensure a clear mechanism to prevent India from using the technology provided by Japan to enhance its nuclear weapons capabilities. This is Japan’s duty as the only country in history to suffer nuclear attacks. Japan has so far refrained from signing a civil nuclear cooperation pact with countries that are outside the NPT regime. Such an agreement with India, a de facto nuclear weapons power, is tantamount to Tokyo accepting possession of nuclear weapons by a country that is not a party to the NPT, representing a major shift in Japan’s nuclear policy. It may compromise Japan’s position of calling on North Korea, which has withdrawn from the NPT regime, to end its nuclear weapons

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<sup>27</sup> Kallol Bhattacharjee, “Japan has option to scrap N-deal”, *The Hindu*, 11 November 2016, <http://www.thehindu.com/news/international/india-japan-sign-civil-nuclear-deal/article9334140.ece?homepage=true>; “Termination clause in N-deal with Japan not binding on India”, *Deccan Herald*, 13 November 2016, <http://www.deccanherald.com/content/580841/termination-clause-n-deal-japan.html>

program. The pact would have the effect of further reduce India's incentive to join the NPT regime. One wonders whether the Abe administration has seriously considered these effects."<sup>28</sup> When the deal was inked finally in November 2016, the same newspaper was again scathing in observing in an editorial that it was a questionable nuclear deal. It observed that "Japan is reported to have compromised on its earlier demand that the pact include an explicit provision that cooperation would be halted if India resumed nuclear weapons tests. The final accord merely states that each of the parties can terminate by notifying the other one year in advance. It is only stipulated in a separate document exchanged along with the accord that India's 2008 nuclear test moratorium serves as the basis of civilian nuclear cooperation and that the Japanese government can initiate a process to terminate the pact if it ends."<sup>29</sup>

In November 2016 when the pact was inked, its opinion was muted, suggesting that there was a sort of endorsement to the deal. In contrast, Indian media welcomed the decision. While both Deccan Herald<sup>30</sup> and Hindustan Times<sup>31</sup> in their editorials welcomed the decision, The Hindu<sup>32</sup> was cautious and cautioned the Indian government not to rely too much only on Japan. This time, most Indian newspapers observed that it was India's "diplomatic victory"<sup>33</sup>.

India's energy needs are huge. Its dependence on the Middle East for petroleum products does not show any sign of reducing. Though the prices of oil in the international market have dramatically fallen, it could have serious social consequences in the Middle East unless the declining trend is arrested. Moreover, India does not wish to put all its eggs in one basket. Diversifying the sources is therefore a key component in India's energy strategy. Nuclear as a source of clean energy is an attractive alternative. Though nuclear as a source in India's total energy basket constitute less than 3 per cent, it has an ambitious plan to increase it manifold to lessen dependence on renewable.

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28 "The Risky Nuclear Deal with India", *The Japan Times*, 16 December 2015, editorial, <http://www.japantimes.co.jp/opinion/2015/12/16/editorials/risky-nuclear-deal-india/#.VnKwLVR95tp>

29 "A questionable nuclear deal", *The Japan Times*, editorial, 15 November 2016, <http://www.japantimes.co.jp/opinion/2016/11/15/editorials/questionable-nuclear-deal/#.WCrgmPp95PY>

30 "N-Pact with Japan Welcome Sign", *Deccan Herald*, 16 December 2016, editorial, <http://www.deccanherald.com/content/517708/n-pact-japan-welcome-sign.html>

31 "Indo – Japan relations: Ties that can ensure stability in Asia", *Hindustan Times*, 15 December 2016, <http://www.hindustantimes.com/editorials/indo-japan-relations-ties-that-can-ensure-stability-in-asia/story-JLpZqt4wYDNzH5iIdib4HM.html>

32 "Cautious cooperation with Japan", *The Hindu*, 16 December 2015, editorial, <http://www.thehindu.com/opinion/editorial/shinzo-abe-in-india-cautious-cooperation-with-japan/article7987950.ece?homepage=true>

33 For example, see, "India – Japan N deal, a diplomatic victory", *Deccan Herald*, editorial, 14 November 2016, <http://www.deccanherald.com/content/580913/india-japan-n-deal-diplomatic.html>

Since the Nuclear Suppliers Group (NSG) granted a waiver to India in 2008 from its stringent rules, the change in the move prompted the US, France, Russia, South Korea and others to sign agreements with India on nuclear cooperation. Abe did not want Japan to be left behind. In fact his move represents the desire of Japan's nuclear power industry, whose prospect in the domestic market is uncertain following the 2011 Fukushima crisis, and therefore would be keen to enter the growing market of nuclear power in India. Currently, India has 21 nuclear power plants that are in operation and it has plans to build over 30 more to meet the demand of its expanding population. On its part, India has remained consistent in its stance that Japan's nuclear technology would be used solely for peaceful purposes. Though Japan is likely to halt the implementation of the pact should India tests a nuclear weapon (last one was in 1998), India is unlikely to break its commitment and therefore such a situation is unlikely to ever arise.

