



THE MAUREEN AND MIKE MANSFIELD FOUNDATION

Keynote Address

“A Budding Strategic Partnership: India-Japan Relations in a New Asian Era”.

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Soon after I assumed charge as India’s Ambassador in Tokyo in mid - 1988, I took the opportunity of paying a courtesy call on Senator Mansfield who was the US Ambassador there at that time. I think he was a highly respected diplomat, apart from being the most important Ambassador in Tokyo. I still remember a very unusual feature of that meeting. After I had accepted his offer of a cup of coffee, he excused himself and went behind a curtain to make the coffee himself. I have forgotten the reason he gave for his practice of making the coffee himself but I remember it left a deep impression of the un-assuming demeanor of the man.

I was, therefore, happy to readily agree when I was asked whether I could give an overview of India – Japan relations at the beginning of this seminar.

I commend the organizers of this Seminar for the felicitous wording of the backgrounder they have circulated. “Budding” is just right in describing the strategic part of India-Japan relations. Otherwise, of course, these two ancient civilizations have enjoyed deep cultural bonds over the centuries.

Until the 1990s our relationship had been highly asymmetrical. On the strategic-political side we had the cold-war abyss between us; on the economic side, we, in India, were too inward-looking to be of interest to them. We on the other hand, always needed their aid investments and technology. All this has changed. The post-cold-war realities are creating a strategic bond between us and the remarkable success of the Indian economy in certain sectors and, above all, the growing Indian market and reservoir of talent are fast changing the Japanese perceptions of India. The interest is now mutual and, therefore, healthier.

If you look at the relationship in the perspective of just the last 7 years since Prime Minister Mori's visit, it is an impressive change from a situation where India was merely a potential market for Japan while Japan's importance for India was that of being the most important purveyor of bilateral ODA. There has been remarkable progress on the political/strategic, economic and cultural fronts - including the fact that Japan’s de facto definition of Asia, is no longer limited to Japan – eastwards up to Myanmar! It now includes the whole of South Asia. In fact, the Asian Affairs Department in the Japanese Foreign Ministry has been split to create a separate Department for South East and South West Affairs.

On the security front, the galloping economic and military might of China, the nuclear shenanigans of North Korea, threats to the Indian Ocean and Straits sea-lanes from piracy, terrorism and WMDs, are all factors compelling Japan to re-examine its strategies even while further tightening its alliance with USA as the lynchpin of its security. The fact of India and Pakistan becoming de facto nuclear powers in Asia does not threaten Japan’s security but does pose a challenge to Japan’s own nuclear policy. In a paradigm shift of policies pursued over the last half-century, Japan today wishes to play a greater role in the Asian security domain as also contribute to global security. It would like to have some form of an Asian collective security system but is skeptical for the present, given the competing nationalisms in the region.

At the same time there are apprehensions regarding US relations with China becoming too cozy at times and US pre-occupation with the Middle East and Terrorism. Faced with these realities, the Abe Government in Japan hopes to amend the restrictive Article 9 of its Constitution in due course, enhance the quality and reach of its defence forces within its alliance with USA and, in addition, cultivate reliable friends like India, Australia, Indonesia, Vietnam, etc bilaterally, to help maintain peace and stability, in the so-called “arc of instability” along its vital sea-lanes..

I read somewhere that there are three variations in the US approach towards China: 1) a moderate, ‘engaged’ and less confrontational one – ‘panda huggers’ 2) one less accommodating of Beijing’s concerns – ‘panda hedgers’ and 3) a more confrontational one – ‘dragon slayers’. It is appreciated, however, that the US policymakers’ objective is to encourage China to play a positive, responsible role in regional and global affairs. I think we have similar situations in India and Japan.

One prevalent view is that China, with a determination to emerge as a super power, is pursuing a diplomatic offensive (smile diplomacy) in Asia to buy time and space for achieving that status. Nevertheless, as long as China continues its charm posture, neither USA, nor Japan, nor India would like to provide it an excuse for baring its teeth.

Many analysts around the world, especially in China, have an unfortunate habit of using the cold war language of ‘containment’. Actually, the situation today, vis-à-vis China, is vastly different from the one prevailing between the Soviet Union and USA during the Cold War. USA and Japan, each has an intimate relationship of economic networking and interdependence with China. India does not as yet have that kind of relationship with China but we do share a long and disputed land border and we do have some weak and not very friendly neighbours who can be used against us by a hostile China.

On the other hand, a rapidly rising China, with a generous appetite for acquiring armaments and even space-warfare technology cannot but cause concern to its major neighbours like Japan and India about its future behaviour when the rulers in Beijing might get tired of smiling. I would like to describe our attitude to China as one of ‘denial of vacuum’ in Asia – in both, the military as well as the economic spheres.

In support of this stance, both Japan and India should find the continuation of the US presence in Asia an essential factor for equilibrium. In addition, each of us, Japan and India, would be obliged to continue building up its own military strength over the coming years, and have a strategic relationship with each other, short of an alliance. Even in the absence of the China factor, Japan may welcome India’s capability for safeguarding Japan’s vital sea-lanes to the oil-rich Gulf.

I suspect that even China may not wish the US out, whatever its public posture. For, once USA leaves the theatre and its nuclear umbrella over Japan is no longer dependable, how long could one expect Japan to remain a non-nuclear power?

There is always the possibility that USA, either due to economic factors or because of more pressing concerns elsewhere, might decide to curtail its presence in Asia. In that situation, India and Japan and, perhaps, some other like-minded countries may need one another’s cooperation even more. It is this background that is reflected in more than one Joint Statement between the PMs of India and Japan when they say: “A strong, prosperous and dynamic India is in the interest of Japan and vice versa”.

