

India-Japan economic ties: a fresh start

by Susan Maitra

Economic cooperation between India and Japan has grown painfully slowly over the last three decades. While the magnitude of cooperation is still quite small, both in absolute and relative terms, the potential is great.

In spite of a three-fold rise in the trade volume over the last decade—from \$914 million in 1973 to \$2.75 billion today—India's share in Japan's global trade is still less than 1%. On the investment front, the case is similar. Out of global Japanese investments amounting to \$58 billion, over \$10 billion are presently in the ASEAN countries while India receives only \$58 million, or 0.1%. Although India's GNP is equivalent to that of the entire ASEAN community, India enjoys only 0.5% of the Japanese investment in ASEAN. Japan's aid to India, at \$160 million annually, is also much less than that to many small nations in Asia (the Philippines, Thailand, and Indonesia each receive about \$340 million annually).

Past obstacles

There are many reasons why Indo-Japanese trade has faltered for so many years, reasons that are usually dumped in a barrel marked "communication gap." One is the difference in outlook between Indian and Japanese businessmen in earlier days. At the time of India's independence in 1947, when Japan, already technologically far advanced, was emerging from the devastation of World War II, India had very few businessmen with a commitment to high-technology-based manufacturing. Indian businessmen were basically traders in the tradition of their British rulers, and as a result of the colonial relationship were also oriented toward Europe rather than the East. Besides giving Indian businessmen a lesson in how to build a bureaucratic monster, the British had also deliberately misled them about Japan's "militaristic intentions."

The other factor that retarded Indo-Japanese economic relations is purely political. When Japan concluded its security agreement with the United States in the mid-1950s, the dominant socialist faction in India labeled Japan "a mere appendage of the United States." At the same time, mistrust of India began to develop in Japan. India's efforts to promote Mao's China as the most important nation in Asia ended in catastrophe with the outbreak of the Sino-Indian war in 1962.

On geopolitical issues, India displayed growing favor to the Soviet Union and the East European countries; soon these nations became India's more important trading partners. Japan developed the technology, manpower, and management to challenge the developed world's economy.

In subsequent years, too, India developed itself enough to absorb advanced technology. It has indigenously developed nuclear power for commercial use and space research for communications, and is now looking for the latest know-how in the field of electronics, automobiles, and heavy carriers, machine tools and precision instruments, oil exploration, and chemicals. A new breed of entrepreneurs has emerged who are committed to increasing production using advanced technology.

The potential for rapid expansion

By all indicators, a new era in Indo-Japanese economic cooperation has already begun. The numbers of Indo-Japanese joint ventures has jumped from 12 in 1979 to 51 in 1982 and 58 last year. Although Indian firms are still signing more collaboration agreements with the United Kingdom, the United States, and West Germany, the percentage of growth is the highest with Japan.

At the moment, the Japanese move into India is concentrated in the automobile and associated industries. Japanese auto manufacturers are now collaborating with all three Indian car makers. Big names such as Mitsubishi, Toyota, Masda, and Nissan are now in joint ventures with top Indian manufacturers to produce commercial vehicles of all types. This has prompted link-ups down the line as the auto ancillaries compete to supply top-quality parts.

In the field of basic engineering, Japanese firms are also showing interest. Hitachi tied up with the Tata Engineering and Locomotive Company (Telco) for the manufacture of excavators; Unitika has signed with Modpon for manufacturing of nylon industrial yarn; and the Mitsubishi mining and cement company has negotiated a technical collaboration with the Cement Corporation of India for the design and engineering of million-ton cement plants.

While the thrust of the Japanese ventures is now associated with advanced technology manufacturing, the Japanese are conscious of India's weak infrastructure, and have argued that the yen assistance should increasingly be devoted to infrastructural projects where the gestation period is high and the profitability low. Schemes financed through yen assistance over the years include the Durgatur alloy and special-steel plant, numerous fertilizer plants and projects, the Coch-in shipyard, the Nagarjunsagar hydroelectric project, the Assam petrochemical project, and the Calcutta Metro Railway.

