

# ECONOMIC DIPLOMACY

INDIA'S ASCENDANCY IN THE 21ST CENTURY

EDITED BY  
PRADEEP S MEHTA | ANIL WADHWA  
ADVAIYOT SHARMA



SUJAN R CHINYOY

## **Japan**

### *An Anchor in India's Economic Transformation*

India and Japan have undergone a major transformation in the strategic and economic levels since 2014, with Prime Ministers Narendra Modi and Shinzo Abe investing personal capital in deepening bilateral ties.

In the words of Prime Minister Modi, "India and Japan will play a major role in Asia's emergence. The growing convergence between India and Japan on strategic and economic issues has the capacity to stimulate the global economy". Prime Minister Abe and his successors have considered robust relations between Japan and India to be a public good.

The Special Strategic and Global Partnership with Japan is now a cornerstone of India's Act East Policy, which dovetails in terms of intent and purpose with Japan's Enhanced Partnership for Quality Infrastructure. The bilateral Act East Forum seeks to provide a connecting tissue by developing India's North-east.

The interface between India and Japan at the strategic level has also increased due to dialogue and cooperation in the context of the Quadrilateral Security Dialogue (QUAD) and the desire to work together to realise the goal of a free and open Indo-Pacific region.

As two of Asia's largest democracies, India and Japan have shared values that emphasise openness and transparency, rule of law, freedom of navigation and commerce in the Indo-Pacific region. Japan is one of the few countries with which India has an Annual Summit at the level of the two heads of government.

### **Japan: An Anchor in India's Economic Transformation**

Although the India-Japan economic partnership has always been important, it has begun to achieve its true potential only in recent years.

Today, Japan is an indispensable anchor in India's economic transformation. At the last annual summit held in March 2022 between Prime Minister Modi and Prime Minister Fumio Kishida, both sides expressed their shared intention to realise JPY 5 trillion of public and private investment and financing from Japan to India over the next five years, to finance appropriate public and private projects of mutual interest.

Japan has now emerged as a very important player in the infrastructure sector in India. It is part of major projects, whether roads, metros, or high-speed railways. In the decade between 2008 and 2018, approximately 64 percent of Japan International Cooperation Agency's (JICA) soft loans have been in the transport sector.

During the author's term as Ambassador of India to Japan, some unique developments gave a new thrust to the economic partnership.

#### **High-Speed Railway**

The Mumbai Ahmedabad High-Speed Rail (MAHSR) Project is an iconic example of Japanese technology as well as a symbol of strategic partnership and mutual trust. As Prime Minister Modi said, the first "Bullet Train" project will act as a catalyst for rapid economic progress and technological growth, and innovation in India. Japan's presence in the MAHSR is expected to revolutionise the vast Indian railway sector, just as Suzuki Motors' entry into India 35 years ago fundamentally altered the Indian automotive sector and led to the presence of Japanese vendors, SMEs and supply chains in India. It will also create new avenues for employment, economic advancement and entrepreneurial activity.

The "Bullet Train" can be the future answer to "Smart Cities". By linking the heart of an urban centre to that of another city, it will result in savings in terms of commute and land costs. Besides high speed rail, Japanese technology under Technical Corporation

(TC) Project helps India in ‘Capacity Development on Railway Safety’, focussing on Track Maintenance, Rail Welding, Rolling Stock Maintenance and Metro Projects. The emergence of high-speed railways in India will complement the Delhi-Mumbai Industrial Corridor (DMIC), the Chennai-Bengaluru Industrial Corridor (CBIC), and the Western Dedicated Freight Corridor, all being built with Japanese assistance.

### **Overseas Development Assistance (ODA)**

India is Japan’s largest ODA partner while Japan is the 5<sup>th</sup> largest investor in India with cumulative FDI inflows of US\$36.2bn since 2000, which make up 7.13 percent of India’s total FDI inflows during the same period. Bilateral trade in 2020-21 stood at US\$18.5bn. Although the trade balance is in Japan’s favour, it is Japanese Foreign Direct Investment (FDI) that is of greater relevance to India’s economic ambitions.

The number of Japanese companies registered in India is on the rise. More than half of these are manufacturing firms. Every year, approximately 100 new Japanese companies are establishing their presence in India, including through joint ventures and acquisition of Indian companies. Of late, Japanese investments have made their presence felt in not only manufacturing but also in logistics and the services sectors. India’s capital markets have also been attracting Japanese funds.

During Prime Minister Kishida’s visit to India in March 2022, the two sides renewed the US\$75bn Currency Swap Agreement which had been concluded during Prime Minister Modi’s visit to Japan in October 2018. This will deepen financial cooperation, strengthen financial safety nets and contribute to regional and global financial stability.

