

Japan's message to India – let's get closer

Ajay Chandru
Huzefa Tavawalla
Vivek Kathpalia



Royal opportunity for both countries.

The recent visit of the Japanese royal family is a push in that direction.

The Emperor of Japan, Akihito, and his wife, Michiko's visit to India last week was a walk down memory lane for them.

Their last visit to India was in 1960 as a young crown prince and princess. The latest visit sends a clear signal from the Japanese Government that India is a vital ally to Japan on diplomatic and economic fronts.

The royal couple decided to visit India on a pressing request from Japanese Prime Minister Shinzo Abe, even as there were more than 50 countries whose invitations to the royal couple were pending. This clearly shows Abe is upbeat on India-Japan relations. The Japanese PM is expected to be the chief guest at India's Republic Day celebrations.

Other than being a nostalgia trip, the royal visit is significant for the two nations. Why does a 79-year-old monarch, who hardly visits any foreign country, visit India after a long gap of 53 years? If any royal visit is to be equated with state policy of friendship and cooperation, this is it.

The China factor

There are various factors that have improved economic and diplomatic relations between the two countries.

These include the rise of China as an economic power. This rise in the last decade has also led to increased military spending by China, creating one of the most sophisticated armed forces in the world. Consequently, China has used its military and economic power to assert its dominance in Asia.

The most recent example of this is the declaration of Air Defence identification zone by China over the disputed Diaoyu Islands (known in Japan as Senkaku Islands) in the East China Sea.

China's dominance in the region has challenged Japan's post-War pacifism. China has also shored up its military presence in its territorial border with India.

There is always the issue of Tibet's autonomy and territorial claims of both sides. So, it would not be wrong to say that China has brought India and Japan closer than before.

In the last decade or so, China was the biggest outbound investment destination for Japanese companies. Recent trends suggest Japanese companies are looking at destinations other than China. These include new frontiers such as Myanmar and old friends such as India. The availability of a large market and abundance of semi-skilled and skilled workforce make India an attractive destination.

With respect to infrastructure (where India is lagging in comparison with China), Japan has been helping India by way of funding received through Japan's Official Development Assistance (ODA).

Further, major projects that have been built through ODA assistance include the Delhi Metro and the under-development Delhi Mumbai Industrial Corridor.

India is one of the largest recipients of ODA from Japan over the past few years.

Improving bilateral trade between India and Japan has always been a priority agenda for both the countries. A major step in this regard was taken in December 2006 when the Prime Ministers of the two countries agreed to negotiate a bilateral Comprehensive Economic Partnership Agreement (CEPA). The CEPA was finally concluded in February 2011 with the main objective being liberalisation and facilitation of trade, increasing investment opportunities and strengthening protection for investments.

The Regional Comprehensive Economic Partnership (RCEP) treaty, which is being negotiated between the 10 ASEAN member states and its FTA Partners (Australia, China, India, Japan, Korea and New Zealand), will facilitate more trade between India and Japan.

It's not just the Central Government of India that has realised the potential of the relations between India and Japan. State Governments have also been wooing Japanese investors with incentives. Rajasthan realised this potential way back in 2006, and signed an MoU with Jetro (Japan External Trade Organization) to develop a Japanese Special Economic Zone (SEZ). The Zone has come up in the form of Neemrana industrial estate about 100 km from Delhi as a Japanese SEZ. The Rajasthan Government is granting tax breaks and excellent infrastructure facilities to Japanese companies planning to set up shop in this SEZ.

Another State that has been successful in attracting Japanese investment is Tamil Nadu. According to the Confederation of Indian Industries and Jetro, Tamil Nadu is home to over 344 Japanese firms, against 144 in 2008. No wonder the royal couple have also visited Chennai. At the vibrant Gujarat Summit 2013, more than 100 Japanese companies participated in the event.

Thus, the stage has been set for an enduring economic and diplomatic partnership between the two nations and the royal couple's visit is an all important indicator of this. Such a partnership has the potential to become a defining one.

(The authors are with Nishith Desai Associates)

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