The opponents of the nuclear deal in Japan argue that as per the planned pact, Japan would allow India to reprocess nuclear fuel burned in a plant built with Japanese components and materials. Plutonium extracted through reprocessing of spent fuel can be converted into nuclear weapons. To prevent that, the opponents argue, the pact needs to have a mechanism to verify the volume of such plutonium and its whereabouts. They fear that the more plutonium India can secure for commercial purposes, the more it can possibly concentrate on using uranium produced in the country for military purposes. This group of opponent fears that both India and Pakistan, in possession of nuclear weapons and are in confrontation for many years and India might be emboldened to add more nuclear arsenals into its inventory. Such a view, however, overlooks the geopolitical compulsions of India, which is why it had to go nuclear by detonating its nuclear device in 1974. The Pakistan-North Korea nuclear nexus still remains relevant in India's strategic calculus. As a matured leader, Abe is seized of this hard reality and therefore went ahead with the nuclear deal with India despite domestic views against it.

## **Future**

Modi offered to extend "visa on arrival" to Japanese citizens including for business purpose from 1 March 2016, different from the electronic visa facility that is being extended globally<sup>34</sup>. Earlier, the visa-on-arrival scheme, which was extended to 12 countries including Japan was discontinued in November 2014. The new agreement is a progression over the current e-tourist visa facility offered to Japanese nationals, as it would do away with the requirement of submitting an online visa application,

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<sup>34</sup> "Bharati Jain, "Visa on arrival for Japanese visitors from March", *The Times of India*, 5 February 2016.

followed by its approval, before arrival in India. Visa-on-arrival will have a validity of 30 days, just like e-tourist visa. From his side, Abe announced easing requirements for issuing multiple-entry visas for short-term Indian travellers effective from 11 January 2016<sup>35</sup>. Under the new system, the maximum period of stay will be extended to 30 days from the current 15, with visas valid for five years, up from three years. Other agreements were on a broad range of issues including railways, tax matters, health and energy among others. The Modi – Abe personal chemistry was visible in the way they conducted all public functions, including the Aarti at the Dasashwamedh Ghat in Varanasi, Modi's constituency. Abe went poetic when he explained India – Japan ties as buds that have turned into blossoms. One can expect better days in India – Japan bilateral ties in the days ahead. The visit of Japanese Emperor and Empress to India in November-December 2014 was also a symbol of the growing closeness between the two countries<sup>36</sup>.

The problem lies in the fact that while Japanese pacifists still want to remain as a status quo power, notwithstanding Abe's pro-active foreign policy activism and outreach initiatives. Seen differently in terms of trade and commerce, Japan might be a status quo power but it can be seen as an aspiring power as well in the changing political (UN reforms for example) and military domain as demonstrated in Abe's relaxation of arms export policy as well as introduction of the right to collective self-defence. On the other hand, India is a rising power and unlike China, not a threatening power. It is here the interests of both India and Japan coalesce. Japan's role in international financial institutions such as the ADB and the recently floated AIIB could be well complemented if India is inducted into the APEC and chooses to join the TPP. While it could be difficult to keep India out from the APEC for long, it remains unclear at the moment if it would be to India's interests to join the TPP, when that happens. However, after Donald Trump's victory in the US Presidential election, TPP itself is likely to be consigned to the dustbin of history, and therefore would be no longer relevant in India – Japan relations.

There are other areas for both to work constructively. For example, Japanese ODA has played significant role in the development of infrastructure and fostering trade and investment activities in many Asian countries as well as in Africa. As emerging countries are not normally revisionists, Japanese ODA, for example, can be meaningfully utilized in African countries by financing Indian experts to minimize costs because of relative cheap wage vis-à-vis high labour cost of engaging

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35 "Japan to relax visa limits for Indians from January", *The Economic Times*, 14 December 2015, [http://articles.economicstimes.indiatimes.com/2015-12-14/news/69033557\\_1\\_new-visa-system-visa-limits-civil-nuclear-pact](http://articles.economicstimes.indiatimes.com/2015-12-14/news/69033557_1_new-visa-system-visa-limits-civil-nuclear-pact)

36 See, Rajaram Panda, "Significance of Royal Visit and India – Japan Relations", *C3S Paper No. 2042*, 5 December 2013, <http://www.c3sindia.org/japan/3801>

Japanese. Such kind of three-way cooperation might be worth-exploring. The scope of India – Japan cooperation is vast and it is up to the political leadership to carve out a meaningful outline on the future direction of the relationship that remains not just bilateral but beyond. Therefore, both the drivers-internal and external-complement each other and remain hugely relevant in their respective domains.