### **India’s Flagship Projects**

Japan has a significant presence in virtually every flagship initiative of the Government of India, including Digital India, Smart Cities, Start-Up India, Ayushman Bharat, and others. Both sides have been working together to build stronger ties in new areas such



as Healthcare, Disaster Risk Reduction, Food Processing, Digital Technology, Waste-to-Energy and Waste Management.

India and Japan have sought to deepen their cooperation in the field of Agriculture and Food sectors. In May 2018, the Japan-India Food Business Council was established, to facilitate investments and joint ventures, especially in '*Make in India*' in the food processing sector and in cold chains, distribution and mega food parks.

The Suzuki-Toshiba-Denso joint venture for automotive lithium-ion battery packs for the domestic and global markets, as well as the exports of made-in-India Baleno cars are seen as success stories of Japanese assistance in the '*Make in India*' programme.

A significant step forward during the author's term in Japan was the establishment of a series of Japan-India Institutes for Manufacturing (JIMs) and the Japanese Endowed Courses (JEC) in regional colleges under which Japanese companies in India could participate in skills development programmes. Maruti Suzuki India Limited, for example, has trained students in Japanese manufacturing practices and processes at the JIM in Mehsana, Gujarat. Some JIMs offer special courses for female students, like in the Uncha Majra JIM in Gurugram, launched by Maruti Suzuki in 2019. Similarly, Daikin Airconditioning India Pvt Ltd established a JIM in Neemrana in 2017 to provide equal opportunities to female students. Today, about a dozen JIMs have been successfully launched around the country. More than 3,700 Indians were trained in JIMs and JECs in 2021 alone.

Similarly, Japan Industrial Townships (JIT) provide investment incentives, commensurate with the principal policy framework, for instance Special Economic Zones (SEZ) and National Investment and Manufacturing Zones (NIMZ). At present, there are 114 Japanese companies across the JITs. Japan is the world's only country that currently has 12 dedicated country-focussed industrial townships in 9 states across India. The India-Japan Industrial Competitiveness Partnership Roadmap that came out of the Modi-Kishida summit will further advance industrial and manufacturing standards in India in the MSME sector.

## Healthcare

Japan has many strengths in the healthcare sector. There is a great deal that India and Japan can do together in this sector, especially in medical devices, trauma and geriatric care.

Our cooperation in healthcare is a new initiative launched in 2018, aimed at building synergies between Japan's Asia Health and Wellness Initiative (AHWIN), and India's '*Ayushman Bharat*' healthcare scheme, which aims to provide quality and affordable healthcare to all citizens. The project envisages the creation of more than 1,50,000 primary healthcare centres dealing primarily with trauma and geriatric care. There is growing interest in Japan with regard to Ayurveda, India's ancient traditional medicine system. In fact, the author succeeded in getting the first-ever Memorandum of Cooperation (MOC) concluded between AYUSH and the Kanagawa Prefecture on Ayurveda and Yoga during the visit of PM Modi to Japan in October 2018.

## Resilient Supply Chains

Today, there is unprecedented emphasis on de-coupling and creating alternative resilient supply chains, as seen at the QUAD Summit Meeting in March 2021. Within the Quad, the India-Japan-Australia Resilient Supply Chain Initiative launched in April 2021 is focussed on diversification of supply chains.

Strategic supply chains, especially semiconductors, pharmaceuticals and telecommunications must be restructured, away from an undue dependence on China. Japan has earmarked US\$2.2bn to enable its manufacturers to shift production from China to Japan or to relocate to other economies. Although only two companies relocated to India in the first round, namely, Sumida Corporation (auto components) and Toyota Tsusho Co. Ltd. (rare earths), there is great scope to attract more Japanese companies as they seek to reduce the over-dependence on China-based supply chains. India will, no doubt, have to compete with Southeast Asian economies and provide equally good incentives to Japanese companies in order to succeed. Infrastructure, connectivity, logistical support, cost-

effective warehousing, high-skilled yet cheap labour and a suitable legal framework are some of the core areas that need to be addressed. The Production Linked Incentive (PLI) scheme of India is expected to attract Japanese investments as well.