In contrast, Indian manufacturers are finding it increasingly difficult to penetrate the Japanese market. While 75% of Japan's exports to India consist of metals, machinery, and equipment, 75% of India's exports to Japan consist of food products and raw materials.

'Ties will promote peace and prosperity'

The following are excerpts from Prime Minister Nakasone's address to the Indian Parliament on May 4.

I have come to India to build a new cooperative relationship, befitting the coming centuries, between the two most powerful democracies in Asia, Japan and India. I have come to forge closer Japan-India relations that will promote the development of our two countries, and will contribute to the peace and prosperity of Asia and the world. . . .

Allow me to reminisce on a personal note for a moment. I met with Prime Minister Gandhi's father, the late Prime Minister Nehru, when I visited India for the first time 27 years ago, in 1957. I was in my late 30s at the time, and Prime Minister Nehru told me that when he was young, he was much encouraged by Japan's victory over Czarist Russia in the Sea of Japan. It showed him, he said, that even a developing Asian country could defeat a great European power in the cause of preserving its independence and culture. I was deeply struck with Prime Minister Nehru's warm compassion on that occasion as he sought to comfort us Japanese who were still spirited and miserable from the devastation and defeat of the Second World War. . . .

Drawing on the creativity and vitality of the Indian people, India achieved through a single "Green Revolution" near self-sufficiency in foodstuffs, a goal once thought impossible. India has also tackled the task of upgrading her industries and has now become a nation of major industrial capacities, producing domestically all her consumer goods. India has also made many noteworthy achievements in such advanced high-technology fields as space development and Antarctic exploration. . . .

If I may, I should like to take a few minutes here to explain my thoughts and Japan's policies on the issues of peace and security, of problems on international relations—issues which figured prominently in my talks with Prime Minister Gandhi. Central to my beliefs is my deep conviction that mankind must never, and for all time, allow a third world war to occur. . . .

The situation has totally changed from what it was after World War II. First, a large number of nations that were once colonies became independent states. Independence gave birth to economic and political activism in all corners of the world.

Awakened peoples have come to criticize sharply those elements of the postwar global structure that are not necessarily in accordance with justice and equity, giving rise to what we call the North-South problem. . . .

Reflecting deeply on the excesses of World War II, Japan has made utmost efforts to devise a strategy for attaining a lasting world peace and prosperity. . . .

Therefore, we are seeking to build international cooperation as well as to provide for our country a modest and minimum necessary self-defense capability. We have security arrangements with the United States, and are pursuing a policy of comprehensive security for the nation. . . .

Next, we know that our economic survival demands that we make free-market principles the core of our domestic and external policies. Needless to say, dependent as we are on overseas resources and overseas markets, we well appreciate that the maintenance of world peace and free trade is the very foundation of our national survival.

Japan has been especially anxious to strengthen its friendly relations with the Third World and non-aligned countries, and to improve and enhance our economic cooperation with developing countries. . . .

The area most demanding and deserving our cooperation, needless to say, is that of preventing nuclear war. If we can abolish nuclear weapons, achieve disarmament, and devote the surplus thus generated to the development of the developing countries, we can hold out the promise of a better world for generations to come. . . .

At last year's Williamsburg summit . . . I stressed that North and South are two wheels of the same vehicle and that the world economy is not going to get very far unless both are vitalized. I intend to maintain this position at the London summit next month.

We in Japan have long felt that it is one of our responsibilities to cooperate with the developing countries in their nation-building effort. We have made special efforts despite our own severe financial constraints to promote official development assistance and other cooperative efforts on behalf of these countries' economic development and human livelihood. This is another area in which I feel we need a strengthened dialogue with India.

Third, I would like to speak about promoting bilateral economic and industrial cooperation. As India has consolidated the basis for its economic development with its steadily increasing petroleum production, there has been increasing industrial collaboration in automobiles and other fields between Japanese and Indian companies—investment, technical collaboration, and other forms of private-sector industrial cooperation based on each company's independent and rational assessment of economic conditions. In this sense, the economic liberalization currently being undertaken by the government of India have been welcomed by the Japanese government and industry alike. We hope that you will continue to move in this direction.