Speaking of Prime Ministerial visits, Mr. Mori’s visit in 2000 was the curtain raiser after the bilateral relationship had seen its nadir in 1998 over our nuclear test. His visit prepared the ground for treating India as a Global Partner. Until then India had always been linked with Pakistan and considered no more than the leading country in South Asia.

Mr. Koizumi, during his visit in April 2005 joined Dr. Manmohan Singh in giving a 'Strategic Orientation' to the Global Partnership in the New Asian Era. Dr. Manmohan Singh's return visit in December 2006 resulted in a straightforward 'Strategic and Global Partnership'. Mr. Abe's visit this month has now produced the 'Roadmap for New Dimensions to the Strategic and Global Partnership'! (What would we have done without the English language?)

It is unfortunate that the media in India and Japan keeps giving undue importance to the nuclear issue. Actually, given the history of Japanese sensitivity on this question, it could hardly be expected that Japan would be in the forefront of nations favouring relaxation of the NSG Guidelines and supply of nuclear power reactors to India in a hurry. It can, however, certainly be expected, as hinted by our PM in his post-Japan-visit comments in December 2006, that once the 123 Agreement was signed with USA and a safeguards protocol arrived at with IAEA, Japan would not hold up consensus at the NSG in favour of India.

The Koizumi visit of 2005 had a rich fallout in many ways. Japan went out of its way to get us invited to the East Asian Summit at Kuala Lumpur in December 2005. The idea was to have India share the role of bringing stability and prosperity to Asia. India and Japan also worked together in G4 for the reform of UN.

There is cooperation in the PKO activities. Japanese Officers participated in a PKO training course in India. There was sharing of thoughts and cooperation in maritime transport security

There has also been noteworthy progress in India-Japan economic relations. Some of the noteworthy developments are:

- India-Japan trade increased significantly from a decade-long stagnant figure of \$4 billion until 2002. It rose to over \$8 billion in 2006 according to Japanese statistics. According to a research by an economist friend of mine, Prof. Masanori Kondo, Japanese firms manufacture goods in East and Southeast countries to export to Japan, but they do not export from India due to the country's large domestic market with a relatively underdeveloped infrastructure. I might add that Japanese ventures in these Eastern countries are very much a part of the hub-and-spokes pattern of manufacturing. The India-based Japanese trading company chiefs tell me that the volume of third-country trade handled by them from their offices in India often exceeds the bilateral trade. The Japanese companies' role in our total foreign trade may thus be higher than that reflected in our bilateral trade. This factor will become increasingly important as we go on signing FTAs with ASEAN and other East Asian countries
- Japan is once again the third biggest FDI investor in India -and growing fast. According to Japanese statistics, this FDI figure was over \$500 million in the year 2006.
- The increase in securities investment from Japan in our capital market has been phenomenal over the last 2 or 3 years, accounting for 20 to 30% of the global securities investment in India.
- The number of Japanese companies in India has increased rapidly to 475 from half that figure 4 years ago.
- A Joint Study Group has recommended an EPA (Economic Partnership Agreement) – a Task Force was set up in December 2006 for negotiating the EPA and it is hoped that such an agreement will be arrived at in 2008.

A factor that is changing the Japanese attitude to investment in India is the outstanding performance of their Indian joint ventures in the automobile and components sector. It should not be difficult to extend that culture to other manufacturing fields. Nevertheless, they are likely to go for sectors involving a higher proportion of skilled or white-collar manpower where our chief advantage lies. Overall,

- The economic synergies between Japan, rich in capital and technology, with an aging population on one hand and a vast, fast-developing India, with a young, skilled workforce on the other, are obvious.
- There is a growing integration of India and Japan in the Asia Pacific region.

A study by Prof. Masanori Kondo revealed that, at least since the 1990s, Japan is shifting its manufacturing base from other Asian nations to India more rapidly than other developed nations. He also found that global FDI was even more skewed in China's favour as compared to Japanese FDI. It could therefore be said that *relative to the global FDI*, Japanese companies actually prefer India to China! History is also a part of the explanation. All these countries, whether China or ASEAN, had a head start of nearly 15 years over India in opening up their economies.

On a larger canvas, both Japan and India are facing the economic challenge of a manufacturing juggernaut that is China today. Neither Japan, with its much smaller and diminishing population, nor India, with its present performance in the overall manufacturing sector, may be equal to this challenge all by itself in the coming decades. By combining their strengths, however, these two largely complementary economies can be equal to this challenge, to the benefit of consumers all over the world

The successive Joint Statements issued during the exchange of Prime Ministerial visits have also attached considerable importance to people-to-people and other cultural contacts. Thus, tourism is being strongly encouraged, each country is having its year-long cultural festival in the other, the learning of the Japanese language at school and university level is being encouraged in India and there is a substantial increase in exchange of scholars. It is significant that during his recent visit to India, Prime Minister Abe was accompanied by not only some 200 Japanese businessmen but also a dozen Japanese University Presidents who exchanged ideas with their Indian counterparts on establishing special relationships.

The warmth towards Japan cuts across party lines in India. There is much admiration and affection for the Japanese. Indeed, a few years ago a Gallup poll was able to confirm that Japan was the most popular foreign country in India.

Finally, it is no exaggeration to say that Indo-American relations are going through a historical change for the better, after 5 decades of misunderstanding and suspicion. No doubt, India-Japan friendship can be independent of relations with USA, but, given the fact that Japan is a close ally of USA, this factor can only be helpful.

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