### **Science and Technology**

Japan is at the cutting edge of technological advancement, including in Artificial Intelligence (AI), Big Data and the Internet of Things (IoT). There is a great scope in our bilateral partnership to find the right points of intersection between Society 5.0 of Japan and Digital India and Startup India. There is enormous potential for creating institutional mechanisms for cooperation in the areas of Artificial Intelligence, Big Data and Internet of Things. The India-Japan Digital Partnership” (I-JDP) launched in October 2018 is aimed at propelling cooperation in the Digital ICT (Information and Communications Technology) Technologies. An MoU has been signed to enhance cooperation in ICT in January 2021. This will promote cooperation in 5G technologies, telecom security, and submarine optical fibre cable. Connecting Chennai and Andaman and Nicobar Islands with submarine optical fibre cable is a successful example of India-Japan cooperation.

Japanese companies have invested billions of dollars in Indian start-ups. The Japan-India Startup Hub was launched in October 2018. It serves as an interface between respective start-ups and firms, facilitating collaboration with Japanese markets and investors. Startup-India (under Invest India) and Japan Innovation Network (JIN) have signed an MoU on innovation collaboration with a focus on Sustainable Development Goals (SDGs) connecting two start-up ecosystems in June 2018. The Japan-India IT Corridor in Hiroshima has enormous potential in promoting B2B cooperation, attracting highly skilled labour and establishing collaboration between respective industries and institutions. While Hiroshima offers cutting-edge manufacturing technology, it lacks in the IT and software industry, where India can step in.

### **Movement of Professionals**

Another major area of progress is regarding the movement of professionals. In January 2021, India and Japan signed a Memorandum of Cooperation (MoC) on a basic partnership framework for the operation of the 'specified skilled worker' (SSW) system under which the Japanese government will accept Indian nationals who have a certain level of expertise and skill (professionals and IT talent). This will enable us to develop a robust digital partnership. Japanese companies have begun recruiting young IT professionals from India through job fairs, in order to improve their own global competitiveness. Given the demographic landscape, Japan will also require skilled health workers such as caregivers and nurses.

The SSW system is founded on an earlier path-breaking agreement concluded during the author's term as Ambassador to Japan. It relates to the participation of Indian technical workers in the Japanese job market under the Technical Intern Training Programme (TITP) for on-the-job training and working for a period of three to five years. This is an ideal platform through which the relative strengths of India and Japan can be leveraged for mutual benefit. Indian workers are trained in Japanese culture and shop-floor practices before being sent to Japan for productive periods of employment. When they return to India, they become the nuclei for further change in the Indian economy by spreading Japanese best practices.

The launch of collaboration between Indian and Japanese universities as well as Japanese Language Teachers' Training Centres in India will promote avenues for cutting-edge research and collaboration and deepen people-to-people ties, respectively.

Given its history, Japan is a natural partner for India when it comes to the development of India's north-east region. An India-Japan Coordination Forum on Development of Northeast was instituted in August 2017. In June 2019, Japan committed to invest ¥205.784bn (approximately Rs 13,000 crores) in the Northeast region in projects ranging from sustainable agriculture and forestry, to biodiversity and environmental conservation. Japan also initiated the IRIS Programme in 2017 under which youth from Manipur and Nagaland are periodically selected to visit Japan.

### **Development of India's Northeast**

The Act East Forum, established in 2017, seeks to build robust infrastructure within the states of Northeast India and connect them to the emerging markets of Southeast Asia via the India-Myanmar-Thailand Trilateral Highway, Kaladan Multi-Modal Transit Transport, Asian Highway Network and the South Asia Sub-regional Economic Cooperation (SASEC) Road Connectivity Investment Programme. Japan has also provided considerable ODA loans for the Northeast Road Network Connectivity Improvement Project and improvement of NH-54 in Mizoram, NH-51 and NH-40 in Meghalaya, and NH-208 (Kailashahar-Khowai) in Tripura.

Forest management projects in Sikkim, Nagaland and Tripura are in the pipeline. Oxygen generation plants are being set-up in the Northeast with Japan's assistance through the United Nations Development Programme (UNDP). The Miyawaki Forest technology of Japan has become hugely popular around India.

### **Tackling Natural Disasters**

It is in the area of Disaster Risk Reduction that Japan can truly play an important role. India also looks to Japan for partnerships in the development of Smart Islands. Fisheries and Cold Chain in the Andaman and Nicobar (A&N) Islands or elsewhere along India's long coastline is also of interest. A Japanese grant is being used for a project to improve power supply in the A&N Islands, including grid stabilisation.

During the author's term as Ambassador in Tokyo, the CEO of the Sushi Zanmai chain of restaurants, Mr Kiyoshi Kimura had expressed interest in collaborating with India on the depleting Tuna reserves around Japan. This collaboration of Sushi Zanmai with the fisheries department in the State of Tamil Nadu in India is very advantageous since it will equip the local fishermen with Japanese fishing equipment and preservation technologies, to augment their Tuna catch for consumption in Japan. This is an example of creating resilient supply chains for Japanese consumers for *Sushi* and *Sashimi*.

## **Defence Manufacturing**

Cooperation in Defence Manufacturing can grow under the Government of India's Atmanirbhar Bharat (Make in India) initiatives. There are many opportunities for Japanese companies to enter into Joint Ventures (JVs) and tie-ups with reputed Indian defence manufacturers, provided Japanese companies think big.

The key question is whether Japanese companies are ready to risk entering into JVs or 100 percent investments in India in this sector, without any guarantee of contracts beforehand. They also need to compete with other global manufacturers who are more familiar with

the Indian market. They cannot be in this space if they always expect G2G contracts of the type they are used to in the protected Japanese environment.

Most Indian majors in the defence sector would be open to the idea of collaborating with Japanese companies provided the costs of technology and production in India are competitive. One particular area of interest for Japan is the drone market in India.

## **5G Technology**

The security risks inherent in Chinese 5G network equipment are compelling. India and Japan can work together in 5G/RAN technology. Japanese companies are gearing up for the 5G race, which is at present dominated by Huawei, Ericsson, Nokia and others. NTT and NEC of Japan have joined forces to expand their footprint in the global market.

Rakuten of Japan is launching the 5G network based on open Radio Access Network (RAN) technology in Tokyo, Nagoya, and Osaka. It has enlisted help of Indian tech companies. Rakuten is collaborating with Indian companies such as Sterlite Technologies for hardware and HCL, Wipro, and Tech Mahindra for software. Meanwhile, India's Reliance Jio has designed and developed a 5G solution. It is likely to be ready for trials as soon as the 5G spectrum is available. It is reported that both Jio and Rakuten rely upon the "open" RAN technology.



### **Liberalised Visa Regime**

Before the pandemic disrupted travel, India had extended 'Visa-on-arrival', e-Tourist visas and ten-year business visas to eligible Japanese travellers in order to facilitate business and people-to-people exchanges. There are growing links between Japan's prefectures and states in India. An MoU between Gujarat state and Hyogo Prefecture and a Partner City Agreement between Kyoto and Varanasi are some of the notable examples. Recently, the Indo-Japan Friendship Association of Gujarat, of which the author is the Honorary Advisory Patron, worked with Hyogo Prefecture and the Ahmedabad Management Association to create the first-ever Zen-Kaizen Garden in Ahmedabad, inaugurated virtually by Prime Minister Modi.

The list of stakeholders in our deepening engagement is growing. There is every reason to believe that the India-Japan economic partnership is set to grow. Rationalised taxation, amended labour laws and free flow of data by rescinding regulations on data localisation are some of the areas of concern for Japanese companies in India. A focussed attempt to resolve the concerns of Japanese investors on logistics, customs clearance, export procedures and quality issues will help.

Indian industry also needs to understand the cultural nuances. Japan commands international repute for its management practices, production methods, quality control and management. The Japanese standards of Kaizen or its Just-in-Time (JIT) efficient inventory control along with their punctuality define their national character. India on its part will have to adapt to Japanese standards and best practices in order to enhance mutual confidence with Japanese counterparts. This, in turn, will provide a fillip to trade and business ties in the 21<sup>st</sup> century.

India has today moved out of the defensive non-aligned posture, engaging multiple nations on a range of issues with equal confidence. It is also a greater contributor to solutions, regional or global. This marks its emergence as *vishwa mitra*, a partner of the world that is making a greater difference with each passing year.

— **S Jaishankar**

*External Affairs Minister, Government of India*

I commend the editors for publishing this compendium of case studies, which present insider accounts of diplomats and gives a glimpse of the efforts required for successful economic diplomacy to advance India's national interests on the global stage.

— **V Muraleedharan**

*Minister of State for External Affairs and Parliamentary Affairs  
Government of India*

As economic forces shape political dynamics and vice versa, this collection of essays and case studies provides invaluable insights into India's journey through the currents of economic diplomacy... This book, a tapestry of experiences penned by diplomats and officials, illuminates the path for future generations to navigate the complexities of international relations in service of national prosperity.

— **Suresh Prabhu**

*Former Union Minister, Government of India*

This book is an encyclopaedic guide for the practitioners of India's economic diplomacy. With a multi-regional and multi-contextual focus, this volume highlights the crucial intersection of India's economic and strategic interests — a must-read for anyone seeking to understand India's evolving economic role in a rapidly changing world order.

— **Shashi Tharoor**

*MP, Lok Sabha and Former Union Minister, Government of India*



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